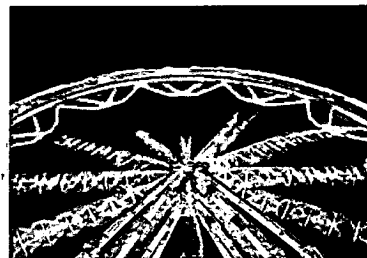
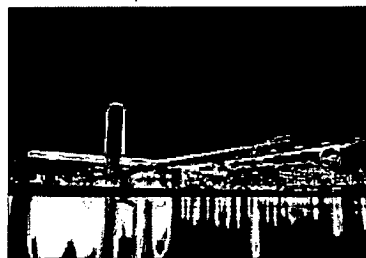
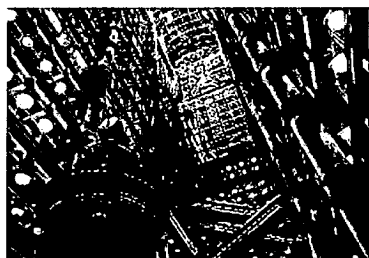




AEGIS LONDON HOLDINGS LIMITED



Annual Report and Financial Statements

Year Ended 31 December 2018

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Financial highlights

Total comprehensive income £16.3m (2017: £2.0m) In the last five years a cumulative total comprehensive income of £148.9m was delivered.	Gross written premium £555m (2017: £462m) Further diversification, strengthening and increased underwriting capacity has increased gross written premium by £93m.
Combined ratio 94.4% (2017: 99.4%) Strong result despite Q3 catastrophe losses. The average combined ratio for the last five years is 89.5%.	Investment return £4.9m (2017: £16.7m) Despite market volatility, with increased treasury yields, underlying investment products performed on plan. Total return of 1.21% (2017: 3.06%).

Five year financial performance

£ million	2018	2017	2016	2015	2014
Gross written premium	555	462	377	333	371
Underwriting profit / (loss)	9.4	(1.9)	8.5	58.4	43.4
Total comprehensive income	16.3	2.0	49.1	34.2	47.3
Syndicate 1225 combined ratio ¹	94.4%	99.4%	91.0%	77.2%	85.4%

A

**A+ (Strong) from
Standard & Poor's²**

A

**A (Excellent) from
A.M. Best²**

A

**AA- (Very Strong) from
Fitch²**

¹ Syndicate 1225 financial statements 2018: total technical charges less other income, divided by earned premiums net of reinsurance.

² Current insurer financial strength ratings of Lloyd's of London

Strategic report of the directors

Principal activity and review of the business

The principal activity of AEGIS London Holdings Limited is that of a holding company and is a private company limited by shares, incorporated under the laws of England and Wales under the Companies Act.

Its subsidiary AEGIS Managing Agency Limited ("the Managing Agent") manages the insurance Syndicate 1225 ("the Syndicate") which transacts specialist insurance and reinsurance business across 21 classes of business underwritten within the Lloyd's of London insurance market. The Syndicate capital providers AEGIS Electric & Gas Insurance Services Limited ("AISL"), AISL 2, AISL 3, AISL 4 and AISL 5 are all wholly owned subsidiaries of the Company hereinafter collectively referred to as the ("Group").

The total premium written in 2018 was £555m which saw an increase of £93m on 2017 as a reflection of further diversification initiatives. A significant proportion of the Syndicate's underwriting is sourced from North America.

The business mix is as follows:

	2018	2017	2016	2015	2014
Property	70%	63%	64%	68%	68%
Casualty	30%	37%	36%	32%	32%

Total comprehensive income: £16.3m (2017: £2.0m) with a combined ratio of 94.4% (2017: 99.4%)

AEGIS London Holdings Limited recorded its thirteenth successive year of profit, these metrics reflect the main KPIs of the group. Total comprehensive income of £16.3m (2017: £2.0m) is driven by strong underwriting profit of £9.4m (2017: underwriting loss £1.9m) despite Q3 catastrophe events such as hurricanes Florence and Michael, several Hull losses, and the Californian wildfires. AEGIS continues to maintain strong underwriting discipline, prudent management of risk appetite and careful control over expenses. The historic consistency of the combined ratio reflects the fact that AEGIS London has managed its risk selection wisely, has refused to write business in areas that are underpriced relative to their volatility and has maintained strong relationships with both its clients and brokers in difficult underwriting climate.

Investment income

Investment income prior to foreign exchange effects continues to perform well considering market volatility with increased treasury yields seen during the year. The investment income gross of investment management fees and prior to foreign exchange effects, as a % of the average investable assets is 1.21% for 2018 (2017: 3.06%). AEGIS continues to be a high quality, short duration investor.

The total cash and financial investments of AEGIS London Holdings Limited were £618m (2017: £568m).

	2018 £m	2017 £m	2018 % of Total	2017 % of Total
Fixed income	498	425	80%	75%
Equity and unit trust	37	33	6%	6%
Overseas deposits	60	52	10%	9%
Cash	23	58	4%	10%
	618	568		

Strategic report of the directors *continued*

Future developments

The Syndicate's underwriting capacity for 2019 will be increased from £399m (2018) to £457m. In what continues to be a challenging market place, our philosophy of capital preservation will continue whilst soft market conditions continue to prevail. However we are looking for disciplined profitable growth in those classes that still retain a prospective acceptable margin. We anticipate further success with regards to our digital product offerings. We will continue our strategy of multi-channelled distribution whilst continuing to deliver the excellence in underwriting and service that our clients and brokers have come to expect.

Following the triggering of article 50 of the Treaty of Lisbon on 29 March 2017, the Syndicate continues to monitor the ensuing negotiations and other developments. The operational impact of Brexit has been internally assessed and processes have been revised and implemented to ensure that the Syndicate can continue to place business in the European Economic Area (EEA) after the UK leaves the European Union (EU).

The Lloyd's Brussels Subsidiary ("LBS") has been incorporated as a platform for all EEA business incepting 1 January 2019. The Syndicate wrote approximately 9% of total gross written premium within the EEA for 2018 and is forecast to write 10% in 2019. The Syndicate will continue to work to minimise the impact to our stakeholders and to remediate where issues arise and take advantage of opportunities as they arise.

AEGIS Managing Agency Limited will continue to act as the managing agent for the Syndicate for the foreseeable future. The Company will continue to be the parent of the subsidiaries for the foreseeable future.

The Company made a profit before tax for the year of £13.0m (2017: £14.2m profit) and has net assets of £106.5m (2017: £90.2m).

Principal risks and uncertainties

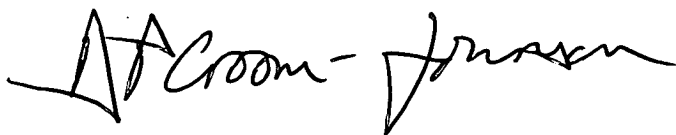
The principal risks to the business have been evaluated through an extensive enterprise risk management programme and relate to future uncertainties of claims reserve risk, investment risk and underwriting risks from both catastrophe and non-catastrophe events. All of these are closely monitored and managed. For further details see note 3 of these financial statements.

The Company has sufficient financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Company is well positioned to manage its business risks successfully in the current economic environment.

Use of financial instruments

The Company makes no use of financial instruments in the management of its risk exposures.

