

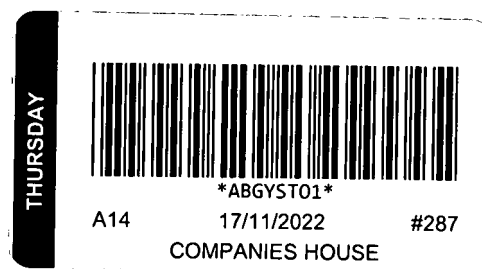


ARGENTA HOLDINGS LIMITED

ANNUAL REPORT & FINANCIAL STATEMENTS

31 December 2021

Company registration number: 4973117



Argenta Holdings Limited

Financial Statements

For the year ended 31 December 2021

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Argenta Holdings Limited

Company Information For the year ended 31 December 2021

| | | |
|-----------|---|------------|
| Directors | Mr S Althoff Mr G K Allen Mr A J Annandale Mr J L P Whiter | (Chairman) |
|-----------|---|------------|

| | |
|-------------------|-----------------|
| Company Secretary | Ms S C-A Burton |
|-------------------|-----------------|

| | |
|-------------------|--|
| Registered Office | 5 th Floor 70 Gracechurch Street London EC3V 0XL |
|-------------------|--|

| | |
|----------------------|--|
| Independent Auditors | PricewaterhouseCoopers LLP 7 More London Riverside London SE1 2RT |
|----------------------|--|

| | |
|---------|---|
| Bankers | Coutts & Co 440 Strand London WC2R 0QS |
|---------|---|

Argenta Holdings Limited

Strategic Report For the year ended 31 December 2021

The Directors present the Strategic Report of Argenta Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2021.

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

Principal activities and review of the business

Argenta Holdings Limited is the holding company of two specialised Lloyd's vehicles, Argenta Private Capital Limited ("APCL") and Argenta Syndicate Management Limited ("ASML"), both regulated by the Financial Conduct Authority ("FCA"). APCL is also authorised by the FCA and ASML is authorised and regulated by the Prudential Regulation Authority ("PRA").

APCL is a licensed Lloyd's adviser and Members' Agent advising both individual and corporate members of Lloyd's on their underwriting affairs with aggregate capacity under management of £2.7bn for the 2021 year of account which increased to £3.2bn for the 2022 year of account.

ASML is a Lloyd's Managing Agency which has managed the affairs of Syndicate 2121 since its inception in 2000. The capacity of Syndicate 2121 has increased steadily since then to £660m for the 2022 year of account. It has also managed the affairs of various syndicates under turnkey arrangements, the most recent of which concluded in 2015.

On 24 April 2018, ASML entered into an agreement to manage the affairs of Syndicate 6134, a Special Purpose Arrangement ("SPA") that underwrites quota share reinsurance protections of Syndicate 2121. The SPA is sponsored and capitalised by the Hannover Re group, which may also introduce new business for consideration by Syndicate 2121 which would then be reinsured by the SPA. Syndicate 2121 will retain at least 10% of the business introduced by the sponsor.

The SPA commenced the year with a business plan to underwrite gross net premium in 2022 of £76.5 million across various classes of business within the underwriting capability of the host syndicate. Syndicate 2121 receives an overriding commission in respect of these arrangements. The quota share contracts are being underwritten on a funds withheld basis although amounts may be advanced in certain circumstances.

The capacity under management is shown in the table below:

| Syndicate | 2022 £million | 2021 £million | 2020 £million |
|-----------|------------------|------------------|------------------|
| 2121 | 660 | 600 | 425 |
| 6134 | 97 | 82 | 145 |
| | <u>757</u> | <u>682</u> | <u>570</u> |

During the year the Company was also the holding company for five Lloyd's corporate members (2020: five), four of which participated directly on Syndicate 2121 for the 2021 year of account (2020: four for the 2020 year of account). These active corporate members are known collectively as the Argenta underwriting vehicles ("AU's").

The capacity of the AU's is supported by capital from the Company and from third parties. The beneficial interest of the Group in the 2021 year of account was £45.9m (2020 year of account: £49.6m).

The other key operations within the Group are Argenta Tax & Corporate Services Limited ("ATCSL"), which has been offering tax compliance and planning services to individual and corporate clients for over 25 years, and Argenta Underwriting Asia Pte. Ltd. ("AUA"), which acts as a service company on the Lloyd's Asia platform in Singapore. AUA also holds a licence, granted by the Australian Securities and Investment Commission, to operate a branch in Australia.

In July 2017 100% of the issued share capital of the Company was acquired by Hannover Rück SE ("Hannover Re"). The immediate parent undertaking of Hannover Re is Talanx AG, a leading global insurance group. Hannover Re has, for some time, supported Syndicate 2121 as both a traditional reinsurer and by supporting some of its capital providers.

Argenta Holdings Limited

Strategic Report (continued) For the year ended 31 December 2021

Financial highlights

The Group is reporting total comprehensive income for the year ended 31 December 2021 of £4.0m (2020: loss of £1.8m), on total gross written premium of £108.6m (2020: £118.3m) and income from other activities of £22.7m (2020: £20.1m). The net assets of the Group have increased from £53.8m as at 31 December 2020 to £57.8m as at 31 December 2021.

The results before taxation of the principal operations within the Group are shown below:

| | 2021 | 2020 |
|---|-----------|-----------|
| | £000 | £000 |
| Argenta Holdings Limited (consolidated) | | |
| Balance on the general business Technical Account | 1,283 | (5,486) |
| Non-Technical Account Income | 22,736 | 20,284 |
| Profit/(loss) before taxation | 4,725 | (2,585) |
| Net Assets | 57,764 | 53,791 |
| | | |
| | 2021 | 2020 |
| | £000 | £000 |
| Argenta Private Capital Limited | | |
| Managed Underwriting Capacity | 2,717,000 | 2,437,000 |
| Management Fees | 8,875 | 8,723 |
| Profit Commission | 129 | - |
| Profit before taxation | 1,471 | 1,170 |
| Net Assets | 3,433 | 3,241 |
| | | |
| | 2021 | 2020 |
| | £000 | £000 |
| Argenta Syndicate Management Limited | | |
| Managed Syndicate Capacity | 682,000 | 570,000 |
| Management Fees | 5,244 | 4,101 |
| Profit Commission | - | - |
| Profit before taxation | 3,388 | 3,020 |
| Net Assets | 4,695 | 4,596 |

Future developments

The combined underwriting capacity of Syndicates 2121 and 6134 rose to £757m in 2022. The Group continues to support Syndicate 2121 for the 2022 year of account with the capacity in which it has a beneficial risk standing at £55m. A key strategic objective remains to grow Syndicate 2121 and Syndicate 6134 but subject always to market conditions.

The capacity under management for APCL has increased to £3.2bn in 2022 and it aims to generate further income both by growing its client base and by providing additional services to its existing client base. There remains some, albeit reducing, uncertainty surrounding the impact of the COVID-19 pandemic and whilst there has been a negative impact on the forecast underwriting returns for clients for the 2019 and 2020 years of account, there are improving market conditions for the 2021 and 2022 years of account. APCL will continue to provide advice and assistance to its clients and continue to develop both existing and new products.

Section 172 (1) statement

The Directors are aware of their responsibilities to take into consideration the interests of all stakeholders in their decision making process and to promote the success of the Group in accordance with s172 of the Companies Act 2006. The Directors continue to pay full regard to the interests of the Group's stakeholders, including the impact of its activities on its employees, shareholder, capital providers, regulators, customers, suppliers, the community, the environment and on the Group's reputation. Whilst always acting in good faith and exercising fairness and equality, the Directors also consider what is most likely to promote the success of the Group in the interests of its member.

The importance of giving due consideration to all stakeholders is a continuous and ongoing process and includes the following:

- The Directors fully understand their obligations to act responsibly towards the Group's sole shareholder and commit to act in accordance with the standards set by it.
- The Directors continue to promote the success of the Group through expansion of its activities as referred to in the Strategic Report above. The Group's ongoing dividend policy is to retain all profits for reinvestment and development of the business and it has further committed to the progression of its activities in 2021 with significant expansion of the London office space to allow for additional and continued growth of its operations. It has also increased its participation on Syndicate 2121 for the 2022 year of account. As part of its ongoing commitment to support the expansion of the Group, Hannover Re continues to supply increasing levels of capital support to the core underwriting business on Syndicate's 2121 and 6134.
- In order to ensure the continued, effective management the underwriting activities of Syndicates 2121 and 6134 following the resignation of the Active Underwriter in May 2021, an experienced replacement was recruited and joined the business in July of the same year.
- The Group has a diversity and inclusion policy that sets out the principles underpinning the approach to ensuring fairness and equality in the workplace across all levels of the organisation. In accordance with a commitment to diversity and inclusion, the Group is signed-up to the Lloyd's Diversity and Inclusion Charter, which makes a public pledge to champion diversity and positive change.
- The Directors continue in their commitment to ensure that the Group maintains a healthy culture and working environment, including a detailed review of internal policies and procedures following the results of a market-wide culture survey. The Directors have emphasised this commitment with a number of follow on surveys in 2021 focussing on further understanding the Group's culture and the needs of the workforce. Furthermore the Group has appointed a number of senior executives in 2021 as Culture Leads in order to drive the positive initiatives in this area and create a more direct link with its staff members.
- As a result of the surveys carried out, the Group has been able to more clearly articulate its culture, vision and purpose which in turn have been communicated to all staff. This has enabled all employees to gain a better understanding of what the Group stands for and its ultimate objectives.
- The Group has also rolled out a new Behavioural Framework to its employees designed to ensure that employees understand the values and behaviours to which they are expected to observe for the benefit of both the employees and the business as a whole.
- The Directors understand that the quality and experience of the Group's employees are fundamental to the success of the business and the quality of its services. The Directors consider the training and development of its workforce to be fundamental and therefore promote a continuing commitment to training both internally and externally. Further commitment is made in the area of continuing professional development to ensure that its diversely qualified workforce continues to maintain a competitive level of training and qualification in an ever-changing industry.
- The Group is committed to the health, safety and wellbeing of its workforce, offering comprehensive health insurance and life cover and contributions to a defined contribution pension scheme. In the wake of the COVID-19 pandemic and to address the changing social environment, the Directors have initiated Group-wide hybrid working arrangements for a trial period. These remain fully effective and in place at the balance sheet date. The Directors understand the importance of providing greater education and support for mental health issues in the workplace. In their commitment to this, they have appointed a number of trained Mental Health First Aiders and, in 2021, introduced a new Employee Assistance Programme designed to offer further support to staff members.

Section 172 (1) statement (continued)

- The Group is fully committed to working responsibly with its suppliers ensuring that those in the supply chain do not engage in slavery or human trafficking and regularly reviews its policies and procedures to ensure that they are up to date and reflect the changing regulatory environment. In addition to a periodic review of material outsourced arrangements, there are whistleblowing procedures in place to ensure that employees can raise any concerns they may have.
- The Group has strengthened its position during the year in its commitment to uphold the Criminal Finance Act by providing further and focussed training to its employees in the area of Financial Crime compliance.
- The Group has a large, diverse number of customers and capital providers associated with various divisions of its business. The subsidiary companies strive to work closely with their customers and capital providers to fully understand their needs and always operate on the basis of treating customers fairly. It continues to seek to grow Syndicate's 2121 and 6134 to achieve greater economies of scale and improve returns for the capital providers. It is also mindful to ensure it maintains equity between its different capital supporters. In order to be able to continue to meet the needs of its customers within the borders of the European Union post-Brexit, a new subsidiary, Argenta Underwriting (Europe) Limited, was incorporated in January 2022 to allow the Groups' syndicates to continue to trade in the EU following the planned cessation of trading activities via Lloyd's Insurance Company S.A.
- The Group works very closely with Lloyd's and other regulators, including those overseas. It places a high degree of importance on understanding and fully complying with the regulatory requirements that are set.
- The Group is committed to its place in the community and engages with a number of diverse charities. The underwriting policy is aligned with that of Hannover Re, which is not to provide cover to new coal-burning power stations or new thermal coal mines and the associated infrastructure on a direct or facultative reinsurance basis, and to effect a phased plan for a gradual withdrawal from such risks written on a treaty basis by the year 2038. The bespoke investment mandate adopted by the Group is aligned with Hannover Re's environmental, social and governance criteria.

