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Skuld Special Purpose Arrangement 6126

Annual Report and Accounts
31 December 2017

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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 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 2016 and 2017.

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 an 85.5% (2016: 90%) quota share of Syndicate 1897 property classes with staff being provided by Agora Underwriting. The SPA has 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.

The Harvey, Irma and Maria losses have obviously impacted results in both the 2016 and 2017 years of account but for a small SPA in its second year have been well managed thanks to a robust reinsurance program which stood up well.

During the year the SPA received approval from Lloyd’s to transition to a full independent syndicate status. This was always the longer term strategic intent and it’s pleasing that the new syndicate will benefit from the momentum maintained and developed in 2017.

Outside the impact of the HIM Losses significant progress has been made in developing all three main books of business, a full underwriting team is in place and there is real momentum in place. Whilst the HIM losses have severely impacted the bottom line Agora has taken real steps along the road to achieving its longer term goals.

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 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 result for the calendar year 2017 is a loss of £20.2m (2016: loss £3.4m) on a gross written premium of £42.5m (2016: £22.3m)

Principal activity and review of the business

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

The SPA writes an 85.5% (2016: 90%) property quota share in the United Kingdom.

A full review is included in the Active Underwriter's Report.

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

	2017 £'000	2016 £'000
Property D&F	23,272	17,154
HGE – Treaty	760	738
Property Binders	10,339	3,942
Property Treaty	7,800	514
Specialty	<u>325</u>	<u>-</u>
	<u>42,496</u>	<u>22,348</u>

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

	2017 £'000	2016 £'000	Change %
Gross written premiums	42,496	22,348	90.2%
Loss for the financial year	(21,465)	(3,580)	499.6%
Total comprehensive loss	(20,222)	(3,407)	493.5%
Combined ratio	195.9%	140.4%	55.4%

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.

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 reinsurance 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. 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.

Managing Agent's report continued

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

For the 2017 Year of account the SPA assumes 85.5% of the property book written through host syndicate 1897. For the 2016 year of account the relevant percentage is 90%. These years of account remain naturally open and, in the normal manner, will not close before they are three years old. The SPA does not have a 2018 Year of Account and instead the property book is written through a dedicated syndicate, which the SPA is converting to.

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 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 13 April 2018.

On behalf of the Board

C Chow
Company Secretary
16 March 2018

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

Opinion

We have audited the syndicate annual accounts of Syndicate 6126 ('the syndicate') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- ▶ give a true and fair view 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 United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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 syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

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

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

Independent auditor's report continued

Other information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts, and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

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 syndicate has not kept adequate accounting records; or
- ▶ the syndicate 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; or
- ▶ certain disclosures of the managing agents' emoluments specified by law are not made.

Responsibilities of the managing agent

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 the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

Independent auditor's report continued

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the syndicate annual accounts

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

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

Benjamin Gregory (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 March 2018

Income statement

Technical account - General business

For the year ended 31 December 2017

	Notes	2017 £'000	2016 restated £'000
Gross premiums written	3	42,496	22,348
Outward reinsurance premiums		(12,859)	(1,850)
Net written premiums		29,637	20,498
Change in the provision for unearned premiums			
• Gross amount		(8,595)	(12,098)
• Reinsurers' share		1,585	469
Change in the net provision for unearned premiums	4	(7,010)	(11,629)
Earned premiums, net of reinsurance		22,627	8,869
Allocated investment return transferred from the non-technical account		17	1
Claims paid			
• Gross amount		(27,727)	(1,035)
• Reinsurers' share		2,856	-
		(24,871)	(1,035)
Changes in claims outstanding			
• Gross amount		(44,122)	(8,004)
• Reinsurers' share		30,777	1,123
Change in the net provision for claims	4	(13,345)	(6,881)
Claims incurred, net of reinsurance		(38,216)	(7,916)
Net operating expenses	5	(6,108)	(4,540)
Balance on technical account – general business		(21,680)	(3,586)

Income statement continued

Non-technical account - General business

For the year ended 31 December 2017

	Notes	2017 £'000	2016 restated £'000
Balance on technical account – general business		(21,680)	(3,586)
Investment income	8	17	1
Allocated investment return transferred to the general business technical account		(17)	(1)
Exchange gains		215	6
Loss for the financial year		(21,465)	(3,580)

All the amounts above are in respect of continuing operations.