Approved by the Board of Directors of AEGIS London Holdings Limited and signed on its behalf by:



D P Croom-Johnson
Managing Director
25 September 2019

Report of the directors

The directors of AEGIS London Holdings Limited ("the Company"), present their report and audited financial statements for the year ended 31 December 2018.

The Company is, through intermediate holding companies, a wholly owned subsidiary of Associated Electric & Gas Insurance Services Limited (AEGIS) incorporated in Bermuda.

1. Directors' Report

D P Croom-Johnson
C D Forbes
W W von Schack
T G S Busher

The current directors are shown above. All served throughout the period, except T G S Busher who was appointed as Director and Non-Executive Chairman on 6 December 2018. W R P Dalton resigned as Chairman and Non-Executive Director on 6 December 2018.

Results and proposed dividend

The Company made a profit after tax of £10.1m (2017: £9.1m). The Company paid no dividend for the year ended 31 December 2018 (2017: £108.3m).

No further proposal for dividend has been made for the year ended 31 December 2018.

Going concern

The Group and Company have considerable financial resources to meet their financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors consider that the Group and the Company are well positioned to manage their business risks successfully in the current economic environment. See the future developments section of the strategic report of the directors (page 2).

After making enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis for preparing the annual report and financial statements.

Use of financial instruments

In relation to the use of financial instruments, see the strategic report of the directors on page 2.

Directors' indemnities

The Group and Company have agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. The indemnities were in force throughout 2018 and remain so. Copies of the deeds of indemnity are available for inspection at the ultimate parent company's registered office.

Disclosure of information to auditor

Each director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Independent auditor

The auditor for the year ended 31 December 2018 was Deloitte LLP. They have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be re-appointed.

Report of the directors *continued*

2. Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 102, "The financial reporting standard applicable in the UK and Republic of Ireland".

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors of AEGIS London Holdings Limited and signed on its behalf by:

D P Croom-Johnson
Managing Director
25 September 2019

Consolidated statement of total comprehensive income

(For the year ended 31 December 2018)

	Notes	2018 £m	2017 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	4, 5	555.2	462.2
Outward reinsurance premium		(120.9)	(108.6)
Net premiums written		<u>434.3</u>	<u>353.6</u>
Change in provision for unearned premiums:	14		
Gross amount		(51.6)	(29.8)
Reinsurer's share		12.9	7.9
Quota share agreement		(12.8)	(4.0)
Change in the net provision for unearned premiums		<u>(51.5)</u>	<u>(25.9)</u>
Earned premiums, net of reinsurance		<u>382.8</u>	<u>327.7</u>
Allocated investment return transferred from the non-technical account		6.1	6.8
Other technical income, net of reinsurance	6	10.1	8.9
Total technical income		<u>399.0</u>	<u>343.4</u>
Claims incurred, net of reinsurance			
Gross claims paid		(218.2)	(208.3)
Reinsurer's share		51.7	48.6
Net claims paid		<u>(166.5)</u>	<u>(159.7)</u>
Change in the provision for claims:	9, 14		
Gross amount		(34.6)	(87.0)
Reinsurer's share		7.2	55.5
Change in the net provision for claims		<u>(27.4)</u>	<u>(31.5)</u>
Claims incurred, net of reinsurance		<u>(193.9)</u>	<u>(191.2)</u>
Net operating expenses	4, 5, 6, 7	(189.6)	(147.4)
Total technical charges		<u>(383.5)</u>	<u>(338.6)</u>
Balance on technical account – general business		15.5	4.8

The notes on pages 13 to 35 form an integral part of these financial statements.

Consolidated statement of total comprehensive income *continued*

(For the year ended 31 December 2018)

	Notes	2018 £m	2017 £m
Non-technical account			
Balance on the general business technical account		15.5	4.8
Interest income from investments		15.2	19.3
Realised investment gains		4.8	6.7
Realised investment losses		(5.9)	(3.0)
Unrealised gains on investments		1.0	0.4
Unrealised losses on investments		(7.9)	(3.8)
Investment expenses and investment management charges		(2.3)	(2.9)
Foreign exchange losses		(1.7)	(7.7)
Allocated investment return transferred to the general business technical account		(6.1)	(6.8)
Other income		0.4	7.2
Profit on ordinary activities before tax		13.0	14.2
Tax charge on ordinary activities	10	(2.9)	(5.1)
Profit on ordinary activities after tax		10.1	9.1
Other comprehensive income / (loss) - foreign exchange gain / (loss) on conversion to presentational currency		6.2	(7.1)
Total comprehensive income for the year		16.3	2.0

The statement of total comprehensive income relates entirely to continuing activities.

There were no recognised gains or losses other than those reported in the statement of total comprehensive income for the financial year.

The notes on pages 13 to 35 form an integral part of these financial statements.

Consolidated balance sheet

(As at 31 December 2018)

	Notes	2018 £m	2017 £m
ASSETS			
Fixed assets			
Tangible fixed assets	11	0.3	0.2
Investments			
Financial investments	13	534.6	458.5
Reinsurer's share of technical provisions			
Provision for unearned premiums	14	68.4	53.2
Claims outstanding	14	232.9	206.7
		<u>301.3</u>	<u>259.9</u>
Debtors			
Debtors arising out of direct insurance operations		153.4	120.7
Debtors arising out of reinsurance operations		15.1	30.1
Other debtors	17	39.1	22.0
Deferred tax	16	10.5	4.0
		<u>218.1</u>	<u>176.8</u>
Other assets			
Cash at bank and in hand		23.1	57.6
Overseas deposits		59.9	52.0
		<u>83.0</u>	<u>109.6</u>
Prepayments and accrued income			
Deferred acquisition costs	14	76.1	60.2
Other prepayments and accrued income		5.1	4.6
		<u>81.2</u>	<u>64.8</u>
TOTAL ASSETS		<u>1,218.5</u>	<u>1,069.8</u>

The notes on pages 13 to 35 form an integral part of these financial statements.

Consolidated balance sheet *continued*

(As at 31 December 2018)

	Notes	2018 £m	2017 £m
LIABILITIES			
Capital and reserves			
Called up share capital	20	-	-
Profit and loss account		106.1	89.8
Merger reserve		0.4	0.4
		<u>106.5</u>	<u>90.2</u>
Technical provisions			
Provision for unearned premium	14	320.2	254.1
Claims outstanding	14	681.2	595.8
		<u>1,001.4</u>	<u>849.9</u>
Creditors: amounts falling due within one year			
Creditors arising out of direct insurance operations		4.0	4.1
Creditors arising out of reinsurance operations		65.1	54.5
Accruals and deferred income		15.0	11.3
Other creditors	18	17.5	41.0
		<u>101.6</u>	<u>110.9</u>
Other provisions			
Deferred Tax	16	-	2.7
Creditors: amounts falling due more than one year			
	19	9.0	16.1
		<u>9.0</u>	<u>16.1</u>
TOTAL LIABILITIES		<u>1,218.5</u>	<u>1,069.8</u>

The financial statements of AEGIS London Holdings Limited (registered number: 07984021) were approved by the Board of Directors and signed on its behalf by:



D P Croom-Johnson
Managing Director
25 September 2019

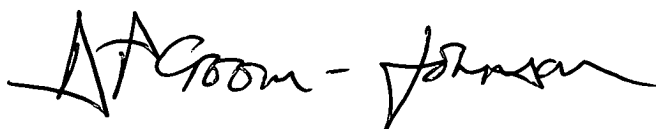
The notes on pages 13 to 35 form an integral part of these financial statements.