Principal risks and uncertainties

The most significant risks to the Group reside within the principal operating subsidiaries. The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls across the Group. All policies are subject to on-going review by management, risk management and internal audit as appropriate. Compliance with regulatory, legal and ethical standards is a high priority for the Group and the risk, compliance and finance teams take on an important oversight role in this regard.

Within the underwriting business the Group is exposed to a variety of financial and non-financial risks. These risks, which shape the risk management strategy adopted, are integral to the capital setting process that is undertaken to ensure that there is an appropriate level of capital held in respect of the insurance liabilities. The Own Risk and Solvency Assessment undertaken in respect of underwriting operations reflects the risk profile of the business as well as the business strategy. Risks are managed through the risk management framework in order to ensure that the risk profile of the business is fully understood and can be monitored against the agreed risk appetite. The risk management strategy is designed to manage the capital requirements to ensure the Group has the financial strength and capital adequacy to support the growth of the business and to meet the requirements of policyholders and regulators.

The principal risks from the general insurance business arising from the insurance risk category relate to the fluctuations in the timing, frequency and severity of claims compared to expectations; the quality of risk selection; the appropriateness of the reinsurance protection purchased; and the adequacy of the reserves established. Operational risk is inherent in this risk category as is also the case for all other risk categories.

In addition the Group is exposed to financial risks. These risks are discussed in the financial instruments and risk management section below.

Financial instruments and risk management

Other significant risks that the Group is exposed to arise from the categories of market risk, liquidity risk and credit risk.

Market risk is partly mitigated by a predominantly fixed income investment strategy designed to mitigate exposure to potential losses from movements in exchange rates, interest rates or inflation. The business has a low appetite for market risk and as such there is a requirement to hold mainly high grade fixed income investments. Assets are periodically matched with liabilities in the principal operating currencies to the extent that funds permit.

Liquidity risk is the risk that there will be insufficient available cash resources to meet liabilities as they fall due. Management information is used to enable the effective monitoring of the liquidity risk framework in line with the agreed procedures and governance arrangements.

Business conducted by the Group with its counterparties naturally gives rise to credit risk. The potential for losses arising from a counterparty failing to fulfil its contracted payment obligations is managed by strict control procedures including the monitoring of the ageing of debt and the approval of significant counterparties.

ON BEHALF OF THE BOARD



Mr A J Annandale
Director

29 June 2022

Argenta Holdings Limited

Directors' Report For the year ended 31 December 2021

The directors submit their annual report and the audited financial statements of the Argenta Group for the year ended 31 December 2021. The Company's registration number is 4973117.

Going concern

The Group has adequate financial resources and, consequently, the directors believe that it is well placed to manage its business risks successfully in the current market and economic environment.

After making enquiries, the directors have an expectation that the Group and the Company have adequate resources to continue to trade for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Dividend

The results for the Group for the year are shown on page 14.

The directors do not propose the payment of a dividend (2020: Nil).

Board of Directors

The directors listed below have held office during the period from 1 January 2021, up to the date of this report, unless indicated otherwise.

| | |
|------------------|-----------------------|
| Mr S Althoff | (Chairman) |
| Mr G K Allen | |
| Mr A J Annandale | |
| Mr I M Maguire | (Resigned 7 May 2021) |
| Mr J L P Whiter | |

Ms S C-A Burton was appointed Company Secretary on 1 January 2021 following the resignation of Mr C J R Fairs on 26 August 2020.

Directors' and Officers' insurance

The Company had directors' and officers' insurance in place during the whole of the period, since 1 January 2021, up to the date of this report.

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report & Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with UK GAAP. 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 Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 and FRS103, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Argenta Holdings Limited

Directors' Report (continued) For the year ended 31 December 2021

Disclosure of information to the auditors

Under the Companies Act 2006, we can confirm that:

- so far as we are aware, there is no relevant audit information of which the Group's auditors are unaware; and
- we have taken all the steps that we ought to have taken as Directors in order to make us aware of any relevant information and to establish that the Group's auditors are aware of that information.

Independent auditors

Pursuant to section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP ("PwC") will have been deemed to be re-appointed as auditors at the end of 28 days beginning with the day on which a copy of these reports and financial statements are sent to the member.

ON BEHALF OF THE BOARD



Mr A J Annandale
Director

29 June 2022

**Independent Auditors' Report to the Member of Argenta Holdings Limited
For the year ended 31 December 2021**

Report on the audit of the financial statements

Opinion

In our opinion, Argenta Holdings Limited's Group financial statements and Company financial statements (the "financial statements");

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's profit and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company statements of financial position as at 31 December 2021; the Consolidated statement of comprehensive income, the Consolidated statement of cash flows, and the Consolidated and Company statements of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Reporting on other information

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

In connection with our audit of the 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent Auditors' Report to the Member of Argenta Holdings Limited (continued)
For the year ended 31 December 2021

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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 Group's and 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 Group or the Company or to cease operations, or have no realistic alternative but to do so.

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

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

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and regulations and bylaws set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to risk of fraud through management override of control through management bias in the recognition of accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management and the compliance function, including consideration of known or suspected instances of fraud and non-compliance with laws and regulations;
- Reviewing relevant meeting minutes of the Company and its subsidiaries, including those of the Board, Risk Framework and Compliance Committee and Audit Committee, and correspondence with regulatory authorities, including Lloyd's of London, Prudential Regulation Authority and the Financial Conduct Authority;
- Testing journal entries and other adjustments for appropriateness, testing accounting estimates (because of the risk of management bias); and
- Evaluating the business rationale of significant transactions outside the normal course of business.

Independent Auditors' Report to the Member of Argenta Holdings Limited (continued)
For the year ended 31 December 2021

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.


Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Mark Bolton (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors,
London

Date: 30 June 2022

Argenta Holdings Limited
**Consolidated Statement of Comprehensive Income
For the year ended 31 December 2021**

| Continuing operations: | | 2021 | 2020 |
|---|------|----------|----------|
| | Note | £000 | £000 |
| TECHNICAL ACCOUNT - GENERAL BUSINESS | | | |
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 5 | 108,561 | 118,329 |
| Outward reinsurance premiums | | (75,010) | (76,109) |
| Net premiums written | | 33,551 | 42,220 |
| Change in provision for unearned premiums | | | |
| Gross amount | | 5,508 | (7,317) |
| Reinsurers' share | | (1,268) | 13,401 |
| | | 4,240 | 6,084 |
| Earned premiums net of reinsurance | | 37,791 | 48,304 |
| Allocated investment return transferred from the non-technical account | | 69 | 1,545 |
| Total technical income | | 37,860 | 49,849 |
| Claims incurred, net of reinsurance | | | |
| Claims paid: | | | |
| Gross amount | | (52,768) | (62,873) |
| Reinsurers' share | | 31,335 | 33,227 |
| Net claims paid | | (21,433) | (29,646) |
| Change in the provision for claims: | | | |
| Gross amount | | (9,476) | (28,176) |
| Reinsurers' share | | 11,439 | 22,764 |
| Change in the net provision for claims | | 1,963 | (5,412) |
| Claims incurred, net of reinsurance | | (19,470) | (35,058) |
| Net operating expenses | 6 | (17,107) | (20,277) |
| Balance on the technical account for general business | | 1,283 | (5,486) |

Argenta Holdings Limited

Consolidated Statement of Comprehensive Income (continued)
For the year ended 31 December 2021

| | Note | 2021 £000 | 2020 £000 |
|---|------|--------------|--------------|
| NON-TECHNICAL ACCOUNT | | | |
| Balance on the general business technical account | | 1,283 | (5,486) |
| Investment income | 7 | 813 | 1,272 |
| Net unrealised (losses)/gains on investments | 7 | (617) | 550 |
| Investment expenses and charges | 7 | (82) | (70) |
| Allocated investment return transferred to the general business technical account | | (69) | (1,545) |
| Income from other activities | 8 | 22,691 | 20,077 |
| Total income | | 24,019 | 14,798 |
| Interest payable | | (27) | (67) |
| Operating expenses | | (19,267) | (17,316) |
| Profit/(loss) on ordinary activities before tax | 9 | 4,725 | (2,585) |
| Tax (charge)/credit on profit/(loss) on ordinary activities | 12 | (680) | 714 |
| Profit/(loss) for the year attributable to the owners of the Company | | 4,045 | (1,871) |
| Other comprehensive (expense)/income | | (72) | 91 |
| Total comprehensive income/(expense) attributable to the owners of the Company | | 3,973 | (1,780) |

The notes on pages 21 to 61 form an integral part of these financial statements.

Argenta Holdings Limited
**Consolidated Statement of Financial Position
As at 31 December 2021**

| | | 2021 | | | 2020 | | |
|--|------|-------------------|---------------------------|---------------|-------------------|---------------------------|---------------|
| | Note | Syndicate £000 | Non- syndicate £000 | Total £000 | Syndicate £000 | Non- syndicate £000 | Total £000 |
| ASSETS | | | | | | | |
| Intangible assets | | | | | | | |
| Goodwill | 13 | - | 996 | 996 | - | 1,363 | 1,363 |
| Other intangible assets | 13 | - | 863 | 863 | - | 997 | 997 |
| | | - | 1,859 | 1,859 | - | 2,360 | 2,360 |
| Tangible fixed assets | | | | | | | |
| | 14 | - | 1,270 | 1,270 | - | 1,267 | 1,267 |
| Investments | | | | | | | |
| Financial investments | 16 | 76,043 | 8,700 | 84,743 | 59,103 | 7,001 | 66,104 |
| Deposits with ceding undertakings | | 315 | - | 315 | 13 | - | 13 |
| | | 76,358 | 8,700 | 85,058 | 59,116 | 7,001 | 66,117 |
| Reinsurers' share of technical provisions | | | | | | | |
| Provision for unearned premiums | 24 | 15,870 | 17,425 | 33,295 | 20,625 | 14,082 | 34,707 |
| Claims outstanding | 25 | 65,575 | 26,185 | 91,760 | 63,164 | 17,376 | 80,540 |
| | | 81,445 | 43,610 | 125,055 | 83,789 | 31,458 | 115,247 |
| Debtors due within one year | | | | | | | |
| Debtors arising out of direct insurance operations | | 38,412 | - | 38,412 | 27,025 | - | 27,025 |
| Debtors arising out of reinsurance operations | | 22,443 | 66,406 | 88,849 | 20,648 | 41,734 | 62,382 |
| Other debtors | 19 | 18,739 | 8,510 | 27,249 | 11,732 | 7,949 | 19,681 |
| | | 79,594 | 74,916 | 154,510 | 59,405 | 49,683 | 109,088 |
| Debtors due after one year | | | | | | | |
| Debtors arising out of direct insurance operations | 19 | 2 | - | 2 | 24 | - | 24 |
| Other assets | | | | | | | |
| Cash at bank and in hand | | 6,777 | 58,903 | 65,680 | 4,534 | 62,555 | 67,089 |
| Other assets | 21 | 16,272 | - | 16,272 | 13,401 | - | 13,401 |
| | | 23,049 | 58,903 | 81,952 | 17,935 | 62,555 | 80,490 |
| Prepayments and accrued income | | | | | | | |
| Accrued interest | | 5 | 1,144 | 1,149 | 28 | 769 | 797 |
| Deferred acquisition costs | 22 | 13,969 | - | 13,969 | 15,722 | - | 15,722 |
| Other prepayments and accrued income | | 478 | 374 | 852 | 478 | 264 | 742 |
| | | 14,452 | 1,518 | 15,970 | 16,228 | 1,033 | 17,261 |
| TOTAL ASSETS | | | | | | | |
| | | 274,900 | 190,776 | 465,676 | 236,497 | 155,357 | 391,854 |

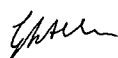
Argenta Holdings Limited

Consolidated Statement of Financial Position (continued)

As at 31 December 2021

| | | 2021 | | | 2020 | | |
|--|------|-------------------|---------------------------|----------------|-------------------|---------------------------|----------------|
| | Note | Syndicate £000 | Non- syndicate £000 | Total £000 | Syndicate £000 | Non- syndicate £000 | Total £000 |
| LIABILITIES | | | | | | | |
| Capital and reserves | | | | | | | |
| Called up share capital | 23 | - | 271 | 271 | - | 271 | 271 |
| Profit and loss account | | 2,152 | 55,341 | 57,493 | (8,018) | 61,538 | 53,520 |
| Equity shareholder's funds | | <u>2,152</u> | <u>55,612</u> | <u>57,764</u> | <u>(8,018)</u> | <u>61,809</u> | <u>53,791</u> |
| Technical provisions | | | | | | | |
| Provision for unearned premiums | 24 | 50,715 | - | 50,715 | 56,612 | - | 56,612 |
| Claims outstanding | 25 | 150,042 | - | 150,042 | 141,420 | - | 141,420 |
| | | <u>200,757</u> | <u>-</u> | <u>200,757</u> | <u>198,032</u> | <u>-</u> | <u>198,032</u> |
| Creditors due within one year | | | | | | | |
| Creditors arising out of direct insurance operations | | 13,354 | - | 13,354 | 2,889 | - | 2,889 |
| Creditors arising out of reinsurance operations | | 22,005 | 100,387 | 122,392 | 17,490 | 63,995 | 81,485 |
| Other creditors | 26 | 4,818 | 20,460 | 25,278 | 684 | 18,432 | 19,116 |
| | | <u>40,177</u> | <u>120,847</u> | <u>161,024</u> | <u>21,063</u> | <u>82,427</u> | <u>103,490</u> |
| Creditors due after one year | | | | | | | |
| Creditors arising out of reinsurance operations | | 26,926 | - | 26,926 | 19,071 | - | 19,071 |
| Accruals and deferred income | | <u>4,888</u> | <u>14,317</u> | <u>19,205</u> | <u>6,349</u> | <u>11,121</u> | <u>17,470</u> |
| TOTAL LIABILITIES AND EQUITY | | <u>274,900</u> | <u>190,776</u> | <u>465,676</u> | <u>236,497</u> | <u>155,357</u> | <u>391,854</u> |

The financial statements on pages 13 to 61 were approved and authorised for issue by the Board of Directors on 29 June 2022 and signed on its behalf by:



Mr G K Allen
Director

The notes on pages 21 to 61 form an integral part of these financial statements.