The notes on pages 16 to 33 form part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2017

	2017 £'000	2016 restated £'000
Loss for the financial year	(21,465)	(3,580)
OCI – Currency Translation Differences	1,243	173
Total comprehensive loss for the year	(20,222)	(3,407)

Statement of changes in members' balances

For the year ended 31 December 2017

	2017 £'000	2016 restated £'000
At 1 January	(3,436)	-
Total comprehensive loss for the year	(20,222)	(3,407)
Members' charges	-	(29)
At 31 December	(23,658)	(3,436)

Statement of financial position

As at 31 December 2017

	Notes	2017 £'000	2016 restated £'000
ASSETS			
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums	4	2,003	513
Claims outstanding	4	31,690	1,123
		33,693	1,636
<i>Debtors</i>			
Debtors arising out of reinsurance operations	9	19,176	17,688
<i>Total assets</i>		<u>52,869</u>	<u>19,324</u>

The notes on pages 16 to 33 form part of these financial statements.

Statement of financial position continued

As at 31 December 2017

	Notes	2017 £'000	2016 restated £'000
MEMBERS' BALANCE AND LIABILITIES			
<i>Capital and reserves</i>			
Members' balances		(23,658)	(3,436)
<i>Liabilities</i>			
<i>Technical provisions</i>			
Provision for unearned premiums	4	19,953	12,883
Claims outstanding	4	50,679	8,561
		70,632	21,444
<i>Creditors</i>			
Creditors arising out of reinsurance operations	10	4,456	187
<i>Accruals and deferred income</i>			
		1,439	1,129
<i>Total liabilities</i>			
		76,527	22,760
<i>Total members' balances and liabilities</i>			
		52,869	19,324

The notes on pages 16 to 33 form part of these financial statements.

The financial statements on pages 11 to 33 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 restated £'000
Cash flows from Operating activities			
<i>Loss on ordinary activities</i>		(21,465)	(3,580)
Increase in gross technical provisions		49,188	21,444
Increase in reinsurers' share of gross technical provisions		(32,057)	(1,636)
Increase in debtors		(1,488)	(17,688)
Increase in creditors		4,269	187
Movement in other asset/liabilities/foreign exchange		310	1,100
Foreign exchange		1,243	173
Investment Return		<u>(17)</u>	<u>(1)</u>
<i>Net cash outflows from operating activities</i>		(17)	(1)
Cash from Investing activities			
Investment income received		<u>17</u>	<u>1</u>
<i>Net cash inflows from investing activities</i>		17	1
Cash from Financing activities			
Collection of losses		-	-
Other		<u>-</u>	<u>-</u>
<i>Net cash inflows from financing activities</i>		<u>-</u>	<u>-</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year		<u>-</u>	<u>-</u>

Notes to the financial statements

For the year ended 31 December 2017

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

Special Purpose Arrangement and Restatement

The SPA assumes premium solely through its quota share contract with its host, Syndicate 1897. Premium is ceded from the host, and assumed by the SPA, net of the SPA's share of the host's acquisition costs. As a consequence, there are no Acquisition costs separately identified within the financial statements. The prior year comparatives have been restated with the result that acquisition costs have been netted off against gross written premiums and the related deferred acquisition costs netted off against the gross provision for unearned premiums. This change better reflects the substance of the underlying quota share agreement, which specifies that premium should be recorded net of acquisition costs. This change is a reclassification adjustment only which has no impact on either reported net income or members balances as at 31 December 2016.