Company balance sheet

(As at 31 December 2018)

	Notes	2018 £m	2017 £m
ASSETS			
Investment in subsidiaries	12	0.4	0.1
Financial investments	13	37.5	38.3
Cash at bank and in hand		-	23.1
Corporation tax receivable		1.6	-
Deferred tax		0.3	-
Amounts due from group companies		25.8	-
Accrued income		-	0.1
TOTAL ASSETS		65.6	61.6
LIABILITIES			
Capital and reserves			
Called up share capital	20	-	-
Profit and loss account		62.7	59.6
		62.7	59.6
Creditors			
Other creditors		0.9	0.3
Corporation tax payable		2.0	1.7
TOTAL LIABILITIES		65.6	61.6

The financial statements of AEGIS London Holdings Limited (registered number: 07984021) were approved by the Board of Directors and signed on its behalf by:



D P Croom-Johnson
Managing Director
 25 September 2019

The notes on pages 13 to 35 form an integral part of these financial statements.

Consolidated statement of changes in shareholder's funds

(As at 31 December 2018)

2018

	Called Up Share Capital		Profit and loss Account		(Any other equity reserves)		Shareholder's Funds	
	£m		£m		£m		£m	
	Group	Company	Group	Company	Group	Company	Group	Company
Brought forward	-	-	90.2	59.6	-	-	90.2	59.6
Profit / (Loss) on ordinary activities	-	-	10.1	(0.6)	-	-	10.1	(0.6)
Other comprehensive income - foreign exchange (loss) / gain on conversion to presentational currency	-	-	6.2	3.7	-	-	6.2	3.7
Dividend paid	-	-	-	-	-	-	-	-
Share capital issued	-	-	-	-	-	-	-	-
Carried forward	-	-	106.5	62.7	-	-	106.5	62.7

2017

	Called Up Share Capital		Profit and loss Account		(Any other equity reserves)		Shareholder's Funds	
	£m		£m		£m		£m	
	Group	Company	Group	Company	Group	Company	Group	Company
Brought forward	-	-	196.5	95.2	-	-	196.5	95.2
Profit on ordinary activities	-	-	9.1	6.5	-	-	9.1	6.5
Other comprehensive income - foreign exchange loss on conversion to presentational currency	-	-	(7.1)	(6.5)	-	-	(7.1)	(6.5)
Dividend paid	-	-	(108.3)	(35.6)	-	-	(108.3)	(35.6)
Share capital issued	-	-	-	-	-	-	-	-
Carried forward	-	-	90.2	59.6	-	-	90.2	59.6

The notes on pages 13 to 35 form an integral part of these financial statements.

Consolidated statement of cash flows

(For the year ended 31 December 2018)

	Notes	2018 £m	2017 £m
Net cash inflow / (outflow) from operating activities	25	39.7	(51.4)
Cash flows from investing activities			
Purchase of equity and debt instruments		(584.8)	(631.7)
Sale of equity and debt instruments		521.1	765.8
Dividends received from investments		1.6	1.8
Interest income from investments		13.0	15.4
Foreign exchange on investing activities		(22.2)	45.7
Net cash flows from investing activities		(71.3)	197.0
Cash flow from financing activities			
Dividend paid to parent company		-	(108.3)
Net cash flows used in financing activities		-	(108.3)
Net (decrease) / increase in cash and cash equivalents		(31.6)	37.3
Cash and cash equivalents at the beginning of the year		57.6	19.1
Effect of foreign exchange rate changes		(2.9)	1.2
Cash and cash equivalents at the end of the year		23.1	57.6

The notes on pages 13 to 35 form an integral part of these financial statements.

Notes to the financial statements

(Forming part of the financial statements)

1. Basis of preparation

The financial statements are prepared in accordance with the provisions of Section 396 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements have also been prepared in accordance with applicable accounting standards of Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015, Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in February 2017 and under the historical cost convention, as modified by the revaluation of investments.

A statement of comprehensive income has not been presented for AEGIS London Holdings Limited Company only as the disclosure is exempt under Section 408 of the Companies Act.

AEGIS London Holdings Limited is a private company limited by shares and incorporated under the laws of England and Wales under the Companies Act. The address of the registered office is given on page 39. The nature of the group's operations and its principal activities are set out in the strategic report of the directors on page 2.

Principal accounting policies

The principal activity of the Company is to act as a holding of group companies of which AEGIS Electric & Gas International Services Limited ("AISL"), AEGIS Electric & Gas International Services 4 Limited ("AISL 4") and AEGIS Electric & Gas International Services 5 Limited ("AISL 5") are corporate members of Syndicate 1225 which transacts general insurance and reinsurance business in the United Kingdom through business underwritten within the Lloyd's of London insurance market. The accounting policies and the risks and uncertainties are therefore derived directly from the syndicate. AEGIS Electric & Gas International Services 2 Limited and AEGIS Electric & Gas International Services 3 Limited no longer act as an active corporate member of Lloyd's from 1 January 2018.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's and Company's financial statements.

Basis of consolidation

The Group comprising the companies listed in note 12 on page 27 was incorporated on 9 March 2012 and was accounted for as a merger. The results and cash flows of all combining entities were brought into the financial statements of the combined entity from the beginning of the financial year. The carrying values of the assets and liabilities of the parties to the combination were not adjusted to fair value on consolidation. The financial statements for the period ending 31st December 2018 have been prepared in accordance with FRS 102.

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. A merger reserve has been created as the difference between the nominal value of consideration given, and the nominal value of the shares received in exchange by AEGIS London Holdings Limited.

Insurance contracts: premium

Gross premium written comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a 365ths basis. For premium written under facilities, such as binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of premium written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the Statement of Comprehensive Income in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable. Estimates are made for pipeline premiums, representing amounts due to the Group not yet notified.

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

Reinsurance premium ceded

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

Insurance contracts liabilities: claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the Statement of Total Comprehensive Income.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision, the underwriting divisions within the Company have been regarded as groups of business that are managed together.

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported 'IBNR' and future claims handling provisions. Reinsurance recoveries are accounted for in the same way as gross incurred claims.

The provision for claims encompasses amounts set aside for claims outstanding and IBNR. The IBNR amount is an estimate of allowances for claims incurred but not reported, using past experience and trends adjusted for foreseeable events and calculated using widely accepted actuarial statistical techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The provision for IBNR is reviewed bi-annually by both internal and external actuaries. Critical assumptions are used alongside historical data to form a basis for future claims development. The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims notified and projections for IBNR, net of estimated irrecoverable debt and bad debt also taking into consideration the reinsurance programme in place for each class of business and the claims experience for the year.

The Group takes all reasonable steps to ensure that the company has taken into account all appropriate information regarding its gross and net claims exposures, however given the uncertainty in establishing such claims provisions it is likely that the final outcome will prove to be dissimilar from the original estimated liability. Should the provisions prove to be different from the original estimate, adjustments are made to the claims provisions in respect of prior years and are included in the Technical account within the financial statements of the period when such adjustments are made.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made. There have been no changes in assumptions used to measure insurance assets and liabilities during the year.

