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Paraline Special Purpose Arrangement 6123

Annual Report and Accounts

31 December 2017

Contents

Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell (Chairman)*
R P Barke
C V Barley
L Harfitt
A J Hubbard*
D J G Hunt
M D Mohn*
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 H McConnell	(Resigned 01 March 2018)
S P A Norton	(Appointed 01 March 2018)

Registered Auditors

KPMG LLP

Signing Actuary

P Chappell, KPMG LLP

Managing Agent’s report

The SPA’s Managing Agent (The Agency) is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2017.

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 total recognised income for calendar year 2017 is a loss of $8.5 million (2016: loss of $1.9 million).

The SPA presents its results under FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. In accordance with FRS102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS103.

Principal activity and review of the business

The SPA Lloyd’s vehicle was established in May 2015 to offer additional capacity to ICAT’s Middle Market Business Unit (MMBU). The SPA reinsures up to $5 million of per risk limit on smaller commercial properties, typically habitational, located in areas of the United States (U.S.) that are prone to hurricanes and earthquakes. Limit is offered as a variable quota share to Paraline Syndicate 4242 (the Host Syndicate) where up to 80% of the per risk limit assumed by Syndicate 4242 can be reinsured to the SPA. Syndicate 4242 and the SPA offer capacity to ICAT, alongside other insurance companies and Lloyd’s syndicates, to underwrite smaller commercial risks that are generally $10 million to $100 million in total insured value. Total authorised insurance capacity for the SPA is £15.0 million ($20.3 million), measured as gross written premium net of acquisition costs.

Reinsured hurricane policies include coverage for tropical storms and also provide attritional protection against tornados, hail, and other windstorm risks. Reinsured policies also offer limited flood coverage when purchased alongside hurricane or earthquake coverage and All Other Peril (AOP) coverage. AOP coverage provides protection against fires, theft, vandalism, water damage, and other covered property perils.

ICAT Managers underwrites the business being assumed by the Host Syndicate. Although the Host Syndicate and SPA delegate day-to-day underwriting and operational management responsibility to ICAT Managers, the Directors regularly review the results of the coverholder’s monitoring procedures and supplement these procedures with Managing Agent and third party audits. Paraline International also provides underwriting oversight for the Host Syndicate.

Boulder Claims provides claims administration services to the Host Syndicate and, therefore, the SPA. The Managing Agent contracts with a third party to coordinate oversight of Boulder Claims.

Managing Agent's report continued

The Host Syndicate entered into a binding authority agreement with ICAT to underwrite insurance business and the SPA proportionately reinsures a portion of this business. ICAT writes this business in the underwriting regions of the U.S. below.

i. Eastern Seaboard

ii. Florida

iii. Gulf Coast

iv. Hawaii

v. Earthquake (primarily California, the U.S. Pacific Northwest, the U.S. Intermountain West, Alaska, the New Madrid area of the U.S., and Hawaii)

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

	2017 $'000	2016 $'000
Gross written premiums:		
Eastern Seaboard	4,007	3,159
Florida	6,025	8,007
Gulf Coast	2,615	3,029
Hawaii	3	10
Earthquake	5,016	4,591
	17,666	18,796

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

	2017 $'000	2016 $'000
Gross written premiums	17,666	18,796
Loss for the financial year	(8,493)	(1,877)
Net loss ratio*	119.8%	53.6%
Combined ratio*	170.5%	131.3%

**The net loss ratio is the ratio of net claims incurred to net premiums earned, while the combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. Lower ratios represent better performance.*

The SPA has material exposure to the Hurricanes Harvey and Irma in the 2016 and 2017 year of account. This has caused the increase in net loss ratio during the 2017 calendar year.

The return on capacity for the 2015 closed year of accounts at 31 December 2017 is shown below, together with forecasts for the two open years of account.

	2017 Open	2016 Open	2015 Closed
	$'000	$'000	$'000
Capacity	20,250	20,250	10,800
Loss	(8,198)	(3,812)	(290)
Return on insurance capacity	(40.5%)	(18.8%)	(2.7%)

Managing Agent's report continued

Outward reinsurance arrangements

Catastrophe Coverage - The SPA has layered catastrophe reinsurance to protect against the adverse accumulation of the losses below from multiple policies as a result of large catastrophic events. The 2017 programme described below was placed 1 June; before 1 June, the SPA had similar layered catastrophe reinsurance placed in 2016.

A 10% 'certain perils' quota share cover is in place, up to $105m single event and $210m aggregate, covering named windstorm and earthquake perils. The remaining 90% placed programme has a first loss retention of $10.5m, a second loss retention of $2m and a total limit of $90m (cascading structure with no reinstatements).

The majority of the programme pricing is based on the actual amount of gross catastrophe insurance business written by the SPA.

All Other Peril Coverage - The SPA has reinsurance to protect against the occurrence of losses from other perils such as large fires. For the 100% share of each risk, cover attaches at $1m with a limit of $14m per risk; the SPA's share of the risk then determines its share of any recovery. The programme provides unlimited horizontal cover. The SPA earns contingent profit commissions on this coverage.

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 at year end.

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.