Argenta Holdings Limited**Company Statement of Financial Position
As at 31 December 2021**

| | Note | 2021 £000 | 2020 £000 |
|--|------|----------------|----------------|
| Fixed assets | | | |
| Tangible fixed assets | 15 | 1,138 | 1,129 |
| Investments in subsidiary undertakings | 18 | <u>8,744</u> | <u>8,751</u> |
| | | 9,882 | 9,880 |
| Current assets | | | |
| Debtors | 20 | 41,327 | 43,555 |
| Cash at bank and in hand | | <u>9,995</u> | <u>4,902</u> |
| | | 51,322 | 48,457 |
| Current liabilities | | | |
| Creditors: amounts falling due within one year | 27 | <u>(2,269)</u> | <u>(1,876)</u> |
| Net current assets | | <u>49,053</u> | <u>46,581</u> |
| Net assets | | <u>58,935</u> | <u>56,461</u> |
| Capital and reserves | | | |
| Called up share capital | 23 | 271 | 271 |
| Profit and loss account | | <u>58,664</u> | <u>56,190</u> |
| Total shareholder's funds | | <u>58,935</u> | <u>56,461</u> |

The Company has elected to take the exemption permitted under Section 408 of the Companies Act 2006 not to present the Company's profit and loss account. The Company's profit for the year was £2,474,000 (2020: £2,946,000).

The financial statements on pages 13 to 61 were approved and authorised for issue by the Board of Directors on 29 June 2022 and signed on its behalf by:



Mr G K Allen
Director

The notes on pages 21 to 61 form an integral part of these financial statements.

Argenta Holdings Limited**Consolidated Statement of Changes in Equity
For the year ended 31 December 2021**

| | Called up share capital £000 | Profit and loss account £000 | Total £000 |
|-----------------------------|------------------------------------|------------------------------------|---------------|
| At 1 January 2020 | 271 | 55,300 | 55,571 |
| Other comprehensive income | - | 91 | 91 |
| Loss for the year | - | (1,871) | (1,871) |
| At 31 December 2020 | <u>271</u> | <u>53,520</u> | <u>53,791</u> |
| Other comprehensive expense | - | (72) | (72) |
| Profit for the year | - | 4,045 | 4,045 |
| At 31 December 2021 | <u>271</u> | <u>57,493</u> | <u>57,764</u> |

Reserves*Profit and loss account*

The profit and loss account reserve represents the cumulative profits and losses of the Group.

The notes on pages 21 to 61 form an integral part of these financial statements.

Argenta Holdings Limited**Company Statement of Changes in Equity
For the year ended 31 December 2021**

| | Called up share capital £000 | Profit and loss account £000 | Total £000 |
|----------------------------|------------------------------------|------------------------------------|---------------|
| At 1 January 2020 | 271 | 53,244 | 53,515 |
| Other comprehensive income | - | - | - |
| Profit for the year | - | 2,946 | 2,946 |
| At 31 December 2020 | <u>271</u> | <u>56,190</u> | <u>56,461</u> |
| Other comprehensive income | - | - | - |
| Profit for the year | - | 2,474 | 2,474 |
| At 31 December 2021 | <u>271</u> | <u>58,664</u> | <u>58,935</u> |

Reserves*Profit and loss account*

The profit and loss account reserve represents the cumulative profits and losses of the Company.

The notes on pages 21 to 61 form an integral part of these financial statements.

Argenta Holdings Limited

Consolidated Statement of Cash Flows For the year ended 31 December 2021

| | Note | 2021 £000 | 2020 £000 |
|---|------|--------------|--------------|
| Profit/(loss) on ordinary activities before tax | | 4,725 | (2,585) |
| Adjustments for: | | | |
| Interest receivable | | (45) | (207) |
| Interest payable | | 27 | 67 |
| Depreciation of tangible assets | 14 | 299 | 361 |
| Amortisation of intangible assets | 13 | 414 | 391 |
| Net exchange gains/(losses) | | 103 | (77) |
| Operating cash flow before movement in working capital | | 5,523 | (2,050) |
| (Increase)/decrease in debtors | | (25,233) | 13,179 |
| Increase in reinsurers' share of technical provisions | | (12,152) | (5,889) |
| Increase in prepayments and accrued income | | (485) | (245) |
| Increase/(decrease) in creditors | | 27,534 | (1,453) |
| Increase in accruals and deferred income | | 3,196 | 1,085 |
| Interest received | | 18 | 140 |
| Net cash flows from operating activities | | (1,599) | 4,767 |
| Investing activities | | | |
| Purchase of tangible assets | | (315) | (80) |
| Purchase of intangible assets | | (48) | (182) |
| Disposal of tangible assets | | 9 | - |
| Disposal of investments | | - | 90 |
| Net cash flows from investing activities | | (354) | (172) |
| Net (decrease)/increase in cash and cash equivalents | | (1,953) | 4,595 |
| Cash and cash equivalents at the beginning of the year | | 69,556 | 64,961 |
| Cash and cash equivalents at the end of the year | | 67,603 | 69,556 |

Technical account transactions represent the Group's share of the transactions undertaken by Syndicate 2121. The cash flows arising from these transactions are not remitted to, or paid by, the Group but paid into or out of syndicate premiums trust funds held by trustees appointed by the managing agent of the syndicate. If the syndicate's premium trust funds are insufficient for the syndicate to meet its liabilities as they fall due, a cash call is made by the managing agent on all members of the syndicate and the Group pays its share pro-rata.

Once a syndicate has effected a reinsurance to close in respect of a year of account, any distributable profit is available for release from the syndicate premiums trust funds to the participating members and any loss is collected from them. The Group receives or pays its pro-rata share of any profit distributed or loss collected.

The consolidated statement of cash flows excludes the syndicate flows and cash held within Lloyd's premium trust funds on behalf of the Group's underwriting subsidiaries. During the year there was an increase in the balances between the syndicate and non-syndicate of £10.2m (2020: decrease of £7.5m).

Cash and cash equivalents are made up of cash at bank and in hand of £58,903,000 (2020: £62,555,000) and collective investment schemes of £8,700,000 (2020: £7,001,000).

1. General information

Argenta Holdings Limited is a limited company incorporated in the United Kingdom and registered in England and Wales. The address of its registered office and principal place of business is 5th Floor, 70 Gracechurch Street, London, EC3V 0XL. The principal activities of the Group are set out in the strategic report on page 3.

All of the Company's underwriting capacity is dedicated to Syndicate 2121 ("the Syndicate").

The Company is a parent undertaking and therefore these consolidated financial statements present the financial information of the Company and its subsidiary undertakings, as well as the Company's individual financial statements.

These financial statements have been presented in sterling as this is the Company's functional and presentational currency, being the currency of the primary economic environment in which the Company operates. All amounts are shown rounded to the nearest £ thousand unless stated otherwise.

2. Basis of preparation and statement of compliance

These financial statements have been prepared in accordance with FRS 102, FRS 103 and applicable legislation, as set out in the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. These financial statements have been prepared under the historical cost convention except for certain financial instruments held at fair value.

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including the notification of and no objection to, the use of exemptions by the Company's shareholders. In preparing the Company standalone financial statements, the Company has taken advantage of the following exemptions:

- from disclosing key management personnel compensation, as required by paragraph 7 of Section 33: Related Party Disclosures (note 11);
- from presenting a reconciliation of the number of shares outstanding at the beginning and end of the year, as required by paragraph 12 of Section 4: Statement of Financial Position; and
- from presenting a statement of cash flows, as required by Section 7: Statement of Cash Flows.

Recognition of insurance transactions

The Group is required to recognise its proportion of all the transactions undertaken by the Lloyd's syndicates in which it participates.

For each such syndicate, the Group's proportion of the underwriting transactions, investment return and operating expenses, will be reflected within the Group's statement of comprehensive income. Similarly, its proportion of the syndicate's assets and liabilities will be reflected in the Group's statement of financial position (under the "syndicate" column). The syndicate assets are held subject to trust deeds for the benefit of the Group's insurance creditors. The proportion referred to above is calculated by reference to the Group's participation as a percentage of the syndicate's total capacity.

The Group has delegated sole management and control of its underwriting through each syndicate to the managing agent of the syndicate ("the managing agent") and it has further undertaken not to interfere with the exercise of such management and control. The managing agents of the syndicates are therefore responsible for determining the insurance transactions to be recognised by the Group.

Sources of data

The information used to compile the technical account and the syndicate statement of financial position is based on returns prepared for this purpose by the managing agents of the syndicates ("the returns"). The returns are subject to audit by the syndicate auditors and are based on the audited syndicate returns to Lloyd's and the audited annual reports to syndicate members. The format of the returns is established by Lloyd's and Lloyd's is also responsible for collating the data at a syndicate level and analysing it into corporate member level results.

2. Basis of preparation and statement of compliance (continued)

Basis of consolidation

These consolidated financial statements incorporate the results of the Company and its subsidiary undertakings for the year ended 31 December 2021. A subsidiary undertaking is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group holds less than the majority of the voting powers, but controls the financial and operating policies of an entity by virtue of the contractual arrangement, it accounts for that entity as a subsidiary.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Where necessary, adjustments are made to the financial statements of Group entities to bring the accounting policies used in line with those used by the Group.

3. Accounting policies

Gross premiums

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

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

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

Premiums written by a syndicate may also include the reinsurance of other insurance carriers on which the Group participates. Gross premiums written may include an amount in respect of a "reinsurance to close" receivable.

Reinsurance premiums

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

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

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

Claims

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

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

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the reporting date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

3. Accounting policies (continued)

Technical provisions

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

Claims outstanding

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

Provisions for unearned premiums

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

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

Unexpired risks

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

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

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

Deferred acquisition costs

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

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

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

3. Accounting policies (continued)

Reinsurance to close

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year for consideration of:

- a) a premium; and
- b) either
 - i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurances and other monies receivable in connection with that insurance business); or
 - ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharge of the liabilities of the reinsured members.

Where the reinsurance to close is between members on successive years of account of the same syndicate, the managing agent has a duty to ensure both sets of members are treated equitably and to set the reinsurance to close with the intention that neither a profit nor a loss accrues to either group of members.

To the extent that the Group participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Group has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

If the Group has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the Group has assumed a greater proportion of the business of the syndicate. If the Group has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid. This reflects the reduction in the Group's exposure to risks previously written by the syndicate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a syndicate year of account and it is treated for accounts purposes as settling all the Group's outstanding gross liabilities in respect of the business so reinsured. Due to the uncertainties relating to the underwriting losses from the COVID-19 pandemic, the managing agent of the Syndicate left the 2019 year of account open at its natural close date. However, having left the 2018 year of account open for a similar reason last year, it did close the 2018 year of account this year into the 2020 year of account.