Investments

Equity investments in non-convertible preference shares and non-puttable ordinary or preference shares are measured at fair value through profit or loss. All debt instruments are designated as fair value through profit or loss and are therefore also measured as such. The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The cost of the Syndicate investments held at the balance sheet date is deemed to be the aggregate of the value of investments held at the balance sheet date, and the cost of any new investments acquired during the year.

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

Company investments in subsidiaries

In the Company balance sheet, for investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Overseas deposits

Overseas deposits are stated at the market value as at the balance sheet date.

Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges. Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the non-technical account. A transfer is then made from the non-technical account to the technical account.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Foreign currencies

In accordance with FRS 102, the functional currency of the Group and Company is US dollars as this is the currency of the primary economic environment in which the entity operates and is the one in which it primarily generates and expends cash. The presentational currency of the Group and Company is Sterling, which is common for a company at Lloyd's.

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Group's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in non-technical account. Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded as Other Comprehensive Income as per FRS 103.

Insurance debtors and creditors

In the normal course of business, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, comprise respectively the totals of all the Group's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided by the Group to write off the cost, less the estimated residual value, of tangible fixed assets on a straight-line basis at the following rates:

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

Tangible fixed assets *continued*

Fixtures, fittings and equipment	20.00% per annum
Computer equipment	33.33% per annum

Leases

Rentals payable under operating leases are taken to the consolidated statement of total comprehensive income on a straight-line basis over the lease term.

Retirement benefit costs

AEGIS Managing Agency Limited operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report of the Directors on page 2 and the Report of the Directors on page 4. Its forecasts and projections, taking account of reasonably possible changes in trading performance, show that the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. In addition, the directors have a reasonable expectation that capital will be available to support future underwriting activities. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements. Furthermore, the impact of Brexit has been internally assessed and in conclusion management have come to a view that Brexit will have no impact on the going concern of the business. For further details on Brexit, please refer to the Strategic Report.

2. Principal activity

The principal activity of the Company can be found in the strategic report of the directors on page 2.

3. Principal risks and uncertainties

This note presents information about the nature and extent of insurance and financial risks to which the Group and Company are exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Group's and Company's capital.

Underwriting risk

The Group accepts underwriting risk in a range of classes of business. The portfolio of underwriting risk is weighted in favour of short tail property and specialty classes (65%) with the balance made up of casualty classes (35%).

In underwriting insurance or reinsurance policies the Group's underwriters use their skill, knowledge and data on past claims experience to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. The business plan is subject to Lloyd's scrutiny and monitoring. Progress against this plan is monitored during the year. The Group also operates under a line guide that determines the maximum liability per policy which can be written for each class and for each underwriter. These can be exceeded in exceptional circumstances but only with the approval of senior management. The Group is also exposed to catastrophe losses which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the reinsurance arrangements section below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Group is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as cover holders, that use their judgement to write risks on our behalf under clear authority levels. We have a regular process of cover holder audits performed during the year.

The insurance liabilities underwritten by the Group are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject

Notes to the financial statements *continued*

(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

Underwriting risk *continued*

to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise that in aggregate exceeds the reserve provision established.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

Reinsurance arrangements

The Group purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. The Group also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover. For information on credit risk in respect of reinsurance debtors see the Credit Risk section.

Risk appetite

The Group has a defined event risk appetite which seeks to limit its maximum net loss from major catastrophe event scenarios.

These maximum losses are expected only to be incurred in extreme events. The Group also adopts risk appetite maximum net limits for a number of other non-elemental scenarios including, for example, a marine collision and an offshore rig loss.

The risk appetite policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against the event risk appetite. The following assumptions and procedures are used in the process:

- the data used reflects the information supplied to the Group by insured and ceding companies. This may prove to be inaccurate or could develop during the policy period;
- the exposures are modelled using a mixture of stochastic models and underwriter input to arrive at 'damage factors' – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate;
- the reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is included but may prove to be inadequate; and
- reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be an unmodelled loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

Claims reserves

Claims reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% variation in the total net claims reserves would be £4.5m (2017: £3.9m).

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of legal advisers.

Property catastrophe claims such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Group. There is uncertainty over the adequacy of information and modelling of major

Notes to the financial statements *continued*

(Forming part of the financial statements)

Claims reserves *continued*

losses for a period of several months after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes, for which a large IBNR has to be established, represent the most difficult classes to reserve because claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for US liability written on a losses occurring basis.

The use of historical development data, adjusted for known changes to wordings or the claims environment, is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

Credit risk

Credit risk is the risk that the Group becomes exposed to loss if counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. Credit risk could therefore have an impact upon the Group's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Group is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

As well as an actual failure of counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's ability to perform these duties in a timely manner. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The Group's investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security and exposure limits, prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on rating agency review and the Group's own ratings for each reinsurer. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer.

Credit risk in respect of premium debt is overseen by the Group's Counterparty Security Group, reporting to the Operations Committee. The key controls include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

2018

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Shares and unit trusts	-	0.7	12.3	-	6.2	17.6	36.8
Debt securities and other fixed income securities	116.5	80.1	91.7	65.7	32.7	-	386.7
Loans with credit institutions	31.7	37.6	-	3.6	37.8	-	110.7
Overseas deposits as investments	37.3	7.0	7.1	4.5	-	4.0	59.9
Reinsurers share of claims outstanding	1.9	5.4	225.6	-	-	-	232.9
Reinsurers debtors	-	0.8	10.6	-	-	-	11.4
Cash at bank and in hand	-	-	18.5	-	-	4.6	23.1
Total credit risk	187.4	131.6	365.8	73.8	76.7	26.2	861.5

Notes to the financial statements *continued*

(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

Credit risk *continued*

2017

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Shares and unit trusts	-	1.3	19.9	-	9.6	1.9	32.7
Debt securities and other fixed income securities	86.4	61.1	77.8	43.6	57.0	-	325.9
Loans with credit institutions	18.5	38.6	0.1	2.2	39.8	-	99.2
Overseas deposits as investments	31.6	6.9	7.2	4.6	-	1.7	52.0
Reinsurers share of claims outstanding	4.6	5.5	196.6	-	-	-	206.7
Reinsurers debtors	1.5	0.3	5.4	-	-	-	7.2
Cash at bank and in hand	-	-	57.6	-	-	-	57.6
Total credit risk	142.6	113.7	364.6	50.4	106.4	3.6	781.3

At 31 December 2018, total cash and investments amounted to £617m of which 86% relates to debt and other fixed income securities, loans guaranteed by mortgages, and equities. The residue of the portfolio relates to cash and overseas deposits. The portfolio remains high quality, as illustrated by the asset allocation table shown below. The credit ratings on debt securities are composite ratings based on Standard & Poor's, Moody's and Fitch.

The following table analyses the age of reinsurance and insurance debtors, that are past due but not impaired:

2018

	Neither due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Total £m
Insurance debtors	110.0	28.1	6.9	2.1	6.3	153.4
Reinsurance debtors	3.7	8.5	1.2	1.5	0.2	15.1
Total insurance and reinsurance debtors	113.7	36.6	8.1	3.6	6.5	168.5

2017

	Neither due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Total £m
Insurance debtors	111.8	6.0	2.5	0.3	0.2	120.7
Reinsurance debtors	13.9	16.0	-	0.2	-	30.1
Total insurance and reinsurance debtors	125.6	22.0	2.5	0.4	0.2	150.8

There have been no material changes to the Group's policies and processes for managing credit risk, or its exposure to credit risk, from the prior financial period.