As a result of the restatements, Gross written premium has changed from £27.6m to £22.3m, Acquisition costs from £5.3m to nil, Unearned premium reserve from £16.1m to £12.9m and Deferred acquisition costs from £3.2m to nil.

Funds Withheld

The quota share with the host operates on a funds withheld basis and in the normal course of business the profit and loss under the contract is settled with the host when the SPA year of account closes after three years. The quota share does allow for early cash calls by the host under certain circumstances.

Reinsurance protection is purchased "in common" with the host and therefore the host and the SPA show their respective share. The relevant asset and liabilities are shown within the SPA's financial statements as due when the host expects to receive or pay the balances, notwithstanding the fact that any cash settlement of these balances from the SPA's perspective may only occur when the quota share contract with the host is settled, on closure of the SPA's relevant year of account.

Premium receivable from the host, is disclosed gross of Claims outstanding. Claims outstanding are the SPA's share of the claims outstanding recognised within the host and the maturity disclosures in note 15 reflects the maturity profile of the underlying outstandings, notwithstanding the fact that any cash settlement of these balances, from the SPA's perspective, may only occur when the quota share contract with the host is settled, on closure of the SPA's relevant year of account.

Accounting policies continued

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. These judgements may be made in respect of the hosts recognition of income and outgoings, which are ceded to the SPA. Results may differ from those estimates. Significant items within the host subject to such estimates and assumptions include:

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

Significant accounting policies

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

Gross premiums

The host's gross written premiums written, which are subsequently ceded to, and assumed by, the SPA comprise the total premiums receivable (by the host) for the whole period of cover provided by the contracts entered into (by the host) during the reporting period. This is recognised regardless of whether these are wholly due for payment (to the host) 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. These premiums are recognised (by the host, and therefore within the SPA) on the date on which the policy commences.

Gross written premiums are stated gross of brokerage payable in the host but are ceded to, and assumed by, the SPA net of the SPA's share of the hosts acquisition costs, and exclude taxes and duties levied on them.

For certain insurance contracts, premium is initially recognised (by the host and therefore within the SPA) 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 (within the host and therefore within the SPA), 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 SPA's share of reinsurance purchased "in-common" with the host) 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.

Accounting policies continued

Claims incurred

Claims incurred comprise the cession of the hosts 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 the cession of the amounts set aside in the host 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 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 host, and therefore the SPA, use 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 within the SPA 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.

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.

Accounting policies continued

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 2017 the Syndicate had £38k of unexpired risk provision (31 December 2016 nil).

Deferred acquisition costs

Premium is assumed net of the SPA's share of the host's acquisition costs and therefore there are no acquisition costs or deferred acquisition costs separately recognised within the financial statements.

Reinsurance assets

The SPA share of 2017 underwriting year reinsurance premium is 85.5% (2016 underwriting year: 90%) of the total reinsurance protection bought "in-common" with the host in respect of the property classes written through the host. 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.

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 2017 or 2016.

Ceded reinsurance arrangements do not relieve the SPA from its obligations to the host or the hosts obligation to the 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 receivables from the host, are disclosed gross of Claims outstanding.

Accounting policies continued

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.

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

Exchange differences are recorded in the non-technical account.

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

	2017	2016
	Year End	Year End
USD	1.35	1.24
CAD	1.70	1.66
EUR	1.13	1.17

Investment return

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

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'.

Accounting policies continued

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:

2017	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	42,496	33,901	(71,849)	(6,108)	22,359	(21,697)
Total	42,496	33,901	(71,849)	(6,108)	22,359	(21,697)

2016 restated	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	22,348	10,250	(9,039)	(4,540)	(258)	(3,587)
Total	22,348	10,250	(9,039)	(4,540)	(258)	(3,587)

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 2017.