The SPA transfers significant amounts of insurance risk to reinsurers. If these reinsurers fail to honour their obligations, the SPA's financial condition, profitability, and cash flows could be adversely affected. The SPA tries to reduce this risk by setting maximum exposure and credit limits for each of its reinsurers based on their industry credit rating and net asset balance.

Market risk

Investments are held on the SPA's behalf by the Host Syndicate in accordance with the funds withheld arrangement.

Interest Rate Risk – Exposure to changes in interest rates comes from the SPA's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high quality floating rate notes.

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

Investment Price Risk – disruptions in the public debt market, including widening credit spreads, bankruptcies, and government intervention in large financial institutions, may result in significant realised and unrealised losses in the SPA's investment portfolio. Also, market conditions and other factors beyond the SPA's control could cause the credit quality ratings of its investments to deteriorate. If the Syndicate liquidates these securities during a period of tightening credit in the financial markets, it may realise a loss.

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. Cash calls can be made by the Host Syndicate on the SPA under certain circumstances.

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 four 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 insurance capacity to write business has increased to £20.0 million ($27.0 million) for the 2018 underwriting year (2017: £15.0 million, $20.3 million).

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.

To mitigate the impact of the Lloyd's Syndicates losing EEA passporting rights, Lloyd's are in the process of setting up an EU regulated insurance company (LIC) and have outlined the operational changes that syndicates will need to make to retain their EEA business, albeit through Reinsurance of LIC. The Managing Agency will be working with the Syndicate to implement these operational change in 2018 and to mitigate the risk of losing access to EEA business.

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:

R P Barke	Appointed 1 January 2018
D F C Murphy	Resigned 30 June 2017

Managing Agent’s report continued

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 KPMG LLP as the SPA’s auditor.

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 13 April 2018.

On behalf of the Board

C Chow
Company Secretary
16 March 2018

Statement of Managing Agent's responsibilities

The directors of the Managing Agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the Managing Agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the Managing Agent 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 Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the Managing Agent are required to:

Select suitable accounting policies and then apply them consistently;

- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the Managing Agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the Managing Agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor’s report

Independent auditor’s report to the members of Special Purpose Arrangement 6123

Opinion

We have audited the financial statements of Syndicate 6123 for the year ended 31 December 2017 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: Non-technical account – General business, Statement of financial position, Statement of changes in members’ balances, Statement of cash Flows and related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council (“FRC”) Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Independent auditor's report continued

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 8, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report continued

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the syndicate'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 syndicate'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 syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Timothy Butchart (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

16 March 2018

Income statement

Technical account - General business

For the year ended 31 December 2017

	Notes	2017 $‘000	2016 $‘000
Gross premiums written	3	17,666	18,796
Outward reinsurance premiums		(7,529)	(9,511)
Net written premiums		10,137	9,285
Change in the provision for unearned premiums			
Gross amount		2,767	(4,209)
Reinsurers’ share		(831)	926
Change in the net provision for unearned premiums	4	1,936	(3,283)
Earned premiums, net of reinsurance		12,073	6,002
Allocated investment return transferred from the non-technical account		9	5
Claims paid			
Gross amount		(6,635)	(781)
Reinsurers’ share		736	-
		(5,899)	(781)
Changes in claims outstanding			
Gross amount		(16,077)	(2,439)
Reinsurers’ share		7,507	-
Change in the net provision for claims	4	(8,570)	(2,439)
Claims incurred, net of reinsurance		(14,469)	(3,220)
Net operating expenses	5	(6,112)	(4,658)
Balance on technical account – general business		(8,499)	(1,871)

All the amounts above are in respect of continuing operations.

The notes on pages 17 to 36 form part of these financial statements.

Income statement continued

Non-technical account - General business

For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Balance on technical account – general business		(8,499)	(1,871)
Investment income	8	11	4
Unrealised gains on investments		1	2
Unrealised losses on investments		(1)	-
Gains on realisation of investments		-	-
Investment expenses and charges		(2)	(1)
Allocated investment return transferred to the general business technical account		(9)	(5)
Other income - profit / (loss) on exchange		6	(6)
Loss for the financial year		(8,493)	(1,877)

There were no recognised gains and losses in the year other than those reported in the Statement of Profit or Loss and hence no Statement of Other Comprehensive Income has been presented.

All the amounts above are in respect of continuing operations. The notes on pages 17 to 36 form part of these financial statements.

Statement of changes in members' balances

For the year ended 31 December 2017

	2017 $'000	2016 $'000
At 1 January	(3,728)	(1,806)
Total comprehensive loss for the year	(8,493)	(1,877)
Members' charges	(32)	(45)
At 31 December	(12,253)	(3,728)

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

The notes on pages 17 to 36 form part of these financial statements.

Statement of financial position

As at 31 December 2017

	Notes	2017 $'000	2016 $'000
ASSETS			
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	1,052	1,883
Claims outstanding	4	7,507	-
		8,559	1,883
Debtors			
Debtors arising out of reinsurance operations		22,160	5,285
Other debtors		-	45
		22,160	5,330
Prepayments and accrued income			
Deferred acquisition costs	4	1,761	2,524
Other prepayments and accrued income		278	331
		2,039	2,855
Total assets		32,758	10,068

The notes on pages 17 to 36 form part of these annual accounts.