Valuation risk

The Group's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Group's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits, and SSAE 16 reports are obtained. The Group's investment managers operate within guidelines which are set and regularly reviewed by the management of the Group for investment duration, credit quality and appropriate benchmarks. There have been no material changes to Group's policies or processes for managing or exposure to valuation risk from the prior financial period.

Notes to the financial statements *continued*

(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Group's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security, the greater its price volatility. This risk is mitigated by continual review of our investment strategies. Overall the Group seeks to balance the potential for adverse results arising from interest rate movements against investment return. There have been no material changes to the Company's policies or processes for managing to interest rate risk, or exposure to interest rate risk, from the prior financial period.

An analysis of the Group's sensitivity to interest rate risk is presented in the table below:

	2018 £m	2017 £m
Impact of 50 basis point increase on result	(4.9)	(4.5)
Impact of 50 basis point decrease on result	4.9	4.5
Impact of 50 basis point increase on net assets	(4.9)	(4.5)
Impact of 50 basis point decrease on net assets	4.9	4.5

Foreign exchange risk

Policyholders' assets are held in the base currencies of Sterling, US dollars, Canadian dollars, Euros, Australian Dollar, and Japanese Yen, which represent the majority of the Group's liabilities by currency. This limits underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-base currencies. These transactions are converted into sterling at the prevailing spot rate once the premium is received. Consequently there is exposure to currency movements between the exposure being written and the premium being converted. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Group is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk is mitigated by internal monitoring which includes asset and liability matching. It is not management's intention to take speculative currency positions in order to make currency gains. Overall the Group's foreign exchange risk appetite seeks to minimise the potential for adverse results arising from foreign exchange rate movements. There have been no material changes to the Group's policies or processes for managing foreign exchange risk, or exposure to foreign exchange risk, from the prior financial period.

Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis. Liquid assets are also held in excess of the immediate requirements to avoid the Group having to be a forced seller of any of its assets, which may result in prices below market value being realised, especially in periods of below normal investment market activity. This practice of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch. Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios.

The table below shows the maturity profiles of the Group's claims outstanding and creditor balances:

2018

	0-1 year £m	1-3 years £m	3-5 years £m	>5 years £m	Total £m
Claims outstanding	227.8	275.8	126.5	51.1	681.2
Creditors	69.1	-	-	-	69.1
Total claims outstanding and creditors	296.9	275.8	126.5	51.1	750.3

2017

	0-1 year £m	1-3 years £m	3-5 years £m	>5 years £m	Total £m
Claims outstanding	233.9	223.9	103.3	34.7	595.8
Creditors	58.6	-	-	-	58.6
Total claims outstanding and creditors	292.5	223.9	103.3	34.7	654.4

Notes to the financial statements *continued*

(Forming part of the financial statements)

Regulatory risk

Regulatory risk is the risk that the Company fails to meet the regulatory requirements of the Prudential Regulation Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. AEGIS London Holdings Limited has a Compliance Officer who monitors regulatory developments and assesses the impact on our policy.

Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Group. The Company manages these risks through internal compliance monitoring and the use of detailed procedure manuals. In addition, AEGIS London Holdings Limited has an Internal Audit department which assists the business to meet the strategic and operational objectives of the Group through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

Notes to the financial statements *continued*

(Forming part of the financial statements)

4. Segmental analysis

The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

2018

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	80.3	73.1	(51.7)	(23.5)	(3.3)
Fire and other damage to property	209.1	184.4	(82.0)	(61.2)	(19.9)
Third party liability	152.9	130.0	(81.0)	(44.7)	(8.5)
Miscellaneous	10.0	4.2	(2.9)	(13.0)	(0.2)
	<u>452.3</u>	<u>391.7</u>	<u>(217.6)</u>	<u>(142.4)</u>	<u>(31.9)</u>
Reinsurance acceptances	102.9	110.8	(58.7)	(47.2)	(9.7)
Quota share reinsurance	-	-	-	-	(12.8)
	<u>555.2</u>	<u>502.5</u>	<u>(276.3)</u>	<u>(189.6)</u>	<u>(54.4)</u>

2017

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	65.7	60.9	(51.4)	(19.7)	3.9
Fire and other damage to property	169.7	161.2	(128.8)	(50.8)	7.9
Third party liability	124.6	104.0	(43.9)	(37.3)	(8.8)
Miscellaneous	8.7	4.4	(1.4)	(11.6)	(0.5)
	<u>368.7</u>	<u>330.5</u>	<u>(225.5)</u>	<u>(119.4)</u>	<u>2.5</u>
Reinsurance acceptances	93.5	101.9	(69.8)	(28.0)	0.9
Quota share reinsurance	-	-	-	-	(4.0)
	<u>462.2</u>	<u>432.4</u>	<u>(295.3)</u>	<u>(147.4)</u>	<u>(0.6)</u>

The net assets of the Group are managed as a whole and are not allocated to a separate business segment.

5. Brokerage

Gross premiums written are stated before the deduction of brokerage. Brokerage for the year was £141m (2017: £118m) included within net operating expenses.

Notes to the financial statements *continued*

(Forming part of the financial statements)

6. Profit on ordinary activities before taxation

	2018 £'000	2017 £'000
Profit on ordinary activities is stated after charging:		
Operating lease charges	547.1	540.1
Auditor's remuneration:		
- Audit of the company's statutory financial statements	9.1	8.9
- Audit of the company's subsidiaries statutory financial statements	252.4	257.7
Non audit fees:		
- Taxation compliance services	82.0	86.3
- Other taxation advisory services	17.5	17.5

Member's standard person expenses are included within administrative expenses. Other technical income, net of reinsurance, includes reinsurance commissions and profit participation income of £10.1m (2017: £8.9m).

7. Net operating expenses

	2018 £m	2017 £m
Net acquisition expenses	140.5	118.2
Change in net deferred acquisition costs	(12.9)	(9.8)
Administrative expenses	62.0	39.0
	<u>189.6</u>	<u>147.4</u>

8. Staff costs

Employees

At 31 December 2018 the Group employed 128 members of staff (2017: 122). The company employed no members of staff during the year. The average monthly number of employees for the Group including executive directors during the year was 123 (2017:117) analysed as follows:

	2018	2017
Administration and finance	55	52
Underwriting and reinsurance	60	57
Claims	8	8
	<u>123</u>	<u>117</u>

Staff costs (including directors' remuneration)

	2018 £m	2017 £m
Wages and salaries	19.3	14.5
Social security costs	2.7	1.9
Other pension costs	1.6	1.5
	<u>23.6</u>	<u>17.9</u>

Included within wages and salaries above is profit-related remuneration payable to staff of £6.1m (2017: £2.4m).

Notes to the financial statements *continued*

(Forming part of the financial statements)

8. Staff costs *continued*

Directors' remuneration

	2018 £m	2017 £m
Emoluments	4.7	4.3
Pension contributions	0.1	0.2
	<u>4.8</u>	<u>4.5</u>
	2018 £m	2017 £m
Highest paid director's total emoluments	1.0	1.0

Three directors are accruing retirement benefits under a defined contribution pension scheme (2017: three) for the value of £86,000 (2017: £0.2m).

