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Beat Syndicate 4242

Financial Statements

For the 36 Months ended 31 December 2019

2017 Underwriting Year Report and Accounts

Contents

Directors and administration

Managing Agent

Asta Managing Agency Ltd

Directors

P A Jardine (Chairman)*
R P Barke
C V Barley
K A Green*
C N Griffiths
L Harfitt
A J Hubbard*
D J G Hunt
M D Mohn*
S P A Norton
K Shah*
J M Tighe

*Non-Executive Directors

Company Secretary

N J Burdett

Managing Agent's Registered Office

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

Managing Agent's Registered Number

1918744

Active Underwriter

A J T Milligan

Claims Administrator

Boulder Claims LLC

Bankers

Citibank NA
Barclays Bank Plc
Lloyds Bank
RBC Dexia

Directors and administration (continued)

Investment Managers

New England Asset Management (NEAM)

Registered Auditors

KPMG LLP

Signing Actuary

S Shah, KPMG LLP

Managing Agent’s report for the 2017 Underwriting Year of Account

For the 36 months ended 31 December 2019.

The Directors of Asta Managing Agency Ltd (“Asta”) present their report at 31 December 2019 for the 2017 underwriting year of account.

This report is prepared in accordance with the Lloyd’s Syndicate Bylaw (No 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

Underwriting year results

The Syndicate generated a loss of $71.7m before standard personal expenses on gross written premiums of $200.7m for the 2017 underwriting year.

The 2017 underwriting year has a reinsurance asset under dispute. The amount has arisen due to a disagreement with a reinsurer as to their share of reinsurance losses. There is naturally an element of uncertainty over the actual recovery pending resolution of the dispute. The reinsurance to close premium payable on the 2017 year of account will be paid once the underwriting year closes – closure is now expected to be on 31 December 2020 and as such, management have not prepared the underwriting year accounts on a going concern basis. The recoverable amount recognised in the accounts is $9.9m. Management have estimated, with the aid of experts, that the reinsurance asset currently held has the potential to increase or decrease by up to $9.9m.

Principal activities and review of the business

The Syndicate transacts general insurance and reinsurance business in the United Kingdom (U.K.) within the Lloyd’s market. The Syndicate specialises in underwriting property insurance policies covering small and middle market businesses located in areas of the United States (U.S.) that are prone to hurricanes and earthquakes. Hurricane policies include coverage for tropical storms and also provide attritional protection against tornados, hail, and other windstorm risks. The Syndicate also offers incidental general liability and 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. The Syndicate also provides reinsurance to U.S. insurance companies covering personal lines property risks against named hurricanes in Hawaii and earthquakes in California and Hawaii.

ICAT Managers underwrites most of the Syndicate’s insurance business as its primary coverholder. ICAT Managers writes business for the Syndicate through its network of relationships with surplus lines wholesale brokers and licensed retail agents. Although the Syndicate delegates day-to-day underwriting and related 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 Syndicate.

Boulder Claims provides claims administration services to the Syndicate.

The Syndicate entered into a binding authority with ICAT to underwrite insurance business for the 2017 underwriting year. ICAT wrote this business in the underwriting regions of the U.S. below:

Managing Agent's report for the 2017 Underwriting Year of Account continued

i. Eastern Seaboard
ii. Florida
iii. Gulf Coast
iv. Hawaii
v. Earthquake (California, Pacific Northwest, New Madrid, Intermountain West, Alaska, Hawaii, Mississippi, New Jersey, South Carolina, Massachusetts, and Maryland)

ICAT further divided its commercial underwriting operations into two business units: the Platform Business Unit (PBU) and the Middle Market Business Unit (MMBU).

The Syndicate also provided proportional reinsurance to a U.S. insurance company (the Ceding Company) covering Hawaii personal lines risks (homeowners, renters, and condominium unit owners) against named hurricanes for the 2017 underwriting year. ICAT underwrote this coverage under a program manager agreement with the Ceding Company.

The Syndicate also has separate binding authority agreements with a third party coverholders to underwrite a small amount of policies covering homes in the Northeast U.S and earthquake policies in the Western U.S. These policies account for the rest of the Syndicate's total business.