Insurance contracts – product classification

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

3. Accounting policies (continued)

Participation deeds

In accordance with Lloyd's requirements the Group is required to deposit funds, known as Funds at Lloyd's ("FAL"), with the Corporation of Lloyd's to support its underwriting activities. The amount of FAL required is determined by Lloyd's through the Economic Capital Assessment ("ECA") based on the perceived level of risk the Group underwrites through its syndicate participations.

The Group entered into arrangements with third party capital providers to provide some or all of the required FAL on a year of account specific basis. These arrangements are referred to as "participation deeds" and are member level reinsurance contracts on either a proportional or a non-proportional basis.

In the event that the Group makes a loss through its syndicate participations on any particular year of account, the FAL provider may be required to meet its share of the loss in line with terms of the participation deed. For providing this reinsurance, the FAL provider may be entitled to a fee or to receive a share of any profit the Group makes through its syndicate participations on any particular year of account, in line with the terms of the participation deed.

Where a fee is payable by the Group for the depositing of FAL by external parties this is recorded through "operating expenses" in the non-technical account in the first twelve months of a year of account. For proportional arrangements, at the end of each calendar year, an assessment is made of any net amounts payable to or receivable from the FAL providers based on the performance of the Group's syndicate participations and the terms of the participation deed. Movements in these balances are recorded through the reinsurance lines in the technical account and amounts receivable or payable are recorded in the "non-syndicate" column of the statement of financial position.

Investment return

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

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

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

Foreign currencies

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

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

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

Exchange differences are recorded in the non-technical account and foreign operation currency translation differences are recorded in other comprehensive income.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

3. Accounting policies (continued)

Income from other activities

Income from other activities is measured at the fair value of the consideration received or receivable and represents amounts for the provision of services, net of sales-related taxes.

Management fees receivable annually in advance and commission income are deferred and recognised as income over the period in which the services are performed.

Underwriting profit commission is recognised as income when the contractual right to receive it is established, but only to the extent that it can be estimated with sufficient reliability.

Other income relating to services rendered is recognised as income when the services are performed.

Employee benefits

Retirement benefits

The Group operates a defined contribution pension scheme, the assets of which are held separately from those of the Group in independently administered funds. Contributions are charged to the profit or loss in the year to which the contributions relate.

As required by law, AUA makes contributions in Singapore to a defined contribution scheme, the Central Provident Fund ("CPF"). AUA is also required to make contributions in Australia in relation to the Superannuation Guarantee ("SG"). CPF and SG contributions are recognised as a compensation expense in the same period as gives rise to the contributions.

Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received. An accrual is recognised for long service leave in relation to AUA's Australia branch and for short-term compensated absences where entitlement has accumulated, but has not been taken, at the reporting date.

Share-based payments

The cost of equity-settled share-based payments is measured by reference to the fair value of the share options at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. In accordance with FRS 102, the fair value of the share options at the date of grant is determined using an appropriate pricing model, observable market price, or an alternative valuation methodology. In valuing equity settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares (market conditions).

No expense is recognised for rewards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each reporting date, before vesting the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions on the number of equity instruments that will ultimately vest or in a case where an instrument is subject to a market condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the profit or loss account with a corresponding entry in equity.

Financial investments

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

3. Accounting policies (continued)

Derivative financial instruments

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

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts if applicable.

Fair value of financial assets

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

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

See note 16 for details of financial instruments classified by fair value hierarchy.

Impairment of financial assets

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

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Derecognition of financial assets

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

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts; and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

3. Accounting policies (continued)

Financial liabilities

The Group's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process.

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

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

Reinsurance assets

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

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

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

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

Insurance receivables

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

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

Insurance payables

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

Goodwill and other intangible assets

Goodwill represents the excess of the sum of the fair value of the consideration transferred in a business combination, over the net fair value of the identifiable assets and liabilities. Goodwill is initially measured at cost and subsequently measured at cost less any accumulated impairment losses and less any accumulated amortisation. Goodwill is tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Intangible assets with finite lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated impairment losses and less any accumulated amortisation. Intangible assets are tested for impairment whenever there is an indication that the intangible asset may be impaired. Goodwill and intangible assets are being amortised over their estimated useful lives. Annual amortisation rates are as follows:

| | |
|---------------------------------------|-------|
| Goodwill | 10% |
| Intangible asset - customers | 12.5% |
| Intangible asset - software | 20% |
| Intangible asset - syndicate capacity | 10% |

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

3. Accounting policies (continued)

Tangible fixed assets

Tangible fixed assets comprise office fixtures and equipment, computer equipment and motor vehicles which are initially recognised at cost, being the purchase price plus any directly attributable costs, and are subsequently measured at cost less accumulated depreciation and impairment losses.

Depreciation is charged on a straight line basis to profit or loss so as to allocate the asset's cost, less its estimated residual value, over its estimated useful life. Annual depreciation rates are as follows:

| | |
|-------------------------------|-------------|
| Office fixtures and equipment | 10% - 20% |
| Computer equipment | 20% - 100% |
| Motor vehicles | 12.5% - 20% |

Tangible fixed assets are tested for impairment where an indication of impairment exists at the reporting date.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are measured at cost less impairment. Investments are tested for impairment where an indication of impairment exists at the reporting date.

Debtors

Debtors are initially recognised at the transaction price, including any transaction costs, and are subsequently measured at amortised cost using the EIR method, less any provision for impairment. Amounts that are receivable within one year are measured at the undiscounted amount expected to be receivable, net of any impairment. Where a financial asset constitutes a financing transaction it is initially and subsequently measured at the present value of the future payments, discounted at a market rate of interest.

Impairment of assets

At each reporting date, the Group reviews the carrying value of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount of an asset is the higher of fair value less costs to sell and value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. The present value calculation involves estimating the future cash inflows and outflows to be derived from continuing use of the asset, and from its ultimate disposal, applying an appropriate discount rate to those future cash flows.

Where the recoverable amount of an asset is less than the carrying amount, an impairment loss is recognised immediately in profit or loss. An impairment loss recognised for all assets is reversed in a subsequent year if, and only if, the reasons for the impairment loss have ceased to apply.

Creditors

Creditors are initially measured at the transaction price, including any transaction costs, and are subsequently measured at amortised cost using the EIR method. Amounts that are payable within one year are measured at the undiscounted amount expected to be payable. Where a financial liability constitutes a financing transaction it is initially and subsequently measured at the present value of the future payments, discounted at a market rate of interest.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

3. Accounting policies (continued)

Taxation

The tax expense for the year comprises current and deferred tax. Tax currently payable, relating to UK corporation tax, is calculated on the basis of the tax rates and laws that have been enacted or substantively enacted as at the reporting date.

The Group is taxed on its share of the underwriting results declared by syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. HM Revenue and Customs determines the taxable results of syndicates on the basis of computations submitted by the managing agent. Any adjustments that may be necessary to the tax provisions established by the Group as a result of HM Revenue and Customs' agreement of individual syndicate taxable results will be reflected in the financial statements of subsequent years. Other profits are assessable to corporation tax in the same year as they are recognised for accounting purposes, after adjustment in accordance with tax legislation.

Deferred tax is recognised on all timing differences that have originated but not reversed at the reporting date. Transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future give rise to a deferred tax liability or asset. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in years different from those in which they are recognised in the financial statements.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted as at the reporting date, that are expected to apply to the reversal of the timing difference. The tax expense is recognised in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense.

Deferred income tax assets are recognised only to the extent that, on the basis of all available evidence, it is deemed probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Current and deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and there is the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Lease arrangements

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease rentals are charged on a straight-line basis over the term of the lease. Any benefits receivable as an incentive to enter into an operating lease are spread on a straight-line basis over the lease term.

4. Critical accounting judgements and key sources of estimation uncertainty

In applying the Group's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' 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 year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

In assessing whether there have been any indicators of impairment of assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability.

The critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are discussed below.

Recognition of income

The measurement and recognition of management fees and profit commissions requires the directors to make judgements regarding the period in which the services are performed and the final profits are expected to be achieved. In arriving at these views, the directors considered the scope and scale of activities associated with the role of the agency businesses and the underwriting performance to date.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Intangible assets

Intangible asset values relate to a proprietary software system and long standing relationships with customers, acquired with the purchase of the business assets and syndicate capacity purchased as detailed in note 13. The valuation of the software system was estimated using a replacement cost approach. The long standing customer relationship valuation was based on a multi-period excess earnings method that used a discount rate of 10%. It included a discounted cash flow model based on forecast recurring customer income, adjusted for appropriate expenses. Purchased capacity is valued at cost. There is no indication of an impairment and no impairment loss has therefore been recognised for the financial year ended 31 December 2021.

Goodwill

Goodwill relates to the acquisition of the business of an established coverholder, MHIA, with a significant market share in a niche industry sector and with low cost operations that will complement existing operations in Australia. Management test the impairment of goodwill using a discounted cash flow forecast based on assumptions of future growth and inflating costs. There is no indication of an impairment and no impairment loss has therefore been recognised for the financial year ended 31 December 2021.

Insurance contracts

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

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

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

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

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premiums. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premiums on a basis other than time apportionment. These judgements will have a consequential impact on the estimates of the reinsurers' share of technical provisions. For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgmental and could result in misstatements of revenue recorded in the financial statements. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Financial assets and financial liabilities

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

Recoverability of debtors

A provision for debtors is established where it is estimated that the debtors are not considered to be fully recoverable. When assessing recoverability, the directors have considered factors such as the ageing of the receivables, past experience of recoverability and the credit profile of individual or groups of customers.

Calculation of deferred tax

A deferred tax asset is recognised only to the extent that it will be recoverable against the future profits of the Group. The directors have reviewed the business plans and forecasts of the Group and have judged it appropriate that all deferred tax assets be recognised in full except where indicated in note 28.

5. Particulars of business written

| | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 | Total £000 |
|-----------------------------------|--------------------------------------|-------------------------------------|-------------------------------------|--|--------------------------------|---------------|
| 2021 | | | | | | |
| Direct business: | | | | | | |
| Accident and health | (81) | 45 | (179) | (50) | 140 | (44) |
| Motor – third party liability | (39) | 13 | 13 | (771) | 213 | (532) |
| Motor – other classes | 1,017 | 1,422 | (551) | (3,118) | 1,004 | (1,243) |
| Marine, aviation and transport | 11,184 | 11,704 | (8,197) | (1,979) | (1,153) | 375 |
| Fire and other damage to property | 30,258 | 34,298 | (12,839) | (10,507) | (8,311) | 2,641 |
| Third party liability | 35,779 | 36,127 | (20,395) | (12,766) | (3,227) | (261) |
| Credit and suretyship | 3,628 | 4,129 | (1,982) | (1,125) | (742) | 280 |
| Total direct | 81,746 | 87,738 | (44,130) | (30,316) | (12,076) | 1,216 |
| Reinsurance business: | | | | | | |
| Reinsurance acceptances | 26,815 | 26,331 | (18,114) | (7,239) | (980) | (2) |
| Total | 108,561 | 114,069 | (62,244) | (37,555) | (13,056) | 1,214 |
| 2020 | | | | | | |
| Direct business: | | | | | | |
| Accident and health | 174 | 447 | (674) | (250) | 306 | (171) |
| Motor – third party liability | 161 | 117 | (119) | (800) | 263 | (539) |
| Motor – other classes | 1,888 | 1,918 | (986) | (3,556) | 2,919 | 295 |
| Marine, aviation and transport | 13,565 | 13,597 | (10,912) | (2,037) | 71 | 719 |
| Fire and other damage to property | 37,483 | 38,667 | (47,840) | (12,094) | 12,518 | (8,749) |
| Third party liability | 33,394 | 26,508 | (12,009) | (9,210) | (4,888) | 401 |
| Credit and suretyship | 3,824 | 3,154 | (2,185) | (889) | 114 | 194 |
| Total direct | 90,489 | 84,408 | (74,725) | (28,836) | 11,303 | (7,850) |
| Reinsurance business: | | | | | | |
| Reinsurance acceptances | 27,840 | 26,604 | (16,324) | (6,970) | (2,491) | 819 |
| Total | 118,329 | 111,012 | (91,049) | (35,806) | 8,812 | (7,031) |

All premiums were concluded in the United Kingdom.