Director's remuneration payments for the group were made by AEGIS Managing Agency Limited, a subsidiary of AEGIS London Holdings Limited. The emoluments of the executive directors in respect of services provided to AEGIS London Holdings Limited Company during the period were £nil (2017: £nil).

Defined contribution pension scheme:

The Group's contributions for the year are shown above. The assets for the scheme are held separately from those of the Group's in an independently administered fund. At 31 December 2018 no contributions had been prepaid (2017: £nil).

9. Prior years' claims provision

Material (under)/over provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2018 £m	2017 Restated £m
Marine, aviation and transport	3.4	(0.3)
Fire and other damage to property	4.0	1.1
Third party liability	1.3	10.3
Miscellaneous	0.4	1.9
	<u>9.1</u>	<u>13.0</u>
Favourable movement in technical provisions		

The movement in estimate of the prior year incurred claims forms a 2% (2017 restated: 4%) component of the 2018 loss ratio of 53% (2017: 58%). The earned loss ratio represents incurred losses net divided by net earned premium.

The prior years' claims estimate for the 2017 calendar year was revised. There was no effect of the change on assets, liabilities, income and expense for the current period, as aforementioned this was a change in estimate. For more detail please refer to note 26.

Notes to the financial statements *continued*

(Forming part of the financial statements)

10. Tax charge on ordinary activities

a) Analysis of the tax charge in the year

	2018 £m	2017 £m
UK Corporation tax charge and prior year adjustments	2.4	14.6
US taxes	1.8	1.8
US tax prior year adjustment	7.3	(4.9)
Other foreign tax suffered	0.5	(1.3)
Total current tax charge for the year	12.0	10.2
Deferred tax credit (Note 16)	(9.1)	(5.1)
Total charge for the year	2.9	5.1

b) Factors affecting the tax charge for the year

The tax charge for the year is different from the standard rate of corporation tax in the UK. The differences are explained below:

	2018 £m	2017 £m
Profit on ordinary activities before tax	13.0	14.2
Profit on ordinary activities multiplied by the corporation tax rate of 19% (2017: 19.25%)	2.5	2.7
Effects of:		
Overseas tax	-	(3.1)
UK deferred tax movements not recognised	4.2	10.9
Non-taxable dividend income / non-deductible items	0.2	(0.1)
Foreign tax suffered	9.1	(1.3)
Adjustments in respect of prior periods	(3.0)	2.3
Double taxation relief	(0.8)	(1.5)
Overseas deferred tax movement	(9.7)	(4.8)
Foreign exchange impact on taxes	0.4	-
Total tax charge for the year	2.9	5.1

c) Factors that may affect future tax charges

A 953d election has been made under United States tax legislation effectively treating AEGIS Electric & Gas International Services Limited as a US corporation for tax purposes.

The Tax Cuts and Jobs Act was signed into U.S. law on 22 December 2017. Under the new tax law, effective 1 January 2018, the corporate income tax rate decreased from 35% to 21%.

Other companies within the Group are subject to the blended UK corporation tax rate of 19% for the year (2017: 19.25%).

The Finance Act 2016, which provided for a reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was enacted during 2016.

Notes to the financial statements *continued*

(Forming part of the financial statements)

11. Tangible fixed assets

The Company had no fixed assets acquired during the year or held at the year end.

	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Cost			
At 1 January 2018	0.2	0.1	0.3
Additions	-	0.2	0.2
Disposals	-	(0.1)	(0.1)
At 31 December 2018	0.2	0.2	0.4
Depreciation			
At 1 January 2018	(0.1)	-	(0.1)
Charge for the year	-	-	-
Disposals	-	-	-
At 31 December 2018	(0.1)	-	(0.1)
Net book value			
At 31 December 2018	0.1	0.2	0.3
At 31 December 2017	0.1	0.1	0.2

12. Investments in subsidiaries

	Company	
	2018	2017
	£000	£000
Investment in subsidiaries	450	50

Investment in the companies in the table below were received on incorporation of AEGIS London Holdings Limited in March 2012.

Notes to the financial statements *continued*

(Forming part of the financial statements)

12. Investments in subsidiaries *continued*

Subsidiary undertakings relate to the following investments:

	Country of incorporation	Principal activity	Holding	%
AEGIS London Services Limited	United Kingdom	Service company	Ordinary shares	100
AEGIS Managing Agency Limited	United Kingdom	Managing agent	Ordinary shares	100
AEGIS Electric & Gas International Services Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS Electric & Gas International Services 2 Limited	United Kingdom	Dormant	Ordinary shares	100
AEGIS Electric & Gas International Services 3 Limited	United Kingdom	Dormant	Ordinary shares	100
AEGIS Electric & Gas International Services 4 Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS Electric & Gas International Services 5 Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS London Adjusting (Canada) Inc	Canada	Service company	Ordinary shares	100
AEGIS London Services (Canada) Inc	Canada	Service company	Ordinary shares	100

The Registered office of all Companies based in the United Kingdom is 33 Gracechurch Street, London, EC3V 0BT. The financial statements of AEGIS London Services (Canada) Inc (Registration no, 778547-0) and AEGIS London Adjusting (Canada) Inc (Registration no, 778546-1) are not audited as the Group has applied the exemption under Section 479A of the Companies Act. The addresses of both the Canadian companies is 40 King Street West, 2100 Scotia Plaza, Toronto, Ontario M5H 3C2.

13. Financial investments - Group and Company

Group

Financial assets measured at fair value through profit or loss

	At market valuation		At cost	
	2018 £m	2017 £m	2018 £m	2017 £m
Shares and other variable yield securities and unit trusts	36.8	32.7	38.0	28.3
Debt securities and other fixed income securities	386.7	332.6	380.4	312.6
Loans with credit institutions	110.7	93.2	109.2	98.8
	<u>534.2</u>	<u>458.5</u>	<u>527.6</u>	<u>439.7</u>

Financial assets measured at amortised cost

	2018 £m	2017 £m
Debtors arising out of direct insurance and reinsurance operations	168.5	150.8
Other debtors	<u>60.4</u>	<u>36.5</u>

Notes to the financial statements *continued*

(Forming part of the financial statements)

13. Financial investments - Group and Company *continued*

Financial liabilities measured at amortised cost

	2018 £m	2017 £m
Creditors arising out of direct insurance and reinsurance operations	69.1	58.6
Other creditors including taxation and social security	63.9	85.7

All overseas deposits £59.9m (2017: £52.0m) are held at fair value through profit or loss.

Of the above categories shares and other variable yield security investments listed on recognised stock exchanges were £36.8m (2017: £32.7m). Loans with credit institutions £110.7m (2017: £93.2m). Debt securities and other fixed income securities listed on recognised stock exchanges have a carrying value of £345.8m (2017: £176.1m).

The company classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Prices based on recent transactions in identical assets (either unadjusted or adjusted)

Level 3 - Prices determined using a valuation technique

The table below analyses financial instruments and overseas deposits held at fair value in the Group's balance sheet at the reporting date by its level in the fair value hierarchy.