In the opinion of the directors, the key financial performance indicators below best represent the performance and position of the Syndicate for the underwriting year.

	2017 Underwriting Year $'000
Gross written premiums:	
Eastern Seaboard	16,506
Florida	41,971
Gulf Coast	25,742
Hawaii (includes direct and inward reinsurance premiums)	5,247
Earthquake (includes direct and inward reinsurance premiums)	53,864
Fire and other perils	57,357
Total gross written premiums	200,687
Loss for the closed year of account	(71,727)
Loss ratio	111.8%
Combined ratio (financial basis)	164.1%

Outward reinsurance arrangements

Catastrophe Coverage – The Syndicate has extensive catastrophe reinsurance to protect against the adverse accumulation of losses from multiple policies as a result of large catastrophic event.

All Other Peril Coverage - The Syndicate has per risk reinsurance to protect against the occurrence of losses from other perils such as large fires that impact upon the portfolio underwritten, or overseen, by ICAT Managers.

Other reinsurances: The Syndicate has proportional reinsurance to cover most of its general liability and equipment breakdown related liabilities and also purchases facultative AOP reinsurance for non-catastrophe loss exposures.

Managing Agent's report for the 2017 Underwriting Year of Account continued

Directors

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

T A Riddell	Resigned 31 March 2019
J W Ramage	Resigned 31 March 2019
R A Stevenson	Resigned 09 July 2019
C N Griffiths	Appointed 01 January 2020
K A Green	Appointed 01 February 2020
C Chow**	Resigned 28 February 2019
N J Burdett**	Appointed 01 March 2019

Company Secretary**

Disclosure of Information to the Auditor

So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with their report, of which the auditor is unaware. Having made enquiries of fellow Directors of the Agency and the Syndicate's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make he/she aware of any relevant audit information and to establish that the auditors are aware of that information.

The board of directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk and capital management.

Approved by the Board of Directors and signed on behalf of the Board.

N J Burdett
Company Secretary
05 March 2020

Statement of Managing Agent's responsibilities

The directors of the managing agent are responsible for preparing the Syndicate underwriting year accounts in accordance with the Lloyd's Syndicate Accounting Byelaw.

Regulations require the directors to prepare underwriting year accounts for each financial year. Under the relevant regulations they have elected to prepare the underwriting year accounts 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*.

In preparing these underwriting year accounts, the directors are required to:

- select suitable accounting policies and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used and 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 underwriting year accounts;

- 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. As explained in note 1 the directors of the managing agent do not believe that it is appropriate to prepare the underwriting year accounts on a going concern basis.

The directors are responsible for keeping proper 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 underwriting year accounts comply with the Lloyd's Syndicate Accounting Byelaw. They are responsible for such internal control as they determine is necessary to enable the preparation of underwriting year accounts 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 syndicate and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the syndicate's website. Legislation in the UK governing the preparation and dissemination of underwriting year accounts may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Syndicate 4242

Opinion

We have audited the Syndicate underwriting year accounts for the 2017 underwriting year of account of Syndicate 4242 for the three year period ended 31 December 2019, which comprise the Profit and loss account: Technical account – General business, Profit and loss account: Non-technical account, Balance sheet, Statement of members' balances, Statement of cash flows and related notes, including the accounting policies in note 2.

In our opinion the underwriting year accounts have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

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 FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – reinsurance recoveries on anticipated gross reinsurance premiums to close the account

We draw attention to the disclosures made in notes 1, 7 and 17 of the underwriting year accounts relating to the uncertainties regarding the recovery of a reinsurance asset, contained within the *Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities* balance sheet caption. The directors of the management agent are in dispute with the reinsurer and have recognised an asset of $9.9m at 31 December 2019. They have estimated that the value could increase or decrease by up to $9.9m. There remains significant uncertainty over the quantum of the recovery and this amount may differ materially from the estimate that is currently provided in the underwriting year accounts. Our opinion is not modified in respect of this matter.

Emphasis of matter – non-going concern basis of preparation

We draw attention to the disclosure made in note 1 to the underwriting year accounts which explains that the underwriting year accounts have not been prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

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 underwriting year accounts does not cover that report and we do not express an audit opinion thereon.