4. Technical Provisions

	Gross provisions £'000	2017 Reinsurance assets £'000	Net £'000	Gross provisions £'000	2016 Reinsurance assets £'000	Net £'000
Claims outstanding						
Balance at 1 January	8,561	(1,123)	7,438	-	-	-
Change in claims outstanding	44,122	(30,777)	13,345	8,004	(1,123)	6,881
Effect of FX and other movements	(2,004)	210	(1,794)	557	-	557
Balance at 31 December	50,679	(31,690)	18,989	8,561	(1,123)	7,438
Claims notified	36,526	(2,898)	33,628	4,617	(1,123)	3,494
Claims incurred but not reported	14,153	(28,792)	(14,639)	3,944	-	3,944
Balance at 31 December	50,679	(31,690)	18,989	8,561	(1,123)	7,438
Unearned premiums						
Balance at 1 January	12,883	(513)	12,370	-	-	-
Change in unearned premiums	8,595	(1,585)	7,010	12,098	(469)	11,629
Effect of movements in exchange rates	(1,525)	95	(1,430)	785	(44)	741
Balance at 31 December	19,953	(2,003)	17,950	12,883	(513)	12,370

The 2016 Gross technical provisions have been restated to better reflect the terms of the quota share contract and to align with the treatment adopted for the 2017 Syndicate Business Forecast submitted to, and approved by, Lloyd's.

As a result of the restatement, Gross unearned premiums have changed from £16.1m to £12.9m and Deferred acquisition costs from £3.2m to nil.

5. Net Operating Expenses

	2017	2016
	£'000	£'000
Administration expenses	(6,108)	(4,540)
Net operating expenses	<u>(6,108)</u>	<u>(4,540)</u>

The 2016 Net operating expenses have been restated to reflect the quota share contract.

As a result of the restatement, Acquisition costs and Change in deferred acquisition costs have been reduced to nil and therefore, removed.

6. Auditor's remuneration

	2017	2016
	£'000	£'000
Audit of the SPA annual accounts	(14)	(10)
Other services supplied pursuant Regulation and Lloyd's Byelaws	(53)	(39)
Other non-audit services	<u>(12)</u>	<u>(11)</u>
	<u>(79)</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

	2017 £'000	2016 £'000
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	17	1
<i>Total investment income</i>	<i>17</i>	<i>1</i>

The SPA does not hold investments but has investment return from the host.

9. Debtors arising out of reinsurance operations

	2017 £'000	2016 £'000
Due to intermediaries within one year	1,715	-
Due to intermediaries after one year	17,461	17,688
	19,176	17,688

10. Creditors arising out of reinsurance operations

	2017 £'000	2016 £'000
Due to intermediaries within one year	4,456	187
	4,456	187

11. Related parties

Asta provides services and support to SPA 6126 in its capacity as Managing Agent. Managing agent's fees of £0.4m (2016: £0.3m) and service charges of £1.5m (2016: £1.1m) were recharged by Asta to the SPA during 2017. As at 31 December 2017 an amount of £0.4m (2016: £0.3m) was owed to Asta in respect of services provided.

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. These fees were £2.9m (2016: £2.1m) and are included within Administration expenses. As at 31 December 2017 an amount of £1.0m (2016: £0.8m) was owed to Agora in respect of services provided which is held within Accruals and Deferred Income in the financial statements.

Skuld Services Limited provided support to the SPA throughout 2017. These fees were £0.1m (2016: £0.2m) and are included with Administration expenses.

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 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.

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.

Risk management continued

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 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 13, represent resources available to meet members' and Lloyd's capital requirements.

Risk management continued

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 Realistic Disaster Scenarios (RDS) on the SPA's in-force exposure at 31 December 2017.

	Estimated Gross loss	Estimated Net loss
	£'000	£'000
Aggregate Exceedance Probability Loss 30 Year Return Period – Whole World	(34,411)	(16,020)
Aggregate Exceedance Probability Loss 30 Year Return Period – US WS (Incl. GM WS)	(25,672)	(6,676)
Aggregate Exceedance Probability Loss 30 Year Return Period – UC EQ	(17,603)	(4,044)

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.