Statement of financial position continued

As at 31 December 2017

	Notes	2017 $'000	2016 $'000
MEMBERS' BALANCE AND LIABILITIES			
Capital and reserves			
Members' balances		(12,253)	(3,728)
Liabilities			
Technical provisions			
Provision for unearned premiums	4	6,198	8,965
Claims outstanding	4	18,613	2,536
		24,811	11,501
Creditors			
Creditors arising out of reinsurance operations		19,820	2,035
Other creditors		169	118
		19,989	2,153
Accruals and deferred income		211	142
Total liabilities		32,758	10,068
Total members' balances and liabilities		45,011	13,796

The notes on pages 17 to 36 form part of these annual accounts.

The financial statements on pages 12 to 36 were approved by board of directors on 13 March 2018 and were signed on its behalf by:

D J G Hunt
Director
16 March 2018

Statement of cash flows

For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Cash flows from Operating activities			
Loss on ordinary activities		(8,493)	(1,877)
Increase in gross technical provisions		16,077	2,438
(Increase) in reinsurers' share of gross technical provisions		(7,507)	-
(Increase) in debtors		(16,830)	(865)
Increase/(Decrease) in creditors		17,836	(1,433)
Movement in other asset/liabilities/foreign exchange		(1,074)	1,742
Investment Return		(9)	(5)
Net cash outflows 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 2017

1. Basis of preparation

Statement of compliance

The SPA comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the SPA's Managing Agent is stated on page 1.

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 USD 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

The preparation of accounts in conformity with U.K. GAAP requires that the directors to make 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 could 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) expected policy cancellations;

(iii) accruals for contingent commissions under reinsurance contracts; and

(iv) estimates of future premium for binder contracts (refer to gross premiums accounting policy).

Insurance contracts

Insurance contracts are contracts where the SPA (as a reinsurer) accepts significant insurance risk (risk arising from both underwriting risk and timing risk), from a reinsured by agreeing to compensate them if a specified uncertain future event (the reinsured event) adversely affects them. The SPA determines whether it has significant insurance risk by comparing the amount and timing of premiums, commissions, and claim settlement expenses paid with the amount and timing of such cash flows if the reinsured event did not occur. Insurance contracts can also transfer financial risk.

Accounting policies continued

Once the SPA classifies a contract as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk decreases significantly during this period, unless all rights and obligations extinguish or expire.

Gross premiums written

Gross premiums written consist of premiums from inward reinsurance acceptances during the year. Gross premiums written also include premiums on reported but unprocessed reinsurance acceptances at the balance sheet date and a deduction for expected reinsurance acceptance cancellations based on the reinsured's historical cancellation activity over the past two years. The SPA shows premiums gross of ceding commissions on inward reinsurance acceptances and excludes taxes and fees levied on them.

Outward reinsurance premiums

Outward reinsurance premiums consist of premiums on outward reinsurance contracts with other insurers and reinsurers bound during the year to reduce the SPA's exposure to losses from catastrophes and all other property perils. The SPA's catastrophe reinsurers also charge reinstatement premiums to restore reinsurance contracts to their full limits when large catastrophes occur that exhaust all or a portion of these limits. Reinsurance transactions do not relieve the SPA of its primary obligations to its policyholders.

Provisions for unearned premiums

The provision for unearned premiums is the portion of gross premiums written that the SPA will earn in the future and the corresponding amount of reinsurance premiums that it will expense. The SPA earns hurricane premiums, inclusive of attritional catastrophe coverage covering tornados, hail, and other windstorm risks, evenly over the Atlantic Hurricane Season(s) (the incidence of risk) that occur during the policy term. The Atlantic Hurricane Season runs from June 15th to November 15th of each year. The SPA earns earthquake and all other property peril premiums evenly over the policy term. The SPA expenses related reinsurance premiums evenly over the contract term (remaining contract term for reinstatement premiums), or incidence of risk, if significantly different. The SPA also expenses the deferred premium balance on exhausted coverage when large catastrophes occur.

Provision for unexpired risks

At the balance sheet date, the SPA performs a liability adequacy test on it insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows. If this test shows that the liabilities is inadequate, any deficiency is recognised as an expense to the profit or loss account initially by recognising an additional liability for claims provisions or recognising a provision for unexpired risks.

The directors assess the provision for unexpired risks by class of business. No provision for unexpired risks was recorded in 2017 (2016: Nil).

Claims incurred, Net of reinsurance

Gross claims incurred consist of the estimated cost of settling all claims occurring before the balance sheet date, whether reported or not, including related claims handling expenses. The SPA does not discount claims outstanding. The SPA anticipates subrogation recoveries when it sets provisions for reported claims. The SPA accounts for reinsurance recoveries when it incurs the related losses. The directors assess the provision for claims outstanding on a case basis based on the estimated cost of all claims notified but not settled at the balance sheet date.

Accounting policies continued

The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods and includes adjustments for catastrophes and other significant events, changes in historical trends, economic and social conditions, judicial decisions, and legislation, as necessary.

