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Skuld Special Purpose Arrangement 6126

Annual Report and Accounts
31 December 2016

Contents

Directors and Administration	1
Active underwriter's report	2
Managing Agent's report	3
Statement of Managing Agent's responsibilities	7
Independent auditor's report	8
Income statement	10
Statement of comprehensive income	11
Statement of changes in members' balances	11
Statement of financial position	12
Statement of cash flows	14
Notes to the financial statements	15
1. Basis of preparation	15
2. Accounting Policies	15
3. Segmental analysis	20
4. Technical Provisions	21
5. Net Operating Expenses	22
6. Auditor's remuneration	22
7. Emoluments of the directors of Asta Managing Agency Ltd	22
8. Investment return	23
9. Related parties	23
10. Disclosure of interests	24
11. Funds at Lloyd's	24
12. Off-balance sheet items	24
13. Risk management	24
14. Post balance sheet events	31

Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell (Chairman)*
C V Barley
L Harfitt
A J Hubbard*
D J G Hunt
M D Mohn*
D F C Murphy*
S P A Norton
J W Ramage*
K Shah*
J M Tighe

Non Executive Directors*

Company Secretary

C Chow

Managing Agent's Registered Office

5th Floor
Camomile Court
23 Camomile Street
London
EC3A 7LL

Managing Agent's Registered Number

1918744

Active Underwriter

M S F Pritchard

Registered Auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Active underwriter's report

Special Purpose Arrangement (SPA) 6126 commenced underwriting in January 2016 with the various members of the underwriting team joining during the course of the year.

The SPA is led by Mike Pritchard as Active Underwriter, who has a long and distinguished record in the London Market. The SPA focuses on short tail property business in the D&F and Treaty markets with the D&F team led by Peter Coleman and the Treaty team led by James Blackwell. Sean Sawyer completes the senior team as Managing Director all of which are employed by Agora Underwriting.

The SPA is a 90% quota share of Syndicate 1897 property classes with staff being provided by Agora Underwriting. The SPA has quickly established a strong profile in the D&F market and focuses on worldwide primary and lower attachments across most major occupancies. They also have a strong presence in the US binding authority area focusing on SME commercial and homeowners business. The treaty team focuses on worldwide business with a small specialty portfolio across business lines complimentary to the core portfolio. Whilst market conditions are highly competitive, the D&F area in particular is large enough for the team to have built the book steadily throughout the year without compromising on underwriting standards writing £19.5m of GNWP at loss ratios within planned expectations. The balance of the first year's revenue is the binding authority and treaty books. The underwriters in those areas joined later in the year and subsequently 2017 represents the first opportunity on those accounts in several key renewal seasons and geographies.

At this stage in the SPA lifecycle the loss ratios used in both the planning and reporting of the business are usually based on market averages prepared in consultation with Lloyd's. The SPA would expect to transition to its own written loss patterns later in 2017 as the book establishes itself sufficiently.

With the full underwriting team in place from the start of 2017 the SPA is well placed to capitalise on the good start made in 2016.

Managing Agent's report

The SPA's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2016.

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

Results

The result for the calendar year 2016 is a loss of £3.4m on a gross written premium of £27.6m.

Principal activity and review of the business

The SPA's principal activity is a whole account quota share of Skuld Syndicate 1897.

The SPA writes a 90% property quota share in the United Kingdom.

Gross written premium income by class of business for the calendar year was as follows;

	2016
	£'000
Property D&F	20,468
HGE – Treaty	809
Property Binders	5,715
Property Treaty	575
	<hr/>
	27,567

The SPA's key financial performance indicators during the year were as follows:

	2016
	£'000
Gross written premiums	27,567
Loss for the financial year	(3,580)
Total comprehensive loss	(3,407)
Combined ratio	132.5%

Managing Agent's report continued

Principal risks and uncertainties

The SPA sets risk appetite annually, which is approved by the Agency as part of the SPA's business planning and Solvency Capital Requirement ('SCR') process. The Agency Risk Committee meets quarterly to oversee the risk management framework. The host Syndicate Board (The Board) reviews the risk profile and monitors performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the SPA are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the SPA actuary and the Reserving Committee. It is also reviewed by an independent firm of actuaries.