Risk management continued

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.

	2017 Loss/(Profit)	2016 Loss/(Profit)
Gross	£'000	£'000
Five percent Increase (claims liabilities)	2,559	432
Five percent decrease (claims liabilities)	(2,559)	(432)
Net		
Five percent Increase (claims liabilities)	959	376
Five percent decrease (claims liabilities)	(959)	(376)

The Syndicate has material exposure to the Hurricanes Harvey, Irma and Maria 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. A 5% increase in Gross (Net) HIM reserves would result in an £1.5m (£0.8m) increase in Gross (Net) Reserves.

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

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	2017
	£'000	£'000
Estimate of cumulative gross claims incurred:		
At end of underwriting year	8,985	50,964
One year later	<u>27,771</u>	
Less cumulative paid	<u>(12,115)</u>	<u>(15,941)</u>
Liability for gross outstanding claims	15,656	35,023
Total gross outstanding claims	<u>50,679</u>	

Risk management continued

Underwriting year	2016	2017
	£'000	£'000
Estimate of cumulative net claims incurred:		
At end of underwriting year	7,895	23,790
One year later	20,401	
Less cumulative paid	(11,140)	(14,062)
Liability for net outstanding claims	9,261	9,728
Total net outstanding claims		18,989

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 their 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 to mitigate any risk. This is monitored by the Reinsurance Security Committee, a subcommittee 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.

UPR is included within the below analysis under Debtors arising out of reinsurance operations as all is due under the quota share RI contract.

2017	£'000	Neither past due or impaired	Past due	Impaired	Total
Reinsurers share of claims outstanding	31,690	-	-	-	31,690
Debtors arising out of reinsurance operations	21,179	-	-	-	21,179
Total	52,869				52,869

Risk management continued

2016 restated	£'000			
	Neither past due or impaired	Past due	Impaired	Total
Reinsurers share of claims outstanding	1,123	-	-	1,123
Debtors arising out of reinsurance operations	18,201	-	-	18,201
Total	19,324	-	-	19,324

The table below provides information regarding the credit risk exposure of the SPA at 31 December 2017 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.

2017	£'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Reinsurers share of claims outstanding	-	-	31,690	-	-	-	31,690
Debtors arising out of reinsurance insurance operations	-	-	1,715	-	-	-	1,715
Total	-	-	33,405	-	-	-	33,405

2016	£'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Reinsurers share of claims outstanding	-	-	1,123	-	-	-	1,123
Debtors arising out of reinsurance insurance operations	-	-	-	-	-	-	-
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.

2017		£'000				
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Creditors	-	4,456	-	-	-	4,456
Claims outstanding	-	28,936	16,362	3,851	1,530	50,679
Total	-	33,392	16,362	3,851	1,530	55,135

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:

2017		£'000				
		GBP	USD	EUR	CAD	Total
Total Assets		5,045	42,254	3,437	2,133	52,869
Total Liabilities		(5,897)	(65,763)	(3,356)	(1,511)	(76,527)
Net Assets		(852)	(23,509)	81	622	(23,658)

Risk management continued

2016	£'000				
	GBP	USD	EUR	CAD	Total
Total Assets	1,582	15,900	875	967	19,324
Total Liabilities	(2,755)	(18,005)	(1,112)	(888)	(22,760)
Net Assets	(1,173)	(2,105)	(237)	79	(3,436)

The 2016 Assets have been restated to reflect the quota share contract.

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.

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 31 December 2017.

	Impact on profit and member's balance	
	2017	2016
	£'000	£'000
Sterling weakens		
10% against other currencies	(2,281)	(226)
20% against other currencies	(4,561)	(453)
Sterling strengthens		
10% against other currencies	2,281	226
20% against other currencies	4,561	453

16. Post balance sheet events

There have been no material post balance sheet events.