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

Independent auditor’s report to the members of Syndicate 4242

Matters on which we are required to report by exception

Under the Lloyd’s Syndicate Accounting Byelaw (no. 8 of 2005) we are required to report to you if, in our opinion:

- proper accounting records have not been kept by the directors of the managing agent on behalf of the syndicate; or
- the underwriting year accounts are not in agreement with the accounting records.

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 6, the directors of the managing agent are responsible for: the preparation of the underwriting year accounts in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and the requirements of the Lloyd’s Syndicate Accounting Byelaw; such internal control as they determine is necessary to enable the preparation of underwriting year accounts 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 underwriting year accounts 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 underwriting year accounts.

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

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 Lloyd’s Syndicate Accounting Byelaw. 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.

Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
05 March 2020

Profit and loss account: Technical account – General business

For the 36 months ended 31 December 2019

	Notes	$'000	$'000
Earned premiums, net of reinsurance			
Gross premiums written	4	200,687	
Outward reinsurance premiums		(94,366)	
			106,321
Reinsurance to close premiums received, net of reinsurance	6		5,937
Allocated investment return transferred from the non-technical account			220
Claims incurred, net of reinsurance			
Claims paid - Gross amount		(265,028)	
- Reinsurers' share		156,865	
Net claims paid		(108,163)	
Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance	7	(17,391)	
			(125,554)
Net operating expenses	8		(58,646)
Balance on the technical account – general business			(71,722)

The underwriting year closed and therefore all items relate to discontinued operations.

The notes on pages 14 to 25 form part of these financial statements.

Profit and loss account: Non-technical account

For the 36 months ended 31 December 2019

	Notes	$'000
Balance on the technical account – general business	5	(71,722)
Investment Income	9	227
Realised gains on investments		32
Realised losses on investments		(22)
Unrealised gains on investments		13
Unrealised losses on investments		(4)
Investment expenses and charges		(26)
Allocated investment return transferred to general business technical account		(220)
Exchange losses		(5)
Loss for the closed year of account		(71,727)

The underwriting year closed and therefore all items relate to discontinued operations.

There were no recognised gains or losses relating to the current or preceding year other than those included in the profit and loss. Therefore no statement of other comprehensive income has been presented.

The notes on pages 14 to 25 form part of these financial statements.

Balance sheet

As at 31 December 2019

	Notes	$'000	$'000
ASSETS			
Investments	10		5,368
Debtors			
Debtors arising out of direct insurance operations		46	
Debtors arising out of reinsurance operations	13	18,397	
Other debtors, prepayments and accrued income		2,489	
			20,932
Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities			87,474
Other Assets			
Cash at bank and in hand			-
Prepayments and accrued income			
Other prepayments and accrued income			873
TOTAL ASSETS (EXCLUDING AMOUNTS DUE FROM MEMBERS)			114,647
LIABILITIES			
Amounts due from members			(6,993)
Amounts retained to meet all known and unknown outstanding liabilities – gross amount			104,865
Creditors			
Creditors arising out of reinsurance operations	14	95	
Profit commission		-	
Other Creditors, accruals and deferred income		16,680	
			16,775
TOTAL LIABILITIES (NET OF AMOUNTS DUE FROM MEMBERS)			114,647

The notes on pages 14 to 25 form part of these financial statements.

The Syndicate underwriting year accounts were approved by the Board of Asta Managing Agency Ltd on 27 February 2020 and were signed on its behalf by

D J G Hunt
Director
05 March 2020

Statement of members' balances

For the 36 months ended 31 December 2019

	$'000
Loss for the closed year of account	(71,727)
Members' agents' fees	(766)
Cash calls	65,500
Members' balances carried forward at 31 December 2019	(6,993)

The notes on pages 14 to 25 form part of these financial statements.