In evaluating the provision, the directors use the findings of the SPA's actuaries, which include an associated third party claims administrator's loss estimates for large catastrophes. The claims administrator, together with loss modelling staff, base the selected estimate of losses for each large catastrophe after considering the range of ultimate loss estimates using various methods. Such methods include expected claim count and average cost per claim, incurred loss development, stochastic event scenario modelling from different software vendors, market share analysis, and other information, including independent third party evaluations. For smaller catastrophes and all other property perils, the SPA's actuaries apply Initial Expected Loss Ratios (IELRs) for each class of business, which is segmented by homogeneous regions and policy types. The SPA's actuaries develop these IELRs against catastrophe models, market data, and past claims on similar classes of business.

The provision for claims outstanding is subject to significant variability. While the directors believe that the recorded provision for gross claims and reinsurance recoveries is adequate, establishing this liability is a judgmental and inherently uncertain process. Therefore, it is possible that actual losses may not conform to the assumptions that the directors used in determining the amount of this provision. Accordingly, the ultimate provision may be significantly greater or less than the outstanding amount held at the balance sheet date. The SPA recognises adjustments to the provision for claims outstanding in the profit and loss account when known. The nature of short tail claims, such as the property insurance that the reinsured syndicate provides, where policyholders typically notify the reinsured syndicate of their claims within an average of 30 days and the reinsured syndicate typically settles these claims within a short time period which is normally less uncertain after a few years than long tail risks, such as some liability lines of business, where it may be several years before policyholders advise their insurance carriers of their claims and the carriers settle them.

The directors base the reinsurers' share of the provision for claims outstanding on the provisions for reported claims and IBNR, net of estimated irrecoverable amounts from potential reinsurer insolvencies based on the type of balance and security ratings of the involved reinsurers. The directors use statistical methods to help them make these estimates.

Claims handling expenses

Claims handling expenses mostly consist of fees to an associated third party claims administrator for the handling of claims. In exchange for these services, the claims administrator charges a base fee equal to a percentage of gross premiums written. The base fee gives the SPA access to the claims administrator's staff for the administration of claims; it also entitles the SPA to a predetermined number of new claim file allowances. To the extent that actual claim volume exceeds the accumulated claim file allowances under the base fee, the claims administrator charges an additional fee for each additional claim.

Accounting policies continued

This claims administration arrangement contains multiple deliverables, each representing a separate unit of accounting. As such, the SPA defers the portion of fees attributable to new claim file allowances based on their selling prices (contract rates) until actual claims are reported against them, or the allowances expire, whichever occurs first. If an actual claim is reported against a claim file allowance, the SPA recognises the allowance expense over the period that the claim is administered based on historical settlement patterns. If a claim is not reported against a claim file allowance before the allowance expires, the SPA includes the allowance in the profit and loss account when the allowance expires. The SPA defers the rest of the base fee (for access to staff and infrastructure) and recognises it as expense evenly over the term of services. The SPA includes deferred claims handling expenses in other prepayments and accrued income.

Acquisition costs, net of reinsurance

Acquisition costs consist of ceding commissions on inward reinsurance acceptances. The SPA defers acquisition costs to the extent that they are attributable to unearned premiums at the balance sheet date and expenses them as it earns the underlying insurance contract premiums. The SPA includes acquisition costs in net operating expenses.

Net operating expense

The SPA recognises operating expenses when incurred. Operating expenses include acquisition costs and the change in deferred acquisition costs, administrative expenses, and reinsurance commissions and profit participation. Administrative expenses consist of:

(i) operating costs,

(ii) Managing Agent fees,

(iii) Lloyd’s membership costs, and

(iv) auditor fees.

Administrative expenses also include profit commissions charged by the Managing Agent. Profit commissions equal a percentage of each underwriting year’s profits subject to a two-calendar-year deficit carry-forward provision. The SPA charges commissions to expense when incurred. The SPA recognises brokerage sharing when brokers place the reinsurance coverage.

Reinsurance commissions and profit participation consist of contingent profit commissions from reinsurers. The SPA accrues for contingent profit commissions based on the contract formulas. The SPA’s contingent profit commission calculations include a provision for IBNR.

Offsetting

The SPA sets off and presents its financial assets and liabilities net where:

(i) each it and another party owes the other determinable amounts,

(ii) it has the right to set off the amount owed with the amount owed by the other party,

(iii) it intends to set off, and

(iv) the right of setoff is enforceable at law.

Accounting policies continued

Investment return

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

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Interest income on financial assets measured at amortised cost is recognised using the effective interest method. For the purpose of separately presenting investment income and unrealised gains and losses for financial assets at fair value through profit or loss, interest income is recognised as it accrues on the next coupon payment.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

Foreign currency translation

The Directors measure foreign currency assets and liabilities at the closing exchange rate in effect at the balance sheet date, while they measure foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions. The Directors used an exchange rate of 1.35 to translate Sterling balances into U.S. Dollars at 31 December 2017 (1.24 at 31 December 2016).

Taxation

Schedule 19 of the Finance Act 1993 does not require the Managing Agent to deduct basic rate income tax from the SPA’s trading income. Therefore, payments of profits made to members of the SPA or their members’ agents are gross of tax. Trading income includes capital appreciation, which is also paid gross of tax. The SPA did not make any provision for U.S. federal income tax payable on its underwriting results. The SPA’s members pay these taxes alongside the U.K. income taxes resulting from the SPA’s trading income. The SPA includes any tax payments made on account of its members during the year in members’ balances.