Credit risk

The main credit risk for the SPA is non settlement of the account by the host at 36 months. The host Syndicate's primary credit risk is the risk of default by one or more of its reinsurers and Syndicate intermediaries. The Board's policy is that they will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers before business is placed with them.

Market risk

Interest Rate Risk – The SPA has no investments, and therefore has no exposure to interest rate risk.

Currency Risk – The SPA writes the majority of its business in U.S. Dollars, which is its functional currency. The SPA incurs the majority of its expense in GBP; these expenses, however, do not create material currency risk for the SPA.

Investment Price Risk – The SPA has no investments, and therefore has no exposure to investment price risk.

Liquidity risk

The Host Syndicate pays insurance claims and other liabilities (including expenses) on the SPA's behalf in accordance with the funds withheld arrangement.

Managing Agent's report continued

Operational risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the SPA. The Agency seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a compliance officer who manages a team of three that monitor business activity and regulatory developments and assesses any effects on the Agency.

The SPA has no appetite for failing to treat customers fairly. The SPA manages and monitors its conduct risk through a suite of risk indicators and reporting metrics as part of its documented conduct risk framework.

Group / strategic risk

This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business.

Strategic risk covers the risks faced by the SPA due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

Future developments

The SPA will continue to underwrite 90% of the property classes of Syndicate 1897. The property class capacity at the 100% level for 2017 is £60m (2016 £40m).

The risks to UK economic growth remain significant not least because of the UK's decision to leave the European Union ("EU") ("Brexit"). There is significant change and associated uncertainty ahead for the market which is difficult to anticipate as the terms of the UK's exit from the EU remain unclear. Until that happens, the market will need to plan carefully for all possible scenarios to mitigate the impact of Brexit on Lloyd's businesses.

EU membership and access to the single market has enabled underwriters at Lloyd's to underwrite insurance and reinsurance from all the other 27 member states on a cross-border basis. The underwriters operate under a "passport" system, which allows them to conduct business throughout the EU while being regulated and supervised by the PRA.

It is expected that Lloyd's will publish its final Brexit plan in the first quarter of 2017. Lloyd's has a dedicated team putting forward the argument to the UK government on behalf of the marketplace for retaining EU passporting, but has yet to decide on how this is achieved; either by a single insurance company or a branch solution.

Managing Agent's report continued

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the SCR of the SPA, since this has been previously calculated based on Solvency II principles.

Directors

Details of the Directors of the Managing Agent that served during the year end and up to the date of signing of the SPA annual accounts are provided on page 1. Changes to the directors were as follows:

C V Barley	Appointed 27 April 2016
M D Mohn	Appointed 16 May 2016
K Shah	Appointed 1 October 2016
Y A Lancaster (nee Bouman)	Resigned 12 February 2016
G M J Erulin	Resigned 31 March 2016

Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the SPA auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the SPA's Auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the SPA's auditor is aware of that information.

Auditors

The Managing Agent intends to reappoint Ernst & Young LLP as the SPA's auditors.

SPA Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by SPA members before 25 April 2017.

On behalf of the Board



C Chow
Company Secretary
21 March 2017

Statement of Managing Agent's responsibilities

The Managing Agent is responsible for preparing the SPA annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The SPA annual accounts are required by law to give a true and fair view of the state of affairs of the SPA as at that date and of its profit or loss for that year.

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

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

The Managing Agent is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the SPA and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the SPA and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditor's report

Independent auditor's report to the members of SPA 6126

We have audited the SPA annual accounts of SPA 6126 ('the SPA') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (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'.