Net operating expenses shown in the income statement include an amount of £10.7 million (2020: £8.2m) in respect of commissions on outward reinsurance that have been set off from the gross operating expenses but are included in the reinsurance balance above.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

5. Particulars of business written (continued)

A geographical analysis of gross written premiums by destination is as follows:

| | 2021 £000 | 2020 £000 |
|-------------------|----------------|----------------|
| United Kingdom | 39,226 | 41,529 |
| EU member states | 5,435 | 6,702 |
| Rest of the world | 63,900 | 70,098 |
| | <u>108,561</u> | <u>118,329</u> |

6. Net operating expenses

| | 2021 £000 | 2020 £000 |
|---|----------------|----------------|
| Administrative expenses – personal expenses | 1,371 | 1,524 |
| Acquisition costs | 32,151 | 34,541 |
| Change in deferred acquisition costs | 1,647 | (2,071) |
| Administrative expenses – other | <u>2,386</u> | <u>1,812</u> |
| Gross operating expenses | 37,555 | 35,806 |
| Reinsurance commissions | (9,011) | (10,914) |
| Change in deferred reinsurance commissions | (1,656) | 2,721 |
| Member level quota share reinsurance | <u>(9,781)</u> | <u>(7,336)</u> |
| | <u>17,107</u> | <u>20,277</u> |

Included within acquisition costs are commissions on direct business of £22.6m (2020: £25.4m).

7. Investment return

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| <i>Syndicate:</i> | | |
| Income from other financial investments | 1,026 | 998 |
| Net (losses)/gains on realisation of investments | | |
| - designated at fair value through profit or loss | <u>(258)</u> | <u>67</u> |
| Total investment income | <u>768</u> | <u>1,065</u> |
| Net unrealised (losses)/gains on investments | | |
| - designated at fair value through profit or loss | <u>(617)</u> | <u>550</u> |
| Investment expenses and charges | <u>(82)</u> | <u>(70)</u> |
| Total investment return | <u>69</u> | <u>1,545</u> |
| <i>Non-syndicate:</i> | | |
| Deposit interest | <u>45</u> | <u>207</u> |
| Total investment return | <u>114</u> | <u>1,752</u> |

Argenta Holdings Limited

Notes to the Financial Statements (continued) For the year ended 31 December 2021

8. Income from other activities

An analysis of income from other activities by category is as follows:

| | 2021 £000 | 2020 £000 |
|--------------------|---------------|---------------|
| Management fees | 21,500 | 19,094 |
| Profit commissions | 129 | - |
| Other service fees | 1,062 | 983 |
| | <u>22,691</u> | <u>20,077</u> |

Income from other activities arises wholly within the United Kingdom with the exception of £6.5m (2020: £5.7m) arising from the service company in Singapore and its Australian branch.

9. Profit/(loss) on ordinary activities before tax

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| The profit/(loss) on ordinary activities before tax is stated after charging: | | |
| Amortisation of intangible assets (note 13) | 414 | 391 |
| Depreciation of tangible fixed assets (note 14) | 299 | 361 |
| Staff costs (note 10) | 11,881 | 10,383 |
| Hire of other assets under operating leases | 634 | 657 |
| Auditor's remuneration | 291 | 292 |

An analysis of the auditor's remuneration is as follows:

Fees payable to the Company's auditors and their associates for the audit of the Company's annual report and financial statements

| | |
|----|----|
| 50 | 48 |
|----|----|

Fees payable to the Company's auditors and their associates for other services to the Company:

The audit of the Company's subsidiaries

| | |
|-----|-----|
| 106 | 103 |
|-----|-----|

Assurance services

| | |
|-----|-----|
| 135 | 141 |
|-----|-----|

| | |
|------------|------------|
| <u>291</u> | <u>292</u> |
|------------|------------|

The auditor's remuneration above includes only those amounts that are borne by the Group.

10. Employee information

| | 2021 £000 | 2020 £000 |
|-----------------------------------|---------------|---------------|
| Salaries and associated expenses: | | |
| Wages, salaries and bonuses | 10,265 | 8,961 |
| Social security costs | 1,167 | 1,021 |
| Other pension costs | 449 | 401 |
| | <u>11,881</u> | <u>10,383</u> |

Of the total bonuses accrued for staff, none (2020: £158,000) were settled by a group employee benefit trust.

| | 2021 | 2020 |
|--|------------|------------|
| Average number of employees: | | |
| Argenta Holdings Limited | 31 | 31 |
| Argenta Private Capital Limited | 29 | 27 |
| Argenta Syndicate Management Limited | 114 | 105 |
| Argenta Tax & Corporate Services Limited | 9 | 7 |
| Argenta Underwriting Asia Pte. Ltd. | 35 | 33 |
| | <u>218</u> | <u>203</u> |

Argenta Holdings Limited

Notes to the Financial Statements (continued) For the year ended 31 December 2021

11. Directors' emoluments

Emoluments disclosed below relate to amounts paid during the year to the directors who are remunerated specifically for their services to the Group.

| | 2021 £000 | 2020 £000 |
|-------------------------------|--------------|--------------|
| Aggregate remuneration | 748 | 1,392 |
| Company pension contributions | - | - |
| | <u>748</u> | <u>1,392</u> |

During the year none of the directors accrued benefits under a defined contribution scheme (2020: none).

Directors' remuneration includes amounts paid to the highest paid director of:

| | 2021 £000 | 2020 £000 |
|-------------------------------|--------------|--------------|
| Aggregate remuneration | 405 | 747 |
| Company pension contributions | - | - |
| | <u>405</u> | <u>747</u> |

The key management personnel of the Group are considered to be the directors of the Company.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

12. Tax (charge)/credit on profit/(loss) on ordinary activities

a) Analysis of profit or loss (charge)/credit in the year

| | 2021 £000 | 2020 £000 |
|---|---------------------|-------------------|
| Current tax: | | |
| Foreign tax | (628) | (417) |
| Adjustments in respect of prior years | 116 | - |
| Total current tax charge | <u>(512)</u> | <u>(417)</u> |
| Deferred tax: | | |
| Origination and reversal of timing differences | (597) | 727 |
| Adjustments in respect of prior years | 24 | 283 |
| Effect of decreased tax rate on opening liability | 405 | 121 |
| Total deferred tax (charge)/credit (note 28) | <u>(168)</u> | <u>1,131</u> |
| Total tax (charge)/credit | <u><u>(680)</u></u> | <u><u>714</u></u> |

b) Factors affecting the tax (charge)/credit for the year

Tax on profit/(loss) on ordinary activities for the year is lower (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are reconciled below:

| | 2021 £000 | 2020 £000 |
|--|---------------------|-------------------|
| Profit/(loss) on ordinary activities before tax | 4,725 | (2,585) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%) | (898) | 491 |
| Effects of: | | |
| Expenses not deductible for tax | (27) | (10) |
| Profits subject to a higher tax rate | (231) | (174) |
| Other corporate computation adjustments | - | (8) |
| Adjustments in respect of prior years | 140 | 109 |
| Double taxation relief | - | 6 |
| Income not subject to tax | (56) | 34 |
| Effect of foreign taxes | (13) | (17) |
| Effect of decreased tax rate on opening liability/other differences | 405 | 283 |
| Total tax (charge)/credit | <u><u>(680)</u></u> | <u><u>714</u></u> |

Factors that may affect future tax charges

The increase in the UK corporation tax rate from 19% to 25% was enacted within the Finance Act 2021 and will be effective from 1 April 2023. As a result, the relevant deferred tax balances have been re-measured. Deferred tax expected to reverse in the year to 31 December 2022 has been measured using the effective rate that will apply in the UK for the period (19%). Deferred tax expected to reverse in the year to 31 December 2023 has been measured using a rate of 23.5%. For years ending after 31 December 2023, the group has used the new tax rate of 25%.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

13. Intangible assets

| | Goodwill £000 | Software £000 | Customer relationships £000 | Purchased Capacity £000 | Total £000 |
|------------------------------------|------------------|------------------|-----------------------------------|-------------------------------|---------------|
| Cost: | | | | | |
| At 1 January 2021 | 2,513 | 195 | 924 | 612 | 4,244 |
| Exchange differences | (115) | (9) | (42) | - | (166) |
| Additions | - | - | - | 48 | 48 |
| At 31 December 2021 | 2,398 | 186 | 882 | 660 | 4,126 |
| Accumulated amortisation: | | | | | |
| At 1 January 2021 | 1,150 | 178 | 450 | 106 | 1,884 |
| Exchange differences | - | (8) | (23) | - | (31) |
| Charged in the year | 252 | 16 | 84 | 62 | 414 |
| At 31 December 2021 | 1,402 | 186 | 511 | 168 | 2,267 |
| Net book value at 31 December 2021 | 996 | - | 371 | 492 | 1,859 |
| Net book value at 31 December 2020 | 1,363 | 17 | 474 | 506 | 2,360 |

Goodwill

On 1 June 2016 AUA acquired the business assets of MHIA, an Australian managing general agent. The consideration was approximately £3.4 million. The fair value of the net tangible liabilities acquired was £0.4 million, the fair value of intangible assets was £1.2 million and the fair value of the goodwill was £2.6 million. The intangible assets relate to the long standing relationships with customers acquired and a software system used within the business.

A significant proportion of the MHIA underwriting activities is underwritten under a binding authority between Syndicate 2121 and AUA's Australian branch in accordance with a licence granted by the Australian Securities and Investment Commission on 19 February 2016.

Software

The software was the primary system used by the MHIA business at the date of acquisition and this continues to be the case at the reporting date. This is fully amortised.

Customer relationships

The value attached to the customer relationships is based on the assumption that customer retention is in excess of 80%. An impairment review would be considered where the renewal rate falls below this level on an annual basis. There is no indication of an impairment for the financial year ended 31 December 2021.

Purchased capacity

Argenta Underwriting No.3 Limited has purchased capacity on Syndicate 2121 at the Lloyd's auctions. In 2017 it paid £281,855 to acquire £10.3m of capacity; in 2019 it paid £147,807 to acquire £7.0m of capacity; in 2020 it paid £181,609 to acquire £61.5m of capacity; and in 2021 it paid £48,907 to acquire a further £19.1m of capacity.

Argenta Holdings Limited

Notes to the Financial Statements (continued) For the year ended 31 December 2021

14. Tangible fixed assets - Group

| | Office fixtures and fittings £000 | Motor Vehicles £000 | Computer equipment £000 | Total £000 |
|------------------------------------|---|---------------------------|-------------------------------|---------------|
| Cost: | | | | |
| At 1 January 2021 | 2,194 | 79 | 510 | 2,783 |
| Exchange differences | (17) | (3) | (5) | (25) |
| Additions | 240 | 42 | 33 | 315 |
| Disposals | - | (18) | - | (18) |
| At 31 December 2021 | 2,417 | 100 | 538 | 3,055 |
| Accumulated depreciation: | | | | |
| At 1 January 2021 | 1,104 | 20 | 392 | 1,516 |
| Exchange differences | (10) | (1) | (10) | (21) |
| Charged in the year | 188 | 11 | 100 | 299 |
| Disposals | - | (9) | - | (9) |
| At 31 December 2021 | 1,282 | 21 | 482 | 1,785 |
| Net book value at 31 December 2021 | 1,135 | 79 | 56 | 1,270 |
| Net book value at 31 December 2020 | 1,090 | 59 | 118 | 1,267 |

15. Tangible fixed assets - Company

| | Office fixtures and fittings £000 | Computer equipment £000 | Total £000 |
|------------------------------------|---|-------------------------------|---------------|
| Cost: | | | |
| At 1 January 2021 | 1,697 | 379 | 2,076 |
| Additions | 239 | 7 | 246 |
| At 31 December 2021 | 1,936 | 386 | 2,322 |
| Accumulated depreciation: | | | |
| At 1 January 2021 | 644 | 303 | 947 |
| Charged in the year | 166 | 71 | 237 |
| At 31 December 2021 | 810 | 374 | 1,184 |
| Net book value at 31 December 2021 | 1,126 | 12 | 1,138 |
| Net book value at 31 December 2020 | 1,053 | 76 | 1,129 |

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

16. Financial investments – Group

| | Cost 2021 £000 | Fair value 2021 £000 | Listed 2021 £000 |
|---|----------------------|----------------------------|------------------------|
| Syndicate: | | | |
| Shares and other variable yield securities and units in unit trusts | 12,623 | 12,623 | 7,840 |
| Debt securities and other fixed income securities | 57,394 | 56,853 | - |
| Participation in investment pools | 6,571 | 6,567 | - |
| Loans and deposits with credit institutions | - | - | - |
| Derivative financial instruments | - | - | - |
| | <u>76,588</u> | <u>76,043</u> | <u>7,840</u> |
| | Cost 2021 £000 | Fair value 2021 £000 | Listed 2021 £000 |
| Non-syndicate: | | | |
| Shares and other variable yield securities and units in unit trusts | <u>8,700</u> | <u>8,700</u> | <u>-</u> |
| | Cost 2020 £000 | Fair value 2020 £000 | Listed 2020 £000 |
| Syndicate: | | | |
| Shares and other variable yield securities and units in unit trusts | 9,995 | 9,995 | 6,804 |
| Debt securities and other fixed income securities | 43,338 | 43,739 | - |
| Participation in investment pools | 5,247 | 5,369 | - |
| Loans and deposits with credit institutions | - | - | - |
| Derivative financial instruments | - | - | - |
| | <u>58,580</u> | <u>59,103</u> | <u>6,804</u> |
| | Cost 2020 £000 | Fair value 2020 £000 | Listed 2020 £000 |
| Non-syndicate: | | | |
| Shares and other variable yield securities and units in unit trusts | <u>7,001</u> | <u>7,001</u> | <u>-</u> |

The shares and other variable yield securities and units in unit trusts primarily relate to holdings in highly diversified collective investment schemes. This also includes a Syndicate loan with Lloyd's as part of its capital structure.