Statement of cash flows

	Notes	$'000
Cash flows from operating activities		
Loss for the year of account		(71,727)
(Increase) in debtors		(6,242)
Increase in creditors		1,569
Non cash consideration received as part of RITC received	11	(1,865)
RITC premium payable, net of reinsurance		17,391
Net cash (outflow) from operating activities		(60,874)
Cash flows from investing activities		
Net purchase of portfolio investments		(3,860)
Net cash (outflow) from investing activities		(3,860)
Cash flows from financing activities		
Cash calls		65,500
Members' agents fees and non-standard personal expenses		(766)
Net cash inflow from financing activities		64,734
Net increase in cash and cash equivalents		-
Cash and cash equivalent at 1 January 2017		-
Cash and cash equivalent at end of the year of account		-

The notes on pages 14 to 25 form part of these financial statements.

Notes to the financial statements

For the 36 months ended 31 December 2019

1. Basis of preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Lloyd's Regulations") and in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, including relevant disclosures of Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK ("FRS 102") and Financial Reporting Standard 103 Insurance Contracts ("FRS 103").

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The financial statements are prepared in USD which is the functional and presentational currency of the Syndicate and rounded to the nearest $'000.

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture. These accounts relate to the 2017 year of account which has not been closed by reinsurance to close at 31 December 2019. Consequently the balance sheet represents the assets and liabilities of the 2017 year of account as at 31 December 2019 and the profit and loss account reflects the transactions for that year of account during the 36 month period to 31 December 2019.

Due to a reinsurance asset under dispute and the associated uncertainty over the actual recovery pending resolution of the dispute, the Directors of the Managing Agent have decided to keep the 2017 underwriting year of account open for an additional year to allow time for this dispute to be fully assessed and closed. The year of account is now expected to close on 31 December 2020. As such, management have prepared the underwriting year accounts on a non-going concern basis. There was no effect of this on the amounts reported in the accounts.

2. Accounting policies

Significant accounting estimates and judgements

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the annual accounts.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

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

Accounting policies continued

reinsurance programme in place for the class of business, the claims experience for the year, the current security rating of the reinsurance companies involved and any disputed balances. In the case of disputed reinsurances, a prudent estimate of the collectable amount is assessed, following independent professional advice on the issues surrounding the dispute.

The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement. Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future. Case estimates are generally set by skilled claims technicians applying their experience and knowledge to the circumstances of individual claims.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events.

Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of that three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due, but not yet notified to the Syndicate year of account.

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the balance of premiums written in the period to the balance sheet date that relate to unexpired risks of policies in force at that date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk.

Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims and unearned premiums, net of deferred acquisition costs and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the

Accounting policies continued

members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics. The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's external consulting actuaries and the addition of a management margin is considered. 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. 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 provision for claims includes amounts in respect of internal and external claims handling costs.

The Syndicate uses a number of statistical techniques to assist in making the above estimates. 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 methods used, and the estimates made, are reviewed regularly.

A provision for unexpired risks is created where claims, related expenses and deferred acquisition costs, likely to arise after the balance sheet date in respect of contracts relating to the closing year of account, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums at the balance sheet date.

Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

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.

Accounting policies continued

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 investment 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.

Syndicate operating expenses & profit commission

Costs incurred by the Managing Agent in respect of the Syndicate are charged to the Syndicate and included within the relevant profit and loss account heading. Where expenses do not relate to any specific year of account they are apportioned between years of account on a basis which reflects the benefit obtained by each year of account from each type of expense.

Where expenses are incurred jointly by the Managing Agent and the Syndicate, they are apportioned as follows:

- Salaries and Related Costs
  According to time of each individual spent on Syndicate matters.

- Accommodation Costs
  According to number of personnel.

- Other Costs
  As appropriate in each case.

- Profit Commission
  Profit commission is charged by the Managing Agent at a rate of 17.5% of profit subject to the operation of a deficit clause. Such commission does not become payable until after the appropriate year of account closes, normally at 36 months. Profit commission on naturally open years is accrued on the basis of earned profit to date.

- Pensions
  The Managing Agent operates a defined contribution pension scheme and its recharges to the Syndicate in respect of salaries and related costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

Amounts recharged by the Managing Agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

Accounting policies continued

Offsetting

The Syndicate 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 set off is enforceable at law.

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 income tax deducted from Syndicate 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. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Foreign currencies

The Syndicate's functional currency and presentational currency is USD.

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

Exchange differences are recorded in the non-technical account.