This report is made solely to the SPA's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the SPA's members those matters we are required to state to them in an auditors' 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 SPA's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the managing agent is responsible for the preparation of SPA annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the SPA annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the SPA annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the SPA annual accounts sufficient to give reasonable assurance that the SPA annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the SPA's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the SPA annual accounts. In addition, we read all the financial and non-financial information in the SPA Annual Report and Accounts to identify material inconsistencies with the audited SPA annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Independent auditor's report continued

Opinion on SPA annual accounts

In our opinion the annual accounts:

- give a true and fair view of the SPA's affairs as at 31 December 2016 and of its loss 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'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the annual accounts are prepared is consistent with the annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the SPA has not kept adequate accounting records; or
- the SPA annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Andrew R. Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
21 March 2017

Income statement

Technical account - General business

For the year ended 31 December 2016

	Notes	2016 £'000
Gross premiums written	3	27,567
Outward reinsurance premiums		<u>(1,850)</u>
Net written premiums		25,717
Change in the provision for unearned premiums		
• Gross amount		(15,143)
• Reinsurers' share		<u>469</u>
Change in the net provision for unearned premiums	4	(14,674)
Earned premiums, net of reinsurance		11,043
Allocated investment return transferred from the non-technical account		1
Claims paid		
• Gross amount		(1,035)
• Reinsurers' share		<u>-</u>
		(1,035)
Changes in claims outstanding		
• Gross amount		(8,004)
• Reinsurers' share		<u>1,123</u>
Change in the net provision for claims	4	(6,881)
Claims incurred, net of reinsurance		(7,916)
Net operating expenses	5	<u>(6,714)</u>
Balance on technical account – general business		<u>(3,586)</u>

Income statement continued

Non-technical account - General business

For the year ended 31 December 2016

	Notes	2016 £'000
Balance on technical account – general business		(3,586)
Investment income	8	1
Allocated investment return transferred to the general business technical account		(1)
Exchange gains and losses		<u>6</u>
Loss for the financial year		<u>(3,580)</u>

All the amounts above are in respect of continuing operations. The notes on pages 15 to 31 form part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2016

	2016 £'000
Loss for the financial year	(3,580)
OCI – Currency Translation Differences	<u>173</u>
Total comprehensive loss for the year	<u>(3,407)</u>

Statement of changes in members' balances

For the year ended 31 December 2016

	2016 £'000
At 1 January	-
Total comprehensive loss for the year	(3,407)
Members' charges	<u>(29)</u>
At 31 December	<u>(3,436)</u>

Statement of financial position

As at 31 December 2016

	Notes	2016 £'000
ASSETS		
<i>Reinsurers' share of technical provisions</i>		
Provision for unearned premiums	4	513
Claims outstanding	4	<u>1,123</u>
		1,636
<i>Debtors</i>		
Debtors arising out of reinsurance operations		<u>17,688</u>
		17,688
<i>Prepayments and accrued income</i>		
Deferred acquisition costs	4	<u>3,247</u>
		<u>3,247</u>
<i>Total assets</i>		<u>22,571</u>

The notes on pages 15 to 31 form part of these annual accounts.

Statement of financial position continued

As at 31 December 2016

	Notes	2016 £'000
MEMBERS' BALANCE AND LIABILITIES		
<i>Capital and reserves</i>		
Members' balances		(3,436)
<i>Liabilities</i>		
<i>Technical provisions</i>		
Provision for unearned premiums	4	16,130
Claims outstanding	4	8,561
		<u>24,691</u>
<i>Creditors</i>		
Creditors arising out of reinsurance operations		<u>187</u>
		187
<i>Accruals and deferred income</i>		<u>1,129</u>
<i>Total liabilities</i>		<u>26,007</u>
<i>Total members' balances and liabilities</i>		<u>22,571</u>

The notes on pages 15 to 31 form part of these annual accounts.

The financial statements on pages 10 to 31 were approved by board of directors on 15 March 2017 and were signed on its behalf by:



D J G Hunt
Director
21 March 2017

Statement of cash flows

For the year ended 31 December 2016

	Notes	2016 £'000
Cash flows from Operating activities		
<i>Loss on ordinary activities</i>		(3,580)
Increase in gross technical provisions		24,691
(Increase) in reinsurers' share of gross technical provisions		(1,636)
(Increase) in debtors		(17,688)
Increase in creditors		187
Movement in other asset/liabilities/foreign exchange		(2,146)
Investment Return		(1)
Other		173
Net cash /inflows from operating activities		-
Cash from Investing activities		
Investment income received		-
Net cash inflows from investing activities		-
Cash from Financing activities		
Collection of losses		-
Other		-
Net cash (outflows) from financing activities		-
Net increase in cash and cash equivalents		-
Cash and cash equivalents at beginning of year		-
Cash and cash equivalents at end of year		-

Notes to the financial statements

For the year ended 31 December 2016

1. Basis of preparation

Statement of compliance

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

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The SPA's functional currency is USD. The financial statements are prepared in GBP which is the reporting and presentational currency of the SPA and rounded to the nearest £'000.