2018

	Level 1 £m	Level 2 £m	Level 3 £m	Balance sheet position £m
Shares and other variable yield securities and unit trusts	-	36.8	-	36.8
Debt securities and other fixed income securities	141.6	245.1	-	386.7
Loans and deposits with credit institutions	-	110.7	-	110.7
Overseas deposits	13.9	46.0	-	59.9
Total	155.5	438.6	-	594.1

2017

	Level 1 £m	Level 2 £m	Level 3 £m	Balance sheet position £m
Shares and other variable yield securities and unit trusts	32.7	-	-	32.7
Debt securities and other fixed income securities	108.7	223.9	-	332.6
Loans and deposits with credit institutions	-	93.2	-	93.2
Overseas deposits	7.4	44.6	-	52.0
Total	148.8	361.7	-	510.5

Company

	At market valuation		At cost	
	2018 £m	2017 £m	2018 £m	2017 £m
Shares and other variable yield securities and unit trusts	36.8	32.6	38.0	28.3
Debt securities and other fixed income securities	0.6	2.1	0.6	2.1
Loans with credit institutions	0.1	3.6	0.1	3.6
	37.5	38.3	38.7	34.0

Notes to the financial statements *continued*

(Forming part of the financial statements)

13. Financial investments - Group and Company *continued*

2018

	Level 1	Level 2	Level 3	Balance sheet position
	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	36.8	-	36.8
Debt securities and other fixed income securities	0.2	0.3	-	0.5
Loans and deposits with credit institutions	-	0.1	-	0.1
Total	0.2	37.2	-	37.4

2017

	Level 1	Level 2	Level 3	Balance sheet position
	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	32.6	-	-	32.6
Debt securities and other fixed income securities	2.1	-	-	2.1
Loans and deposits with credit institutions	-	3.6	-	3.6
Total	34.7	3.6	-	38.3

14. Technical provisions

The Company had no technical provisions during the year.

	Provision for unearned premium £000	Provision for claims outstanding £000	Deferred acquisition costs £000	Total £000
Gross				
At 1 January 2018	(254.1)	(595.8)	60.2	(789.7)
Movement in technical provision	(52.7)	(58.1)	12.9	(97.9)
Foreign exchange movement	(13.4)	(27.3)	3.0	(37.7)
At 31 December 2018	(320.2)	(681.2)	76.1	(925.3)
Reinsurance				
At 1 January 2018	53.2	206.7	-	259.9
Movement in technical provision	25.6	14.9	-	40.5
Quota share agreement	(12.7)	-	-	(12.7)
Foreign exchange movement	2.3	11.3	-	13.6
At 31 December 2018	68.4	232.9	-	301.3
Net				
At 31 December 2018	(251.8)	(448.3)	76.1	(624.0)
At 31 December 2017	(200.9)	(389.1)	60.2	(529.8)

The exchange rate movement reflects the opening provision at opening versus closing rates of exchange together with the difference between the technical account movement at average versus closing rates of exchange.

Notes to the financial statements *continued*

(Forming part of the financial statements)

15. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2018 in all cases. Gross claims ratios represent gross ultimate claims divided by gross ultimate premiums, and the net claims ratios represent ultimate claims net of reinsurance divided by ultimate premiums net of reinsurance.

Gross ultimate claims and ratios	2013 & prior	2014	2015	2016	2017	2018	Total
At end of underwriting year	-	58%	61%	64%	70%	65%	-
One year later	-	53%	56%	70%	66%		-
Two years later	-	55%	56%	66%			-
Three years later	-	51%	53%				-
Four years later	-	51%					-
Total ultimate losses (£m)	2,640.1	222.4	203.7	285.1	328.6	344.9	4,024.8
Less: cumulative paid claims (£m)	(2,498.3)	(177.6)	(124.5)	(171.3)	(109.7)	(18.4)	(3,099.8)
Less: unearned portion of ultimate losses (£m)	-	-	-	(5.5)	(30.7)	(207.6)	(243.8)
Gross claims liabilities (£m)	141.8	44.8	79.2	108.3	188.2	118.9	681.2

Net ultimate claims and ratios	2013 & prior	2014	2015	2016	2017	2018	Total
At end of underwriting year	-	56%	58%	58%	62%	58%	-
One year later	-	51%	53%	60%	58%		-
Two years later	-	52%	52%	59%			-
Three years later	-	49%	49%				-
Four years later	-	49%					-
Total ultimate losses (£m)	1,866.4	180.2	161.7	205.4	230.7	244.9	2,889.3
Less: cumulative paid claims (£m)	(1,778.0)	(149.4)	(105.5)	(130.2)	(83.2)	(15.9)	(2,262.2)
Less: unearned portion of ultimate losses (£m)	-	-	-	(2.0)	(20.6)	(156.2)	(178.8)
Net claims liabilities (£m)	88.4	30.8	56.2	73.2	126.9	72.8	448.3

The below tables show the pure year earned claims reserves and cumulative payments, gross and net of reinsurance.

Gross reserves and payments	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
At end of underwriting year	104.1	113.7	102.6	100.5	140.8	137.3
One year later	245.2	218.1	206.0	276.8	297.9	-
Two years later	241.7	241.4	216.5	279.6	-	-
Three years later	237.9	225.5	203.7	-	-	-
Four years later	230.2	222.4	-	-	-	-
Five years later	234.2	-	-	-	-	-
Cumulative payments	(186.1)	(177.6)	(124.5)	(171.3)	(109.7)	(18.4)
Estimated balance to pay	48.1	44.8	79.2	108.3	188.2	118.9

Notes to the financial statements *continued*

(Forming part of the financial statements)

15. Claims development *continued*

Net reserves and payments	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
At end of underwriting year	85.6	91.6	79.2	71.2	88.4	88.7
One year later	189.7	177.2	163.6	190.5	210.1	-
Two years later	186.2	190.8	169.1	203.4	-	-
Three years later	178.0	180.3	161.7	-	-	-
Four years later	173.3	180.2	-	-	-	-
Five years later	174.8	-	-	-	-	-
Cumulative payments	(150.3)	(149.4)	(105.5)	(130.2)	(83.2)	(15.9)
Estimated balance to pay	24.5	30.8	56.2	73.2	126.9	72.8

16. Deferred tax

Unrecognised deferred tax

	Underwriting results £m	Other timing differences £m	Total £m
At 1 January 2018	2.2	(4.5)	(2.3)
Prior year adjustment to deferred tax	(2.9)	-	(2.9)
Current year deferred tax movement	3.5	0.4	3.9
At 31 December 2018	2.8	(4.1)	(1.3)
Offset of UK deferred tax following election to tax as a US corporation	(2.8)	4.1	1.3
Deferred tax balance in balance sheet as at 31 December 2018	-	-	-

The UK deferred tax liability of £1.3m has not been recognised, as the crystallisation of the UK deferred tax liability will give rise to foreign tax credits which the Company considers it will be able to utilise against its US taxes arising from future profits subject to US tax.