3. Segmental analysis

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

2017	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Reinsurance accepted	17,666	20,433	(22,711)	(6,532)	302	(8,508)

2016	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Reinsurance accepted	18,796	14,587	(3,220)	(4,769)	(8,474)	(1,876)

All premiums were concluded in the UK.

Included in the reinsurance balance is the reinsurance profit participation of $0.4 million (2016: $0.1 million) which has been reallocated from net operating expenses to provide the gross figures.

Surplus lines wholesale brokers pay fire and other damage to property premiums to the reinsured in single payments, while policyholders working through licensed retail agents pay premiums in single or multiple instalments to reinsured. The SPA's reinsurance agreement with the reinsured operates on a funds withheld basis, with the reinsured holding the SPA's funds for each underwriting year in premium trust funds for three years; after which, the reinsured remits these funds to the SPA.

The SPA only reinsures properties in the U.S.

4. Technical Provisions

	2017 Gross provisions $'000	2017 Reinsurance assets $'000	2017 Net $'000	2016 Gross provisions $'000	2016 Reinsurance assets $'000	2016 Net $'000
Claims outstanding						
Balance at 1 January	2,536	-	2,536	97	-	97
Claims incurred during current underwriting year	16,077	(7,507)	8,570	2,439	-	2,439
Paid claims during the year	-	-	-	-	-	-
Balance at 31 December	**18,613**	**(7,507)**	**11,106**	**2,536**	**-**	**2,536**
Unearned premiums						
Balance at 1 January	8,965	(1,883)	7,082	4,756	(958)	3,798
Change in unearned premiums	(2,767)	831	(1,936)	4,209	(926)	3,283
Balance at 31 December	**6,198**	**(1,052)**	**5,146**	**8,965**	**(1,883)**	**7,081**
Deferred acquisition costs						
Balance at 1 January	2,524	-	2,524	1,323	-	1,323
Change in deferred acquisition costs	(763)	-	(763)	1,201	-	1,201
Balance at 31 December	**1,761**	-	**1,761**	**2,524**	**-**	**2,524**

5. Net Operating Expenses

	2017 $'000	2016 $'000
Acquisition costs	(5,045)	(5,313)
Change in deferred acquisition costs	(763)	1,201
Administration expenses	(724)	(657)
Reinsurance commissions and profit participations	420	111
Net operating expenses	(6,112)	(4,658)

6. Auditor's remuneration

	2017 $'000	2016 $'000
Audit of the Financial statements	(32)	(23)
Other services pursuant to Regulations and Lloyd's Byelaw	(78)	(57)
Other services relating to actuarial review	(13)	(3)
	(123)	(83)

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.

No other compensation was payable to key management personnel.

The Active Underwriter received the following aggregate remuneration, charged as a SPA expense:

	2017 $'000	2016 $'000
Active Underwriter's emoluments	(12)	(12)
	(12)	(12)

8. Investment return

	2017	2016
	$'000	$'000
Bank interest	4	1
Income from Investments	7	2
Realised gains on investments	-	1
Total investment income	11	4

9. Debtors arising out of reinsurance operations

	2017	2016
	$'000	$'000
Due to intermediaries within one year	22,160	5,285
	22,160	5,285

10. Creditors arising out of reinsurance operations

	2017	2016
	$'000	$'000
Due to intermediaries within one year	19,820	2,035
	19,820	2,035

11. Related parties

Asta provides services and support to SPA 6123 in its capacity as Managing Agent. Asta's remuneration for the year was:

	2017	2016
	$'000	$'000
Managing Agent's fees on insurance capacity	176	238
Managing Agent's service fees	382	265
Recharge expenses	10	20
Total expenses	568	523
Amount outstanding at 31 December 2017	44	31

Related parties continued

ICAT was sold by Paraline Group Ltd in August 2017. Fees payable to ICAT for claims administration services during the year totalled $369,827 (2016: $115,600). ICAT also provided accounting and capital modelling services to the SPA for a fee of $45,000 (2016: $100,000).

Paraline Group Ltd, a company registered in Bermuda, provided 10% (2016: 10%) of the SPA's insurance capacity through an indirectly owned corporate member.

From time to time, syndicates 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.

The table below details the percentage of total Syndicate capacity provided by other parties for the 2017 underwriting year.

	2017	**2016**
Hampden Agencies Limited (MAPA 7217)	16.6%	19.9%
IAT CCM Limited	20.0%	20.0%
Labuan Re Underwriting Limited	20.0%	20.0%
Nomina (No. 1253) Limited	3.4%	0.1%
Securis LCM Limited	15.0%	15.0%
Taiping Re UK Ltd	15.0%	15.0%
Total	90.0%	90.0%

Paraline CCM Limited, an indirectly owned Lloyd's corporate member of Paraline Group, is the beneficiary of a catastrophe reinsurance brokerage sharing agreement with the SPA. The balance payable (including amounts accrued but not yet due) to the SPA from Paraline CCM Limited was $26,357 at 31 December 2017 (2016: $43,908 was due to Paraline CCM from the SPA).