As permitted by FRS 103 the SPA continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

2. Accounting Policies

Use of estimates

In preparation of the financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accounts, and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. Significant items subject to such estimates and assumptions include:

- (i) provision for claims outstanding (refer to claims incurred accounting policy);
- (ii) estimates of future premium for binder contracts (refer to gross premiums accounting policy).

Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the SPA's annual accounts.

Gross premiums

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

Accounting policies continued

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates, primarily relating to binder business, are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying future premium, is that past premium development can be used to project future premium development.

Reinsurance premiums

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

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

Claims incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business and the claims experience for the year. The SPA uses a number of statistical techniques to assist in making these estimates.

Accordingly, the two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Accounting policies continued

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions for unearned premiums

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

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

Unexpired risks

A provision for unexpired risks is made where claims and related expenses are likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

At 31 December 2016 the SPA did not have an unexpired risk provision.

Deferred acquisition costs

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

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

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

Reinsurance assets

The SPA reinsurance premium is 90% of the host syndicate's total reinsurance protection of the property classes. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurers policies and are in accordance with the related reinsurance contract. All reinsurance premium and paid recoveries are managed on the funds withheld basis.

Accounting policies continued

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

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2016.

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

Insurance receivables

All Insurance receivables are due from the host Syndicate 1897 at the end of 36 months of trading on the funds withheld basis.

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

Insurance receivables are not recognised when the derecognition criteria for financial assets have been met.

Insurance payables

All Insurance payables are due for settlement with the host Syndicate 1897 at the end of 36 months of trading on the funds withheld basis.

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

Foreign currencies

The SPA's functional currency is USD. The reporting and presentational currency is GBP.

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

Exchange differences are recorded in the non-technical account.

Accounting policies continued

The following balance sheet rates of exchange have been used in the preparation of these accounts:

	2016 Year End
USD	1.24
CAD	1.66
EUR	1.17

Financial liabilities

The SPA's financial liabilities include trade and other payables and insurance payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

A financial liability is derecognised when the obligation under the liability is discharged or expires.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from SPA investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the SPA during the year have been included in the balance sheet under the heading 'other debtors'.

Profit commission

Profit commission is charged by the managing agent at a rate of 20% of profit. Such commission does not become payable until after the appropriate year of account closes normally at 36 months.

Pension costs

The Managing Agent operates a defined contribution scheme. Pension contributions to SPA staff are charged to the SPA and included within net operating expenses.

SPA Operating expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed SPAs, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used and volume of business transacted.

3. Segmental analysis

An analysis of the underwriting result before investment return is set out below:

2016	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
Reinsurance:						
Fire and other damage to property	27,567	12,424	(9,039)	(6,714)	(257)	(3,586)
Total	27,567	12,424	(9,039)	(6,714)	(257)	(3,586)

All premiums were concluded in the UK.

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions.

Gross operating expenses are the same as net operating expenses shown in the income statement, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2016.

4. Technical Provisions

	Gross provisions £'000	2016 Reinsurance assets £'000	Net £'000
Claims outstanding			
Balance at 1 January	-	-	-
Change in claims outstanding	8,004	(1,123)	6,881
Effect of FX and other movements	557	-	557
Balance at 31 December	8,561	(1,123)	7,438
Claims notified	4,617	(1,123)	3,494
Claims incurred but not reported	3,944	-	3,944
Balance at 31 December	8,561	(1,123)	7,438
Unearned premiums			
Balance at 1 January	-	-	-
Change in unearned premiums	15,143	(469)	14,674
Effect of movements in exchange rates	987	(44)	943
Balance at 31 December	16,130	(513)	15,617
Deferred acquisition costs			
Balance at 1 January	-	-	-
Change in deferred acquisition costs	3,045	-	3,045
Effect of movements in exchange rates	202	-	202
Balance at 31 December	3,247	-	3,247