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

16. Financial investments – Group (continued)

The following table shows financial investments including overseas deposits (note 21) recorded at fair value analysed between the three levels in the fair value hierarchy.

| 31 December 2021 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|-----------------|-----------------|-----------------|---------------|
| Syndicate: | | | | |
| Shares and other variable yield securities and units in unit trusts | 11,046 | - | 1,577 | 12,623 |
| Debt securities and other fixed income securities | - | 56,853 | - | 56,853 |
| Participation in investment pools | 1 | 6,566 | - | 6,567 |
| Derivative financial instruments | - | - | - | - |
| Loans and deposits with credit institutions | - | - | - | - |
| Overseas deposits | 2,310 | 13,962 | - | 16,272 |
| | 13,357 | 77,381 | 1,577 | 92,315 |
| Non-syndicate: | | | | |
| Shares and other variable yield securities and units in unit trusts | 8,700 | - | - | 8,700 |
| | | | | |
| 31 December 2020 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
| Syndicate: | | | | |
| Shares and other variable yield securities and units in unit trusts | 8,418 | - | 1,577 | 9,995 |
| Debt securities and other fixed income securities | - | 43,739 | - | 43,739 |
| Participation in investment pools | - | 5,369 | - | 5,369 |
| Derivative financial instruments | - | - | - | - |
| Loans and deposits with credit institutions | - | - | - | - |
| Overseas deposits | 2,896 | 10,505 | - | 13,401 |
| | 11,314 | 59,613 | 1,577 | 72,504 |
| Non-syndicate: | | | | |
| Shares and other variable yield securities and units in unit trusts | 7,001 | - | - | 7,001 |

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

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

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

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

Argenta Holdings Limited

Notes to the Financial Statements (continued) For the year ended 31 December 2021

17. Other investments in equity instruments - Group

A 26.23% shareholding held in The Newton Follis Partnership ("NFP") was sold back to NFP under a share buyback agreement on 29 June 2020 resulting in a minor loss on disposal of £256. There were no other transactions during 2020 or 2021.

18. Investment in subsidiary undertakings - Company

| | 2021 £000 | 2020 £000 |
|---------------------|--------------|--------------|
| At 1 January | 8,751 | 8,759 |
| Additions | - | - |
| Impairment | - | - |
| Exchange adjustment | (7) | (8) |
| At 31 December | 8,744 | 8,751 |

The Company's active subsidiary undertakings at 31 December 2021, incorporated in the United Kingdom in which it holds 100% of the ordinary voting shares of £1 each were Argenta Private Capital Limited, Argenta Tax & Corporate Services Limited, Argenta Underwriting No.2 Limited, Argenta Underwriting No.3 Limited, Argenta Underwriting No.9 Limited, Argenta Underwriting No.10 Limited, Argenta Underwriting No.11 Limited and Residual Services Limited.

The Company also has an active subsidiary undertaking, incorporated in the United Kingdom in which it holds 100% of the ordinary voting shares of 1p each called Argenta Syndicate Management Limited and an active subsidiary undertaking, incorporated in Singapore in which it holds 100% of the ordinary voting shares of 1c each called Argenta Underwriting Asia Pte. Ltd.

The Company's dormant subsidiary undertakings at 31 December 2021, incorporated in the United Kingdom with 100% of ordinary voting shares of £1 each were APCL Corporate Director No.1 Limited, APCL Corporate Director No.2 Limited, Argenta Continuity Limited, Argenta General Partner Limited, Argenta General Partner II LLP, Argenta LLP Services Limited, Argenta Secretariat Limited, Argenta SLP Continuity Limited, Argenta Underwriting No.1 Limited, Argenta Underwriting No.4 Limited, Argenta Underwriting No.7 Limited, Fountain Continuity Limited, Names Taxation Services Limited, Residual Services Corporate Director Limited, RSL No.1 Limited (formerly R A Lee Underwriting Limited), RSL No.2 Limited (formerly Frank Barber Underwriting Limited), RSL No.3 Limited (formerly Jaycee Underwriting Limited), RSL No.4 Limited (formerly Callewa Underwriting Limited), RSL No.5 Limited (formerly Grayfield Underwriting Limited), RSL No.6 Limited (formerly Mortlake Underwriting Limited), RSL No.7 Limited (formerly Bouncer Underwriting Limited), RSL No.8 Limited (formerly Abacus Corporate Capital Member Limited), RSL No.9 Limited (formerly Redcar Underwriting Limited), RSL No.10 Limited (formerly Northfield Partners Limited), RSL No.11 Limited (formerly Crest Underwriting Limited), RSL No.12 Limited (formerly Ben Rinnes Underwriting Limited), RSL No.13 Limited (formerly Amco Underwriting Limited), RSL No.14 Limited (formerly FMJ Investment Limited), RSL No.15 Limited (formerly Trumpeldor Underwriting Limited), RSL No.16 Limited (formerly Agate Underwriting Limited), RSL No.17 Limited (formerly Plough Penny Corporate Capital Member Limited), RSL No.18 Limited (formerly Cowley Underwriting Limited), RSL No.19 Limited (formerly Boscawen Underwriting Limited), RSL No.20 Limited (formerly Augusta Underwriting Limited), RSL No.21 Limited (formerly Tora Underwriting Limited), RSL No.22 Limited (formerly Gregory & Partners Limited), RSL No.23 Limited (formerly RMUW Limited), RSL No.24 Limited (formerly Tarrel Underwriting Limited), RSL No.25 Limited (formerly Sperandum Est Limited), RSL No.26 Limited (formerly H.M. (Underwriting) Limited), RSL No.27 Limited (formerly S B G Underwriting Limited), RSL No.28 Limited (formerly Heico Underwriting Limited), RSL No.29 Limited (formerly Old Broad Street Underwriting Limited), RSL No.30 Limited (formerly Chariot (I) Underwriting Limited), RSL No.31 Limited (formerly Gustavia Underwriting Limited), RSL No.32 Limited (formerly O.A.M. Limited), RSL No.33 Limited (formerly BHC Winton Underwriting Limited), RSL No.34 Limited (formerly BHC Winton Underwriting II Limited), RSL No.35 Limited (formerly BHC Winton Underwriting III Limited), RSL No.36 Limited (formerly Constellation Underwriting Limited), RSL No.37 Limited (formerly Damillo Limited), RSL No.38 Limited (formerly Ritch Underwriting Limited), RSL No.39 Limited (formerly Jefren Underwriting Limited), RSL No.40 Limited (formerly Stanger Underwriting Limited), RSL No.41 Limited (formerly Samaria Limited), RSL No.42 Limited (formerly Sumac Underwriting (UK) Limited), RSL No.43 Limited (formerly Torridon Underwriting Limited), RSL No.44 Limited (formerly Schafer Underwriting Limited) and RSL No.45 Limited (formerly Yarrum Limited)

Argenta No.16 was incorporated on 2 October 2020 and dissolved on 12 January 2021. Argenta No.13 Limited, Argenta No.14 Limited and Argenta No.15 Limited were all dissolved on 16 March 2021.

Argenta Underwriting (Europe) Limited was incorporated in Ireland on 19 January 2022.

Argenta Holdings Limited

Notes to the Financial Statements (continued) For the year ended 31 December 2021

18. Investment in subsidiary undertakings – Company (continued)

The Company also has a dormant subsidiary undertaking, incorporated in Labuan in which it holds 100% of the ordinary voting shares of \$1 each called Argenta Underwriting Labuan Limited. The process for dissolution of this company was commenced in 2020 with the completion of this process expected to occur in 2022.

The registered office of all subsidiary undertakings is 5th Floor, 70 Gracechurch Street, London, EC3V 0XL, with the exception of Argenta Underwriting Asia Pte. Ltd. whose registered office is 138 Market Street, #04-03, Capita Green, Singapore 048946, Argenta Underwriting (Europe) Limited whose registered office is 6th Floor, 2 Grand Canal Square, Dublin 2, Ireland, D02 A342, Argenta Underwriting Labuan Limited, whose registered office is Brumby Centre, Lot 42, Jalan Muhibbah, 87000, Labuan F.T, Malaysia; and Argenta General Partner Limited, Argenta General Partner II LLP, Argenta SLP Continuity Limited and Fountain Continuity Limited whose registered office is Quartermile One, 15 Lauriston Place, Edinburgh, EH3 9EP.

19. Other debtors – Group

| | 2021 £000 | 2020 £000 |
|--|---------------|---------------|
| Syndicate: | | |
| <i>Amounts falling due within one year:</i> | | |
| Other debtors | <u>18,739</u> | <u>11,732</u> |
| | | |
| | 2021 £000 | 2020 £000 |
| <i>Amounts falling due after one year:</i> | | |
| Debtors arising out of direct insurance operations | <u>2</u> | <u>24</u> |
| | | |
| Non-syndicate: | 2021 £000 | 2020 £000 |
| <i>Amounts falling due within one year:</i> | | |
| Amounts due from managed syndicates | 1,029 | 1,091 |
| Deferred taxation (note 28) | 4,476 | 4,644 |
| Other | <u>3,005</u> | <u>2,214</u> |
| | <u>8,510</u> | <u>7,949</u> |

20. Debtors – Company

| | 2021 £000 | 2020 £000 |
|---|---------------|---------------|
| <i>Amounts falling due within one year:</i> | | |
| Amounts owed by group undertakings | 39,123 | 42,158 |
| Deferred taxation (note 29) | 1,193 | 821 |
| Other taxation and social security | 779 | 543 |
| Prepayments | 127 | 27 |
| Other | <u>105</u> | <u>6</u> |
| | <u>41,327</u> | <u>43,555</u> |

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Argenta Holdings Limited

Notes to the Financial Statements (continued) For the year ended 31 December 2021

21. Other assets - Group

| | 2021 £000 | 2020 £000 |
|-------------------|---------------|---------------|
| Syndicate: | | |
| Overseas deposits | <u>16,272</u> | <u>13,401</u> |

Overseas deposits are made as a condition of carrying on business in various jurisdictions.

22. Deferred acquisition costs - Group

| | 2021 £000 | 2020 £000 |
|--------------------------------------|---------------|---------------|
| Syndicate: | | |
| At 1 January | 15,722 | 13,846 |
| Change in deferred acquisition costs | (1,647) | 2,071 |
| Foreign exchange | <u>(106)</u> | <u>(195)</u> |
| At 31 December | <u>13,969</u> | <u>15,722</u> |

23. Called up share capital – Group and Company

| | 2021 Number | £000 | 2020 Number | £000 |
|--|-------------------|------------|-------------------|------------|
| Allotted, issued and fully paid ordinary voting "A" shares of 1p each | <u>27,083,340</u> | <u>271</u> | <u>27,083,340</u> | <u>271</u> |

The ordinary shares are non-redeemable, have full voting rights and full rights to participate in a distribution.