Paraline International, a wholly owned subsidiary of Paraline Group, owns 31.28% (2016: 30.21%) of Asta's ultimate parent, Asta Capital Limited, a company incorporated in the U.K. and registered in England and Wales. Asta has an agreement with Paraline International to review and monitor the adherence of ICAT to the SPA's underwriting guidelines. No contingent commissions were paid or payable to Paraline International for this oversight because the SPA generated a loss of the financial year.

Pursuant to an inter-syndicate loan deed between the reinsured and the SPA, the reinsured may advance up to $10 million to the SPA (2016: $10 million); such advances accrue interest at an annual rate equal to the greater of:

(a) the Six Month U.S. Treasury Bill rate at the date of the advance, or

(b) the Syndicate's average investment yield earned during the period of the advance.

At 31 December 2017, the SPA had a loan payable balance to the reinsured of $19.0 million (2016: $5.8 million) measured at cost. The reinsured also owed the SPA $18.6 million at 31 December 2017 (2016: $6.8 million).

12. Disclosure of interests

Managing Agent's interest

During 2017 Asta was the managing agent for ten Syndicates and three Special Purpose Arrangements. Syndicates 1686, 1729, 1897, 1910, 2357, 2525, 2689, 2786, 4242 and 5886 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 4 August 2017, Syndicate 1686 migrated to AXIS Managing Agency Ltd.

On 1 January 2018 Asta took on management of Syndicate 1980 and Syndicate 3268. Asta also took on management of Special Purpose Arrangement 6131.

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).

13. 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 15 for further details.

14. 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.

15. Risk management

a) Governance framework

The SPA's risk and financial management framework aims to protect member 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 and processes in place.

Risk management continued

Asta maintains a risk management function for the SPA with clear terms of reference from the Board that it appoints and from the Board's committees and subcommittees; Asta supplements this with a clear organisational structure with documented authorities and responsibilities from the Board to ICAT, who performs a majority of the SPA's 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 and by ICAT.

The Board approves the SPA's risk management policies and meets regularly to approve any commercial, regulatory, or 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 the underwriting and reinsurance strategies to the SPA's goals, and specify any reporting requirements. The Board places significant emphasis on the assessment and documentation of risks and controls, including the quantification of the SPA's risk appetite.

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

The Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework, regulates Lloyd's.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that overall Lloyd's market complies with the requirements of Solvency II, and beyond that to meet its own financial strength, license, 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, not at the syndicate level, Accordingly, the directors have not disclosed a capital requirement for the SPA in these accounts.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate must 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 the requirements of Solvency II. The Lloyd's Capital and Planning Group reviews and approves the SCRs of each syndicate.

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 syndicates on which it is participating, but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operate on a similar basis. Lloyd's determines each member's SCR by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, Lloyd's gives a credit for diversification to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 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 requirement of Lloyd's not Solvency II, is to meet Lloyd's financial strength, license, 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), assets held 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 in the Statement of Changes in members' balances on page 13, represent resources available to meet members' and Lloyd's capital requirements.

c) Insurance risk

Insurance risk may either arise from an inaccurate assessment of the risks entailed in writing an insurance policy or from factors wholly out of the SPA's control. As a result, losses paid by the SPA may exceed earned premiums. The SPA tries to reduce insurance risk by basing its risk appetite on its maximum loss tolerance, geographically diversifying its business, and using appropriate underwriting processes, which include inspections of every property, to guide the pricing and acceptance of risks; this helps to ensure that premiums cover the expected levels of loss.

The SPA sets its tolerance for catastrophe losses based on nationwide and regional Exceedance Probabilities (EP) in the U.S., as well as on Realistic Disaster Scenarios (RDS) designed to stress test the SPA for material catastrophe risks at different probability levels by potential loss of capital. The EP is the probability that losses exceed a certain threshold for a catastrophic loss event at a selected probability of occurrence. The SPA generally quantifies its risk appetite at the 99.5% EP level or the 1 in 200 year loss.

ICAT developed the catastrophe model that the SPA uses to set its overall EP loss exposure limits by adjusting a model from a major vendor to better align it to the SPA's assessment of risk. ICAT's model adjustment methodology more precisely estimates building vulnerability, storm surge coverage leakage, losses from inland risks and coastal risks, and landfall frequency and severity than the standard vendor model. The SPA validates the results from ICAT's methodology against alternate models from other major vendors. ICAT uses its model adjustment methodology to model every property in the reinsured's book of business monthly. In managing the SPA's risk appetite, ICAT allocates limits to various geographic zones. The identification and determination of each zone and its area as well as whether to include a particular policy within a zone's limits requires significant judgment. ICAT controls and limits the reinsured's concentration of risk within these zones as well as the risk at the neighbourhood and street level using an accumulation tool.

Risk management continued

The SPA monitors EP estimated gross losses and balances the offering of new and renewal accounts between low and high loss-driving areas. The SPA sets its tolerance for All Other Peril (AOP) losses at the building and location level. ICAT also monitors the SPA's loss exposures against its risk appetite using RDS modelling. RDS include the events below.

(i) Windstorm in the Northeastern U.S.