5. Net Operating Expenses

	2016
	£000
Acquisition costs	(5,219)
Change in deferred acquisition costs	3,045
Administration expenses	<u>(4,540)</u>
Net operating expenses	<u>(6,714)</u>

6. Auditor's remuneration

	2016
	£000
Audit of the SPA annual accounts	(10)
Other services supplied pursuant to such legislation	(39)
Other non audit services	<u>(11)</u>
	<u>(60)</u>

Auditor's remuneration is included as part of the administrative expenses in note 5 to the financial statements.

7. Emoluments of the directors of Asta Managing Agency Ltd

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of J. M. Tighe, S.P.A. Norton, D.J.G. Hunt and L Harfitt. J.M. Tighe and S.P.A Norton's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of D.J.G. Hunt and L Harfitt is disclosed in the financial statements of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the SPA. The emoluments of the Active Underwriter are borne by Agora Syndicate Services Ltd, and are not separately identifiable from the fee charged by Agora Syndicate Services Ltd to the SPA.

No other compensation was payable to key management personnel.

8. Investment return

	2016 £000
Net gains on realisation of investments	
- Fair value through profit or loss designated upon initial recognition	1
<i>Total investment income</i>	<u>1</u>

9. Related parties

Asta provides services and support to SPA 6126 in its capacity as Managing Agent. Asta's remuneration for the year was:

	2016 £000
Managing Agent's Fees	315
Service Fees	1,074
	<u>1,389</u>
Amount outstanding at 31 December 2016	<u>262</u>

From time to time, Syndicate's managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Byelaw provisions. All transactions are entered into on an arm's length basis.

Agora provide underwriting services to 6126. During the year costs recharged were:

	2016 £000
Agora Underwriting	2,120
	<u>2,120</u>
Amount outstanding at 31 December 2016	<u>823</u>

Skuld Services Limited provided support to the SPA throughout 2016. These fees were as follows:

	2016 £000
Skuld Services Limited	180
	<u>180</u>

10. Disclosure of interests

Managing Agent's interest

During 2016 Asta was the managing agent for eight Syndicates and three Special Purpose Arrangements. Syndicate 1686, 1729, 1897, 1910, 2357, 2525, 2786 and 4242 as well as Special Purpose Arrangements 6117, 6123 and 6126 were managed on behalf of third party capital providers.

On 7 February 2017, Syndicate 1910 and Special Purpose Arrangement 6117 migrated to Argo Managing Agency Limited.

On 1 January 2017, Asta took on management of Syndicate 2689 and Syndicate 5886.

The agency also provides administrative services to SPAs and undertakes a number of ancillary roles for other clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

11. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where SPA assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses. Refer to note 13 for further details.

12. Off-balance sheet items

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

13. Risk management

a) Governance framework

The SPA's risk and financial management framework aims to protect the SPA's members capital from events that might otherwise prevent the SPA from meeting its policyholder obligations, while maximising the returns to its members. The directors recognise the critical importance of having efficient and effective risk management systems in place.

Risk management continued

Asta maintains a risk management function for the SPA with clear terms of reference from the Board, its committees and sub committees. Asta supplements this with a clear organisational structure with documented delegated authorities and responsibilities from the main Asta managing agency board to the SPA who perform the underwriting activities. Lastly, the SPA policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the SPA.

The Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the SPA goals, and specify reporting requirements. The Board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the SPA's risk appetite.

b) Capital management objectives, policies and approach

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 (PRA) under the Financial Services and Markets Act 2000.

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of SPA 6126 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each SPA 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 SPA 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 SPA and Syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A Syndicate and SPA may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's set 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

Risk management continued

requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (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, the ending members' balances reported on the statement of financial position on page 12, represent resources available to meet members' and Lloyd's capital requirements.

c) Insurance risk

The principal risk the SPA faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the SPA is to ensure that sufficient reserves are available to cover these liabilities.

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

The SPA purchases reinsurance as part of its risks mitigation programme. The SPA's reinsurance program is predominantly covered by a whole account, non proportional losses occurring during policy which covers the calendar year. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The SPA's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

Sub committees of the Board oversee the management of reserving risk. The use of standardised and internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the SPA's risk appetite as decided by the Board.