24. Provision for unearned premiums - Group

| 2021 | Gross £000 | Reinsurers' share £000 | Net £000 |
|------------------------------|---------------|------------------------------|-----------------|
| Syndicate: | | | |
| At 1 January | 56,612 | (20,625) | 35,987 |
| Premiums written in the year | 108,561 | (42,769) | 65,792 |
| Premiums earned in the year | (114,069) | 47,380 | (66,689) |
| Foreign exchange | <u>(389)</u> | <u>144</u> | <u>(245)</u> |
| At 31 December | <u>50,715</u> | <u>(15,870)</u> | <u>34,845</u> |
| Non-syndicate: | | | |
| At 1 January | - | (14,082) | (14,082) |
| Premiums written in the year | - | (32,241) | (32,241) |
| Premiums earned in the year | - | 28,898 | 28,898 |
| Foreign exchange | <u>-</u> | <u>-</u> | <u>-</u> |
| At 31 December | <u>-</u> | <u>(17,425)</u> | <u>(17,425)</u> |

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

24. Provision for unearned premiums – Group (continued)

| 2020 | Gross £000 | Reinsurers' share £000 | Net £000 |
|------------------------------|---------------|------------------------------|-----------------|
| Syndicate: | | | |
| At 1 January | 50,210 | (12,141) | 38,069 |
| Premiums written in the year | 118,329 | (49,595) | 68,734 |
| Premiums earned in the year | (111,012) | 40,662 | (70,350) |
| Foreign exchange | (915) | 449 | (466) |
| At 31 December | <u>56,612</u> | <u>(20,625)</u> | <u>35,987</u> |
| | Gross £000 | Reinsurers' share £000 | Net £000 |
| Non-syndicate: | | | |
| At 1 January | - | (9,805) | (9,805) |
| Premiums written in the year | - | (26,514) | (26,514) |
| Premiums earned in the year | - | 22,046 | 22,046 |
| Foreign exchange | - | 191 | 191 |
| At 31 December | <u>-</u> | <u>(14,082)</u> | <u>(14,082)</u> |

25. Claims outstanding - Group

| 2021 | Gross £000 | Reinsurers' share £000 | Net £000 |
|--|----------------|------------------------------|-----------------|
| Syndicate: | | | |
| At 1 January | 141,420 | (63,164) | 78,256 |
| Change in share of capacity | - | - | - |
| Claims incurred in current underwriting year | 25,183 | (8,980) | 16,203 |
| Claims incurred in prior underwriting years | 37,061 | (15,340) | 21,721 |
| Claims paid during the year | (52,768) | 21,690 | (31,078) |
| Foreign exchange | (854) | 219 | (635) |
| At 31 December | <u>150,042</u> | <u>(65,575)</u> | <u>84,467</u> |
| | Gross £000 | Reinsurers' share £000 | Net £000 |
| Non-syndicate: | | | |
| At 1 January | - | (17,376) | (17,376) |
| Participation agreement change for closing year of account | - | - | - |
| Claims incurred in current underwriting year | - | (9,311) | (9,312) |
| Claims incurred in prior underwriting years | - | (9,143) | (9,143) |
| Claims paid during the year | - | 9,645 | 9,646 |
| Foreign exchange | - | - | - |
| At 31 December | <u>-</u> | <u>(26,185)</u> | <u>(26,185)</u> |

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

25. Claims outstanding – Group (continued)

| 2020 | Gross £000 | Reinsurers' share £000 | Net £000 |
|--|----------------|------------------------------|-----------------|
| Syndicate: | | | |
| At 1 January | 133,697 | (56,562) | 77,135 |
| Change in share of capacity | (18,748) | 8,502 | (10,246) |
| Claims incurred in current underwriting year | 33,582 | (16,776) | 16,806 |
| Claims incurred in prior underwriting years | 57,467 | (21,964) | 35,503 |
| Claims paid during the year | (62,873) | 22,859 | (40,014) |
| Foreign exchange | (1,705) | 777 | (928) |
| At 31 December | <u>141,420</u> | <u>(63,164)</u> | <u>78,256</u> |
| | Gross £000 | Reinsurers' share £000 | Net £000 |
| Non-syndicate: | | | |
| At 1 January | - | (15,764) | (15,764) |
| Participation agreement change for closing year of account | - | 5,271 | 5,271 |
| Claims incurred in current underwriting year | - | (8,126) | (8,126) |
| Claims incurred in prior underwriting years | - | (9,125) | (9,125) |
| Claims paid during the year | - | 10,368 | 10,368 |
| Foreign exchange | - | - | - |
| At 31 December | <u>-</u> | <u>(17,376)</u> | <u>(17,376)</u> |

RITC has been treated as a portfolio transfer, having the effect of extinguishing claims. However, in the event that the Lloyd's chain of security fails, the corporate members within the group will still be liable to pay these claims.

26. Other creditors – Group

| | 2021 £000 | 2020 £000 |
|---|---------------|---------------|
| Syndicate: | | |
| <i>Amounts falling due within one year:</i> | | |
| Inter-year loans | 4,433 | 202 |
| Other | 385 | 482 |
| | <u>4,818</u> | <u>684</u> |
| Non-syndicate: | | |
| <i>Amounts falling due within one year:</i> | | |
| Amounts owed to managed syndicate | 4,786 | 4,307 |
| Amounts payable under participation deeds | 1,378 | - |
| Taxation and social security | 1,195 | 1,415 |
| Other | 13,101 | 12,710 |
| | <u>20,460</u> | <u>18,432</u> |

The amounts owed to managed syndicate are in respect of business underwritten on behalf of the syndicate under binding authority agreements.

27. Creditors: amounts falling due within one year – Company

| | 2021 £000 | 2020 £000 |
|---|--------------|--------------|
| <i>Amounts falling due within one year:</i> | | |
| Amounts owed to group undertakings | 78 | 78 |
| Taxation and social security | 763 | 742 |
| Other creditors | 5 | 96 |
| Accruals and deferred income | 1,423 | 960 |
| | <u>2,269</u> | <u>1,876</u> |

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

Argenta Holdings Limited

Notes to the Financial Statements (continued) For the year ended 31 December 2021

28. Deferred tax – Group

| | 2021 £000 | 2020 £000 |
|--|----------------|----------------|
| At 1 January | (4,644) | (3,507) |
| Charge/(credit) to profit or loss in the year | 192 | (854) |
| Adjustments in respect of prior years | (24) | (283) |
| At 31 December | <u>(4,476)</u> | <u>(4,644)</u> |
| The deferred tax asset at 31 December is made up of: | | |
| Accelerated capital allowances | 44 | 34 |
| Double taxation relief | (1,095) | (924) |
| Tax losses | (1,855) | (964) |
| Accruals and other timing differences | (258) | (251) |
| Customer relationships | 134 | 163 |
| Timing difference on underwriting results | (1,446) | (2,702) |
| | <u>(4,476)</u> | <u>(4,644)</u> |

The deferred tax asset expected to reverse in 2022 is £1,555,000. This primarily relates to the reversal of timing differences on the utilisation of double taxation relief and tax losses against underwriting results and trading profits.

The deferred tax liability expected to reverse in 2022 is £80,000. This primarily relates to the reversal of timing differences on the underwriting results.

The Group had no unrecognised deferred tax asset at the year end (2020: £nil) in respect of crystallised tax losses and underwriting losses not yet brought into tax.

29. Deferred tax – Company

| | 2021 £000 | 2020 £000 |
|--|----------------|--------------|
| At 1 January | (821) | (905) |
| Charge to profit or loss in the year | (317) | 163 |
| Effects of a change in rate | (251) | (87) |
| Adjustments in respect of prior years | 196 | 8 |
| At 31 December | <u>(1,193)</u> | <u>(821)</u> |
| The deferred tax asset at 31 December is made up of: | | |
| Decelerated capital allowances | 58 | 48 |
| Tax losses | (1,251) | (869) |
| | <u>(1,193)</u> | <u>(821)</u> |

The deferred tax asset expected to reverse in 2022 is £nil.

The deferred tax liability expected to reverse in 2022 is £2,800. This is in relation to timing differences on capital allowances.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management

The Group is principally exposed to insurance risk and financial risk through its participation on the Syndicate. The Group has delegated sole management and control of its underwriting to the managing agent of the Syndicate and the policies, procedures and internal controls of the managing agent are used to manage the Syndicate's exposures to insurance risk, credit risk, market risk and liquidity risk. The Group is also directly exposed to credit risk, market risk and liquidity risk.

Information relating to the risk environment of the Syndicate has been obtained from the Syndicate's report and accounts and represents 100% of the Syndicate of which the Group had a 15.7% participation for the most recent year of account (2020: 19.7%).

Insurance risk – Syndicate 2121

1) General

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

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

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

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

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

The analysis presented represents 100% of the Syndicate of which the Group has a 18.3% participation in 2022 (2021: 15.7%).

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

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

Key assumptions

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

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

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

Sensitivities

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

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

| | Change in assumptions | Impact on gross liabilities £'000 | Impact on net liabilities £'000 | Impact on result £'000 | Impact on equity £'000 |
|---------------------------------------|-------------------------------|--------------------------------------|------------------------------------|---------------------------|---------------------------|
| 31 December 2021 | | | | | |
| "A priori" loss ratios | +5% | 21,944 | 12,815 | (13,795) | (13,795) |
| Incurring claims development patterns | Recede development by 1 month | 18,775 | 12,204 | (13,180) | (13,180) |
| 31 December 2020 | | | | | |
| "A priori" loss ratios | +5% | 16,648 | 10,403 | (11,051) | (11,051) |
| Incurring claims development patterns | Recede development by 1 month | 18,121 | 12,825 | (13,602) | (13,602) |

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

Claims development table

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

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

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

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

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

2) COVID-19

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

Financial risk – credit risk

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

Syndicate

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

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

Non-syndicate

The Group manages credit risk by ensuring that cash and cash equivalent deposits are placed only with highly rated credit institutions. The Group is not exposed to material credit risk in respect of its debtor balances. The Group did not hold any collateral as security against its debtors, or have any other credit enhancements at the reporting dates.

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

| 31 December 2021 | Neither past due nor impaired £'000 | Past due £'000 | Impaired £'000 | Total £'000 |
|---|--|-------------------|-------------------|------------------|
| Syndicate: | | | | |
| Financial investments: | | | | |
| - Debt securities and other fixed income securities | 298,994 | - | - | 298,994 |
| - Shares and other variable yield securities and units in unit trusts | 65,090 | - | - | 65,090 |
| - Participation in investment pools | 34,942 | - | - | 34,942 |
| - Loans secured by mortgages | - | - | - | - |
| - Derivative assets | - | - | - | - |
| - Deposits with credit institutions | - | - | - | - |
| Deposits with ceding undertakings | 1,341 | - | - | 1,341 |
| Reinsurers' share of claims outstanding | 319,353 | - | - | 319,353 |
| Debtors arising out of insurance operations | 247,363 | 77,063 | - | 324,426 |
| Other debtors | 501 | - | - | 501 |
| Cash at bank and in hand | 35,105 | - | - | 35,105 |
| Overseas deposits | 77,875 | - | - | 77,875 |
| | <u>1,080,564</u> | <u>77,063</u> | <u>-</u> | <u>1,157,627</u> |
| Non-syndicate: | | | | |
| Cash at bank and in hand | 58,903 | - | - | 58,903 |
| Shares and other variable yield securities and units in unit trusts | 8,700 | - | - | 8,700 |
| | <u>67,603</u> | <u>-</u> | <u>-</u> | <u>67,603</u> |

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

| 31 December 2020 | Neither past due nor impaired £'000 | Past due £'000 | Impaired £'000 | Total £'000 |
|--|--|-------------------|-------------------|----------------|
| Syndicate: | | | | |
| Financial investments: | | | | |
| - Debt securities and other fixed income securities | 198,450 | - | - | 198,450 |
| - Shares and other variable yield securities and units in unit trusts | 45,661 | - | - | 45,661 |
| - Participation in investment pools | 24,392 | - | - | 24,392 |
| - Loans secured by mortgages | - | - | - | - |
| - Derivative assets | - | - | - | - |
| - Deposits with credit institutions | - | - | - | - |
| Deposits with ceding undertakings | 55 | - | - | 55 |
| Reinsurers' share of claims outstanding | 282,762 | - | - | 282,762 |
| Debtors arising out of insurance operations | 128,661 | 101,029 | - | 229,690 |
| Other debtors | 1,862 | - | - | 1,862 |
| Cash at bank and in hand | 20,813 | - | - | 20,813 |
| Overseas deposits | 59,029 | - | - | 59,029 |
| | <u>761,685</u> | <u>101,029</u> | <u>-</u> | <u>862,714</u> |
| Non-syndicate: | | | | |
| Cash at bank and in hand | 62,555 | - | - | 62,555 |
| Shares and other variable yield securities and units in unit trusts | 7,001 | - | - | 7,001 |
| | <u>69,556</u> | <u>-</u> | <u>-</u> | <u>69,556</u> |

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

The table below provides information regarding the credit risk exposure of the whole Syndicate at 31 December 2021 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Insurance and Other debtors have been excluded from the table as these are generally not rated.