(ii) Windstorm in the Carolinas

(iii) Two separate Florida windstorms (Miami-Dade and Pinellas)

(iv) Windstorm in the U.S. Gulf

(v) Two separate California earthquakes (Los Angeles and San Francisco)

(vi) New Madrid area of the U.S. earthquake

(vii) Two separate Syndicate-specific scenarios (Mississippi windstorm and U.S. Pacific Northwest earthquake)

The table below shows the hypothetical estimated gross losses arising out of the RDS listed above based on the SPA's in-force exposures at 31 December 2017.

	Estimated gross losses $'000
Windstorm in the North-eastern U.S.	23,169
Windstorm in the Carolinas	29,853
Florida windstorm (Miami-Dade)	18,851
Florida windstorm (Pinellas)	12,109
Windstorm in the U.S. Gulf	21,253
California earthquake (Los Angeles)	21,485
California earthquake (San Francisco)	25,198
New Madrid area of the U.S. earthquake	9,617
Syndicate-specific scenario (Mississippi windstorm)	9,224
Syndicate-specific scenario (U.S. Pacific Northwest earthquake)	35,285

Also, the SPA periodically evaluates and adjusts its reinsurance protection to manage its overall retention of insurance risk. The SPA has layered catastrophe reinsurance from a diversified group of secure reinsurers among other reinsurance to protect it against an adverse accumulation of the losses from multiple policies as a result of catastrophic events, each with losses of up to $105 million (2016: $109.0 million), $210 million in the aggregate (2016: $163.0 million). This reinsurance helps to limit the SPA's risk of insolvency from a single large catastrophe or multiple smaller catastrophes.

Under a binding authority agreement with the reinsured, ICAT underwrites most of the reinsured's business. ICAT sets and controls the underwriting authority of each of its underwriters. Underwriters adhere to daily monitored regional blueprints, which identify where the reinsured's insurance capacity should be deployed. These blueprints, with their defined underwriting guidelines alongside modelling and pricing practices, determine the prescribed range of rates at which ICAT may sell the reinsured's insurance capacity. Underwriters must refer underwriting decisions for risks outside of those outlined in the blueprints or in excess of their authority limit to higher levels of authority. ICAT audits the individuals who have binding authority on a regular basis to ensure adherence to established underwriting authority limits.

Risk management continued

ICAT also conducts other underwriting audits on an ad-hoc basis and reviews significant risks written each month. Asta also has its own controls.

Asta has a governance structure in place to monitor the underwriting and loss exposure management controls of ICAT. The Board ensures the appropriate management of the SPA in accordance with the Managing Agent's responsibilities. The Board meets quarterly and has delegated authority to approve underwriting related matters, including:

(i) Non-material changes to the business plan,

(ii) underwriting authority levels and guidelines,

(iii) operational and ICAT procedures,

(iv) risk policies, the risk register, and all other risk management matters, and

(v) the SPA's compliance plan.

Asta also monitors the SPA's performance against its underwriting risk appetite in several ways, including regular meetings with the Active Underwriter and participation in the monthly meetings of the Production Risk Management Committee (the Committee), which is a subcommittee of the Board, that considers reports from the Active Underwriter and other areas of the business. The Committee also reviews underwriting related matters, including:

(i) progress against the business plan or forecast,

(ii) premium rates and volumes,

(iii) overall loss exposures,

(iv) significant product and premium rate changes;

(v) market conditions, and

(vi) the outcome of underwriting audits covering the operations of ICAT.

Furthermore, Paraline International provides oversight of the underwriting policies adopted by the Active Underwriter. Paraline International identifies key underwriting guidelines and limitations in the binding authority agreement between ICAT and the reinsured and monitors ICAT adherence to these underwriting guidelines including consideration of material changes in underwriting authority, risk profile, reinsurance, and any breaches of the ICAT binding authority agreement.

The SPA's annual business planning process sets the targets for written premiums and overall profitability for the coming year. Factors taken into account in determining these targets include the risk appetite of the SPA's capital providers, anticipated pricing, insurance policy terms and conditions, and other risk metrics.

The SPA hires qualified third party claims administrators that have specialised adjusters and forensic engineers to set reserves on notified damaged properties and incidental liability claims. Both ICAT and Asta review these reported claims monthly. The SPA also employs standard actuarial methods to assess its overall best estimate of reserves for each underwriting account quarterly using historical losses loaded for future uncertainty in areas where reserves may prove to be materially inadequate; this assessment process requires ongoing discussions between the SPA's actuaries and the underwriters and claims adjusters of ICAT, and includes various levels of approval supplemented by external actuarial validation.

Risk management continued

The SPA's actuaries track projected loss ratios quarterly and may reassess their reserving methods if necessary. The Board approves the reserves of the SPA quarterly, after considering the recommendation of the Reserve Committee (a subcommittee of the Board).

The liabilities in the tables above may be significantly greater or less than the ultimate cost of settling the associated claims; this level of uncertainty varies by class of business. The Syndicate considers a five percent increase or decrease in the ultimate cost of settling its outstanding claim liabilities reasonably possible at the balance sheet date.

The table below show how a five percent increase or decrease in net claim liabilities would affect the SPA's profit for the financial year and its members' balances.