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

As a further guide to the level of catastrophe exposure written by the SPA, the following table shows hypothetical claims arising out of the RDS on the SPA's in-force exposure at 31 December 2016.

Risk management continued

	Estimated Gross loss £'000	Estimated Net loss £'000
Gulf of Mexico Windstorm – Major Hurricane landing in Galveston, Texas	(24,580)	(7,222)
Florida Windstorm – Pinellas	(19,065)	(3,800)
Two Events – North East Windstorm	(10,606)	(2,336)
Florida Windstorm – Miami Dade	(17,659)	(3,635)
California Earthquake – Los Angeles	(20,881)	(4,290)
California Earthquake – San Francisco	(19,802)	(4,230)

Key assumptions

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

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

Sensitivities

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

The following analysis is performed for reasonably possible movements in loss ratios with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' balances.

Gross	2016
Gross	£'000
Five percent Increase (claims liabilities)	432
Five percent decrease (claims liabilities)	(432)
Net	
Five percent Increase (claims liabilities)	376
Five percent decrease (claims liabilities)	(376)

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Risk management continued

Claims development table

The tables below show the SPA's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

The SPA has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined by the balance sheet date.

The SPA has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption.

Underwriting year	2016
	£'000
Estimate of cumulative gross claims incurred:	
At end of underwriting year	9,619
Less cumulative paid	<u>(1,058)</u>
Total gross outstanding claim	<u>8,561</u>
Underwriting year	2016
	£'000
Estimate of cumulative net claims incurred:	
At end of underwriting year	8,496
Less cumulative paid	<u>(1,058)</u>
Total net outstanding claim	<u>7,438</u>

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for future experience potentially being more adverse than assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus.

d) Financial risk

Credit risk

The main credit risk for the SPA is non settlement of the account by the host at 36 months. The host Syndicate's primary credit risk is the risk of default by one or more of its reinsurers and Syndicate intermediaries.

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

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought

Risk management continued

to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub committee of the Board.

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

2016		£'000		
	Neither past due or impaired	Past due	Impaired	Total
Reinsurers share of claims outstanding	1,123	-	-	1,123
Debtors arising out of reinsurance insurance operations	21,448	-	-	21,448
Total	22,571	-	-	22,571

The table below provides information regarding the credit risk exposure of the SPA at 31 December 2016 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated, Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2016		£'000					
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Reinsurers share of claims outstanding	-	-	1,123	-	-	-	1,123
Total	-	-	1,123	-	-	-	1,123

Maximum credit exposure

It is the SPA's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

Risk management continued

Liquidity risk

Liquidity risk is the risk that the SPA may not have enough cash to pay insurance claims and other liabilities. The SPA operates on a funds withheld basis with all assets and liabilities falling due at 36 months. The liquidity risk is that the host Syndicate would default at the 36 month period.

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

2016	£'000					
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Creditors	-	187	-	-	-	187
Claims outstanding	-	4,254	3,165	490	652	8,561
Total	-	4,441	3,165	490	652	8,748

Market risk

a. Currency risk

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

The SPA's functional currency is USD and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP and Canadian dollars. The SPA seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

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

2016	£'000				
	GBP	USD	EUR	CAD	Total
Total Assets	1,830	18,607	915	1,219	22,571
Total Liabilities	(3,003)	(20,712)	(1,152)	(1,140)	(26,007)
Net Assets	(1,173)	(2,105)	(237)	79	(3,436)

The SPA matches its currency position so holds net assets across a number of currencies. As a result, the SPA holds a significant proportion of its assets in foreign currencies.

Risk management continued

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of Sterling against the value of the US dollar, Canadian dollar and Euro dollar simultaneously. The analysis is based on the information as at 31st December 2016.

Impact on profit and member's balance	
	2016 £'000
Sterling weakens	
10% against other currencies	(226)
20% against other currencies	(453)
Sterling strengthens	
10% against other currencies	226
20% against other currencies	453

14. Post balance sheet events

There have been no material post balance sheet events.