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

| 31 December 2021 | AAA £'000 | AA £'000 | A £'000 | BBB £'000 | <BBB £'000 | Not rated £'000 | Total £'000 |
|---|----------------|---------------|----------------|---------------|---------------|-----------------------|----------------|
| Non-syndicate: | | | | | | | |
| - Cash at bank and in hand | - | 56,989 | - | - | 1,914 | - | 58,903 |
| - Shares and other variable yield securities and units in unit trusts | 8,700 | - | - | - | - | - | 8,700 |
| Total credit risk | 8,700 | 56,989 | - | - | 1,914 | - | 67,603 |
| 31 December 2020 | AAA £'000 | AA £'000 | A £'000 | BBB £'000 | <BBB £'000 | Not rated £'000 | Total £'000 |
| Syndicate: | | | | | | | |
| - Shares and other variable yield securities and units in unit trusts | 35,342 | - | - | - | - | 10,319 | 45,661 |
| - Debt securities and other fixed income securities | 117,702 | 15,769 | 50,451 | 14,528 | - | - | 198,450 |
| - Participation in investment pools | 16,560 | 2,981 | 2,053 | 2,797 | - | 1 | 24,392 |
| - Loans secured by mortgages | - | - | - | - | - | - | - |
| - Deposits with credit institutions | - | - | - | - | - | - | - |
| - Overseas deposits | 30,464 | 7,867 | 4,159 | 3,380 | 1,607 | 11,552 | 59,029 |
| - Derivative assets | - | - | - | - | - | - | - |
| - Deposits with ceding undertakings | - | - | - | - | - | 55 | 55 |
| - Reinsurers' share of claims outstanding | - | 29,365 | 249,677 | - | - | 3,720 | 282,762 |
| - Cash at bank and in hand | - | - | 20,813 | - | - | - | 20,813 |
| Total credit risk | 200,068 | 55,982 | 327,153 | 20,705 | 1,607 | 25,647 | 631,162 |
| Non-syndicate: | | | | | | | |
| - Cash at bank and in hand | - | 7,234 | 46,273 | - | 3 | 9,045 | 62,555 |
| - Shares and other variable yield securities and units in unit trusts | 7,001 | - | - | - | - | - | 7,001 |
| Total credit risk | 7,001 | 7,234 | 46,273 | - | 3 | 9,045 | 69,556 |

Maximum credit exposure

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

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

Financial risk – liquidity risk

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

Syndicate

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

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

Non-syndicate

The Group manages liquidity by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of assets and liabilities.

Maturity profiles

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

| 31 December 2021 | Up to a year £'000 | 1–3 years £'000 | 3–5 years £'000 | Over 5 years £'000 | Total £'000 |
|-------------------------------|--------------------------|-----------------------|-----------------------|--------------------------|----------------|
| Syndicate: | | | | | |
| Outstanding claim liabilities | 297,065 | 254,505 | 95,330 | 84,172 | 731,072 |
| Other | 178,152 | 147,547 | - | - | 325,699 |
| Non-syndicate: | | | | | |
| Other | 57,819 | 63,028 | - | - | 120,847 |
| 31 December 2020 | Up to a year £'000 | 1–3 years £'000 | 3–5 years £'000 | Over 5 years £'000 | Total £'000 |
| Syndicate: | | | | | |
| Outstanding claim liabilities | 278,827 | 199,893 | 88,293 | 65,119 | 632,132 |
| Other | 92,329 | 94,711 | - | - | 187,040 |
| Non-syndicate: | | | | | |
| Other | 36,678 | 45,749 | - | - | 82,427 |

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

Financial risk – financial market risk

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

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

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

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

a) Currency risk

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

Syndicate

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

Non-syndicate

The Group's functional currency is sterling. The Group manages currency risk by ensuring that exchange rate exposures are managed within approved policy parameters. Where appropriate the Group uses derivative financial instruments to manage exposure to currency risk. The Group is not currently exposed to material currency risk in respect of its non-syndicate balances.

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

| 2021 | UK £ £000 | US \$ £000 | CAD \$ £000 | AUS \$ £000 | EUR € £000 | Other £000 | Total £000 |
|-------------------|--------------|---------------|----------------|----------------|---------------|---------------|---------------|
| Syndicate: | | | | | | | |
| Total assets | 157,337 | 837,273 | 70,741 | 159,175 | 75,997 | 40,640 | 1,341,163 |
| Total liabilities | (213,359) | (863,593) | (52,655) | (159,090) | (85,303) | (21,191) | (1,395,191) |
| Net assets | (56,022) | (26,320) | 18,086 | 85 | (9,306) | 19,449 | (54,028) |
| 2020 | UK £ £000 | US \$ £000 | CAD \$ £000 | AUS \$ £000 | EUR € £000 | Other £000 | Total £000 |
| Syndicate: | | | | | | | |
| Total assets | 143,783 | 643,519 | 46,592 | 142,569 | 51,040 | 18,446 | 1,045,949 |
| Total liabilities | (186,896) | (684,248) | (34,214) | (153,151) | (51,254) | (22,310) | (1,132,073) |
| Net assets | (43,113) | (40,729) | 12,378 | (10,582) | (214) | (3,864) | (86,124) |

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

In part, foreign currency forward contracts may be used for the Syndicate to achieve the desired exposure to each currency. From time to time the Syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to members' value from reducing the chance of a reported loss due to changes in foreign currency exchange rates. The details of all foreign currency derivatives contracts entered into are given in note 16.

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

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

b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments create exposure to cash flow interest risk, whereas fixed rate instruments have exposure to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

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

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

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

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

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

Non-syndicate:

The Group is not exposed to material interest rate risk in respect of its non-syndicate balances.

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

30. Insurance risk and financial risk management (continued)

c) Equity price risk

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

Syndicate

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

The financial market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments. There is no significant concentration of equity price risk.

Non-syndicate

The Group does not hold significant levels of equity investments and as such is not materially exposed to equity price risk.

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

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

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

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

31. Capital management

Lloyd's capital setting process

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

Each syndicate member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares.

Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicates SCR "to ultimate".

Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, the ECA. The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% of the member's SCR "to ultimate".

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

32. Funds at Lloyd's

The Group's underwriting is supported by assets held in cash of £36,322,000 (2020: £44,773,000). The cash balance is held within Funds at Lloyd's and the availability of these funds for use by the Group is restricted and subject to the prior authorisation of Lloyd's.

33. Operating leases

The Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases as at the reporting date as follows:

| Operating leases which expire: | Land and buildings | | Other | |
|--------------------------------|--------------------|--------------|----------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| | £000 | £000 | £000 | £000 |
| Within one year | 1,540 | 1,117 | - | - |
| Within two to five years | 5,351 | 3,805 | - | - |
| Later than five years | 1,911 | 2,212 | - | - |
| | <u>8,802</u> | <u>7,134</u> | <u>-</u> | <u>-</u> |

Notes to the Financial Statements (continued)
For the year ended 31 December 2021

34. Related party disclosures

The Company has taken advantage of the exemption conferred by Section 33: Related Party Disclosures not to disclose transactions entered into between two or more wholly owned members of the Group.

The Group's capacity for the 2018, 2019, 2020 and 2021 underwriting years was placed, prior to the disposal of Argenta Underwriting No.8 Limited, as follows:

| Year of Account | Syndicate | Managing Agent | Group syndicate capacity £000 | Total syndicate capacity £000 |
|-----------------|-----------|--------------------------------------|----------------------------------|----------------------------------|
| 2021 | 2121 | Argenta Syndicate Management Limited | 94,036 | 599,950 |
| 2020 | 2121 | Argenta Syndicate Management Limited | 83,719 | 424,736 |
| 2019 | 2121 | Argenta Syndicate Management Limited | 75,767 | 339,845 |
| 2018 | 2121 | Argenta Syndicate Management Limited | 87,359 | 340,000 |

The effective capacity supported by the Group's Funds at Lloyd's for 2021 was £45.9m (2020: £49.6m).

The Managing Agent charges evergreen capacity capital providers 0.75% of capacity for managing the Syndicate's underwriting, in addition to a profit commission on profits of either 15% or 17.5% for 2012 onwards, subject to certain performance criteria.

Argenta Underwriting No. 2 Limited ("AU2"), Argenta Underwriting No. 3 Limited ("AU3"), and Argenta Underwriting No. 9 Limited ("AU9") provide underwriting capacity to Syndicate 2121. For the 2021 year of account the capacity supplied to Syndicate 2121 was £23.6m from AU2, £16.4m from AU3 and £5.9m from AU9.

Hannover Re has supported Syndicate 2121 for the 2018 to 2020 years of account by way of a 100% pro-rata participation agreement with a corporate member. Hannover Re acquired that corporate member on 1 July 2020. Hannover Re provides capital support to AU3 for the 2018, 2019, 2020, 2021 and 2022 years of account by way of an excess participation agreement. Hannover Re also provides capital support to AU2 for the 2022 year of account by way of an excess participation agreement.

Inter Hannover (No. 1) Ltd, a wholly owned subsidiary of the Hannover Re group, participates on Syndicate 2121 for the 2018, 2019, 2020, 2021 and 2022 years of account.

Hannover Re and certain of its subsidiaries have, in the past, provided and are likely to provide in the future, traditional types of reinsurance protection to Syndicate 2121. Syndicate 2121 has in the past, and may in the future, provide insurance or reinsurance cover to Hannover Re and its subsidiaries.

On 24 April 2018, ASML entered into an agreement to manage the affairs of Syndicate 6134, a new Special Purpose Arrangement ("SPA") that underwrites quota share reinsurance protections of Syndicate 2121. The SPA is sponsored and capitalised by the Hannover Re group, which may also introduce new business to Syndicate 2121 to be reinsured by the SPA. Syndicate 2121 will retain at least 10% of the business introduced by the sponsor. It is expected that the SPA will underwrite gross net premium in 2022 of at least £76.5 million across various classes of business within the underwriting capability of the host syndicate. Syndicate 2121 receives an overriding commission in respect of these arrangements. The quota share contracts are being underwritten on a funds withheld basis although amounts may be advanced in the future.

Directors

Mr Sven Althoff is a member of the Executive Board of Hannover Re. He was also a director of Hannover Re Services Japan and Hannover Re Takaful B.S.C Bahrain until his resignation from both on 26 March 2021 and 31 March 2021 respectively. He was also appointed a director of Hannover Re Services USA, Inc. and Glencar Insurance Company on 1 April 2021. Mr John Whiter was chairman of a Lloyd's broker, Piiq Risk Partners Limited (formerly PSE Partners Limited and, before that, Ed Broking (London) Limited) and was the chairman of Ed Broking Group Limited, their parent company (formerly Cooper Gay Swett & Crawford Limited) until his resignation from both on 31 March 2022. The above entities may in the past have transacted business with syndicates managed by ASML and may do so in the future. Any such business, however, has been, and will continue to be, conducted on an arm's length commercial basis with no involvement, either directly or indirectly, from the individuals above.

Messrs Annandale and Allen were appointed as directors of Inter Hannover (No.1) Limited and Dynastic Underwriting Limited with effect from 18 January 2021 which have participated on Syndicate 2121.

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

35. Ultimate controlling party

On 20 July 2017, the entire share capital of Argenta Holdings Limited was acquired by Hannover Rück SE, the ultimate controlling party of which is HDI Haftpflichtverband der Deutschen Industrie V.a.G. ("HDI").

Consequently, the Company's immediate parent company is Hannover Rück SE and the ultimate controlling party is HDI, both registered in Germany. The financial statements of HDI can be obtained from its registered office address at HDI-Platz 1, 30659 Hannover, Germany.