2017	**Five percent increase $'000**	**Five percent decrease $'000**
Reinsurance accepted	(555)	555

2016	**Five percent increase $'000**	**Five percent decrease $'000**
Reinsurance accepted	(127)	127

The Syndicate has material exposure to the Hurricanes Harvey and Irma in the 2016 and 2017 year of account. This increases the uncertainty of the Syndicate's total reserves, but does not increase that uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development.

The table below shows 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.

Underwriting year	**2015 $'000**	**2016 $'000**	**2017 $'000**
Estimate of cumulative gross claims incurred:			
At end of underwriting year	110	2,265	14,260
One year later	1,127	10,670	
Two years later	744		
Less cumulative paid	(720)	(3,492)	(2,849)
Liability for gross outstanding claims (2015 to 2017)	24	7,178	11,411
Total gross outstanding claims (all years)			**18,613**

Risk management continued

Underwriting year	2015 $'000	2016 $'000	2017 $'000
Estimate of cumulative net claims incurred:			
At end of underwriting year	110	2,265	9,693
One year later	1,127	6,995	
Two years later	744		
Less cumulative paid	(718)	(2,992)	(2,614)
Liability for gross outstanding claims (2015 to 2017)	24	4,003	7,079
Total net outstanding claims (all years)			**11,106**

d) Financial risk

1) Credit Risk

Credit risk is the risk that other parties fail to honour their obligations to the reinsured and the reinsured in turn fails to honour its obligations to the SPA (page 4).

The table below shows the maximum exposure that the SPA's assets have to credit risk.

2017	$'000 Neither past due nor impaired	Past due	Impaired	Total
Debtors arising out of reinsurance operations	8,242	-	-	8,242
Other debtors	24,516	-	-	24,516
Total	32,758	-	-	32,758

2016	$'000 Neither past due nor impaired	Past due	Impaired	Total
Debtors arising out of reinsurance operations	-	-	-	-
Other debtors	10,068	-	-	10,068
Total	10,068	-	-	10,068

Risk management continued

The tables below classify the exposure that the SPA's assets have to credit risk by the Standard & Poor's credit ratings of the investments and parties involved.

2017	**$'000**				
	AAA	**AA**	**A**	**Not Rated**	**Total**
Debtors arising out of reinsurance operations	-	554	3,427	4,261	8,242
Other debtors	-	-	-	24,516	24,516
Total	-	554	3,427	28,777	32,758

2016	**$'000**				
	AAA	**AA**	**A**	**Not Rated**	**Total**
Debtors arising out of reinsurance operations	-	-	-	-	-
Other debtors	-	-	-	10,068	10,068
Total	-	-	-	10,068	10,068

2) Liquidity risk

The reinsured pays insurance claims and other liabilities on the SPA's behalf in accordance with the funds withheld and inter-syndicate loan arrangements that SPA has with the reinsured. The SPA's operations, however, could be adversely affected if the reinsured did not have enough cash to pay the SPA's obligations. The reinsured tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations. The reinsured settles the SPA's payment obligations in accordance with the vendor terms of each transaction. The reinsured holds any excess funds in cash or invests them in money funds readily convertible to cash without excessive cost to the business. The reinsured also has a $35.0 million (2016: $35.0 million) letter of credit facility from Barclays Bank PLC, which was utilised in the year.

Risk management continued

The table below summarises the SPA's future expected cash obligations on its undiscounted liabilities, including payments of its outstanding claim liabilities based on historical settlement patterns.

2017			**$'000**		
	Up to a year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Claims outstanding	11,357	6,268	937	51	18,613
Creditors arising out of reinsurance operations	4,124	15,696	-	-	19,820
Inter-syndicate loan	-	-	-	-	-
Other creditors	169	-	-	-	169
Total	15,650	21,964	937	51	38,602

2016			**$'000**		
	Up to a year	**1-3 years**	**3-5 years**	**More than 5 years**	**Total**
Claims outstanding	1,613	813	110	-	2,536
Creditors arising out of reinsurance operations	2,035	-	-	-	2,035
Inter-syndicate loan	-	-	-	-	-
Other creditors	118	-	-	-	118
Total	3,766	813	110	-	4,689

3) Market risk

Market risk is the risk that the fair value of future cash flows of the SPA's financial assets will fluctuate because of changes in the market. Market risk consists of the following three risks; interest rate risk, currency risk and other price risk (page 5).

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.

Sensitivity to changes

The SPA transacts in US Dollar only, therefore there is no impact on profit and members' balances from changes to the relative strength of other currencies against the US Dollar.

b) Interest rate risk

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

Risk management continued

The SPA has no significant concentration of interest rate risk.

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

	2017	2016
	$'000	$'000
Interest Rate Risk		
Impact of 50 basis point increase on result	(5)	(2)
Impact of 50 basis point decrease on result	4	2
Impact of 50 basis point increase on net assets	(5)	(2)
Impact of 50 basis point decrease on net assets	4	2

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

16. Post balance sheet events

A cash call was made to members for $7.5 million in January 2018 in relation to the 2017 year of account. As at 16 March 2018, nothing was outstanding.

The Directors evaluated other events subsequent to the balance sheet date through 16 March 2018, the date the SPA issued these annual accounts, and determined that no other items require disclosure.

Simon Norton was appointed as Active Underwriter on 01 March 2018.