Notes to the financial statements *continued*

(Forming part of the financial statements)

16. Deferred tax *continued*

Recognised deferred tax

	US deferred earnings	Capital gains	Total deferred tax liability	Deferred tax asset – Aegis Managing Agency Limited	Total
	£m	£m	£m	£m	£m
At 1 January 2018	0.5	(3.2)	(2.7)	4.0	1.3
Prior year adjustment to deferred tax	1.6	3.2	4.8	(0.5)	4.3
Current year deferred tax movement	4.8	0.5	5.3	(0.4)	5.0
At 31 December 2018	6.9	0.5	7.4	3.1	10.5
Total deferred tax credit as at 31 December 2018					9.1
Total deferred tax credit as at 31 December 2017					5.5

17. Other debtors

	2018 £m	2017 £m
Amount receivables in respect of reinsurance profit participations	6.9	15.6
Amount receivable from AEGIS Bermuda	21.9	-
Corporation tax receivable	5.0	-
Other debtors	5.3	6.4
	39.1	22.0

18. Other creditors: amounts falling due within one year

	2018 £m	2017 £m
Amount due to AEGIS Holdings Inc:		
In relation to US corporation tax	10.5	19.2
Other amounts due to AEGIS Holdings Inc.	3.2	6.9
Amount due to AEGIS Bermuda	-	0.3
Corporation tax liability	-	8.4
Amount due in respect of reinsurance profit participations	2.4	5.7
Other taxes and social security costs	1.4	0.5
	17.5	41.0

Notes to the financial statements *continued*

(Forming part of the financial statements)

19. Creditors: amounts falling due after more than one year

	2018 £m	2017 £m
Accruals and deferred income	9.0	14.6
Subordinated loan provided by the ultimate parent and controlling entity	-	1.5
	<u>9.0</u>	<u>16.1</u>

The loan has no fixed repayment date, is subordinated to other creditors of the Company and is interest free from the ultimate parent company. AEGIS Managing Agency Limited made a full £1.5m repayment during the year towards the subordinated loan.

20. Share capital

	2018 £	2017 £
Allotted, called up and fully paid - 100 £1 ordinary shares	<u>100</u>	<u>100</u>

The share capital of the company was allotted during 2012.

21. Operating lease commitments

There were no operating lease commitments due in more than five years as at 31 December 2018.

	2018 £m	2017 £m
Total operating lease commitments	0.9	1.4
Less: Amounts due in more than one year	<u>(0.3)</u>	<u>(0.9)</u>
Operating lease commitment payable in the next year	<u>0.6</u>	<u>0.5</u>

22. Commitments

There were no capital commitments at 31 December 2018 (2017: £nil). The assets of the Group are subject to restrictions on use or transfer as follows:

- a) Assets of the 2016, 2017 and 2018 years of account of Syndicate 1225 as at 31 December 2018 amounting to £454.6m (as at 31 December 2017 in respect of the 2015, 2016 and 2017 years of account: £362.9m) are held subject to the Lloyd's Premium Trust Deeds. Profits cannot be fully released from the Premium Trust Fund until the close of the underwriting years of account.
- b) The Group's ultimate parent has provided Funds at Lloyd's ("FAL") of \$199m (2017: \$200m) to support the 2018 year of account underwriting by means of a Letter of Credit in favour of the Corporation of Lloyd's and \$2m in cash. Furthermore as at 31 December 2018 the Group has committed £48m of its assets in favour of the Corporation of Lloyd's to support the Group's 2019 year of account underwriting.

Notes to the financial statements *continued*

(Forming part of the financial statements)

22. Commitments *continued*

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority under the Financial Services and Markets Act 2000 and in accordance with the Solvency II framework.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 1225 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% (2017: 35%) of the member's SCR 'to ultimate', which is consistent with previous years.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a Syndicate (Funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the balance sheet on pages 8 and 9, represent resources available to meet members' and Lloyd's capital requirements.

23. Related party transactions

The Company has taken advantage of the exemption allowed by FRS 102 not to disclose related party transactions with its parent undertaking and fellow subsidiary undertakings. No contract existed at any time during the year in which a director or key manager was materially interested or which required disclosure as a related party transaction as defined under FRS 102 section 33.

24. Ultimate parent company

The Company's immediate parent is AEGIS Holdings Inc, incorporated in the USA and the ultimate parent and controlling party is Associated Electric & Gas Insurance Services Limited (AEGIS), incorporated in Bermuda. AEGIS is the largest group of undertakings for which group financial statements are prepared. A copy of the ultimate parent group financial statements may be obtained from 1 Meadowlands Plaza, East Rutherford, NJ 07073, USA.

The consolidation of AEGIS London Holdings Limited group is the smallest group of undertakings for which group financial statements are prepared. A copy of these financial statements may be obtained from 33 Gracechurch Street, London, EC3V 0BT, United Kingdom.

Notes to the financial statements *continued*

(Forming part of the financial statements)

25. Consolidated statement of cash flows

	2018 £m	2017 £m
Operating profit	13.0	14.2
Adjustment for:		
Increase in gross technical provisions	151.5	63.3
Increase in reinsurers' share of gross technical provisions	(41.4)	(45.2)
Investment return	(4.9)	(16.7)
Operating cash flow before movement in working capital:		
Increase in debtors	(41.1)	(46.8)
Increase in prepayments and accrued income	(16.7)	(6.0)
Increase in creditors	13.8	(3.5)
Movement in other assets/liabilities	(7.9)	4.6
Cash generated by operations	66.3	(36.1)
Income taxes paid	(32.8)	(8.2)
Foreign exchange effects	6.2	(7.1)
Net cash flows from operating activities	39.7	(51.4)

26. Restatement of prior years' claims estimate comparative

The prior years' claims estimate for the 2017 calendar year was revised due to a change in estimating the prior year split (note 13). The prior year split for losses is derived by taking the impact of the actuarial earned calendar year position for the 2017 and prior years of account. Previously the prior year split was based on an 'ultimate' calendar year position. There was no effect of the change on assets, liabilities, income and expense for the current period, as aforementioned this was a change in estimate.

	As previously reported £m	Restatement £m	2017 Restated £m
Marine, aviation and transport	(0.8)	0.5	(0.3)
Fire and other damage to property	3.3	(2.2)	1.1
Third party liability	29.7	(19.4)	10.3
Miscellaneous	5.3	(3.4)	1.9
Favourable movement in technical provisions	37.5	(24.5)	13.0

27. Subsequent events

The Syndicate has commenced writing EEA business for the 2019 Year of Account on 01/01/2019 through the Lloyd's Brussels Subsidiary ("LBS"). The Syndicate plans to write as per 2019 Syndicate Business Forecast approximately 10% (2018: 9%) of the Syndicate's total gross written premiums within the EEA and through the Europe distribution channel. EEA business will no longer be processed as direct business but instead will be processed as reinsurance accepted business. For further details please refer to 'Future developments' within the Strategic report.

In June 2019, the Company allotted one ordinary share to its parent company, AEGIS Holding Inc., for a total subscription price of \$50m US dollars. At the same time, the Company's subsidiary company, AEGIS Electric & Gas International Services Limited, allotted one ordinary share to the Company for a total subscription price of \$50m US dollars.

Independent auditor's report to the members of AEGIS London Holdings Limited

Report on the audit of the financial statements

Opinion

In our opinion the consolidated financial statements of AEGIS London Holdings Limited (the 'Group'):

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 Insurance Contracts ("FRS 103"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of AEGIS London Holdings Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated statement of total comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated statement of cash flows;
- the consolidated and parent company statement of changes in shareholder's funds and;
- the related notes 1 to 27.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Independent auditor's report to the members of AEGIS London Holdings Limited *continued*

We have nothing to report in respect of these matters.

Responsibilities of directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the members of AEGIS London Holdings Limited *continued*

Matters on which we are required to report by exception

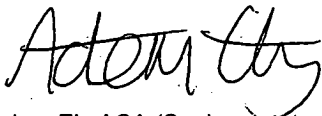
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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



Adam Ely ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
25 September 2019

Administration

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