3. Risk management

Management have decided to keep the 2017 underwriting year of account open for an additional year to allow time for a disputed reinsurance asset to be fully assessed and closed. As the year of account is now expected to close on 31 December 2020, the RITC process will be deferred a year. This means that Insurance, Financial, Credit, Liquidity, Market and Capital risks will not be transferred to the accepting 2018 year of account of the Syndicate as would normally be expected. Full disclosures relating to these risks are provided in the main Annual accounts of the Syndicate.

4. Particulars of business written

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

	Gross Premiums Written and Earned $'000	Gross Claims Incurred $'000	Net Operating Expenses $'000	Reinsurance Balance $'000	Total $'000
Fire and other damage to property	199,626	(322,638)	(58,336)	109,535	(71,813)
Third party liability	1,061	(2,015)	(310)	1,135	(129)
Total	200,687	(324,653)	(58,646)	110,670	(71,942)

Included in Net Operating Expenses are reinsurance commissions and profit participation of $6.2m.

5. Analysis of result by year of account

	2016 & prior years of account $'000	2017 Pure year $'000	2017 Total combined $'000
Technical account balance before allocated investment return and net operating expenses	(4,456)	(8,840)	(13,296)
Brokerage and commission on gross premium	4	(51,866)	(51,862)
	(4,452)	(60,706)	(65,158)
Net other expenses	252	(7,036)	(6,784)
Investment income	-	220	220
Balance on technical account	(4,200)	(67,522)	(71,722)

6. Reinsurance to close premium received net of reinsurance

	Reported $'000	IBNR $'000	Total $'000
Gross outstanding losses	(12,668)	(32,572)	(45,240)
Reinsurance recoveries anticipated	9,266	30,037	39,303
Net outstanding losses	(3,402)	(2,535)	(5,937)

7. Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance

	Reported $'000	IBNR $'000	Total $'000
Gross outstanding losses	(36,034)	(68,831)	(104,865)
Reinsurance recoveries anticipated	32,974	54,500	87,474
Net outstanding losses	(3,060)	(14,331)	(17,391)

The 2017 underwriting year has a reinsurance asset under dispute. The amount has arisen due to a disagreement with a reinsurer as to their share of reinsurance losses. There is naturally an element of uncertainty over the actual recovery pending resolution of the dispute. The reinsurance to close premium payable on the 2017 year of account will be paid once the underwriting year closes – closure is now expected to be on 31 December 2020. The recoverable amount recognised in the accounts is $9.9m. Management have estimated, with the aid of experts, that the reinsurance asset currently held has the potential to increase or decrease by up to $9.9m.

8. Net operating expenses

	$'000
Acquisition costs	(58,080)
Administration expenses	(6,784)
Reinsurance commissions and profit participations	6,218
	(58,646)

	$'000
The closed year profit is stated after charging the following Auditor's remuneration:	
Audit of the Syndicate underwriting year accounts	(34)

9. Investment income

	$'000
Income from investments	227
Realised gains on investments	32
Realised losses on investments	(22)
	237
Investment management expenses	(26)
Unrealised gains on investments	13
Unrealised losses on investments	(4)
	(17)
Net investment return	220

10. Investments

	Fair Value $'000	Cost $'000
Debt securities and other fixed income securities	4,373	4,352
Overseas deposits as investments	995	995
	5,368	5,347

There was no material change in fair value for financial instruments held at fair value (other than derivatives) attributeable to own credit risk in the current period.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
31 December 2019				
Debt securities and other fixed income securities	2,980	1,393	-	4,373
Overseas deposits as investments	615	380	-	995
Total	3,595	1,773	-	5,368

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

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

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data. The Syndicate does not have any financial investments that meet level 3 criteria.

11. Non cash consideration received as part of RITC received

	$'000
Portfolio investments	1,508
Debtors	15,563
Creditors	(15,206)
Non cash consideration received	1,865

12. Movement in cash and portfolio investments net of financing

	At 1 January 2017	Received within RITC Premium	Cash flow	Unrealised losses & foreign exchange	At 31 December 2019
	$'000	$'000	$'000	$'000	$'000
Cash	-	94	(94)	-	-
Investments	-	1,508	3,864	(4)	5,368
	-	1,602	3,770	(4)	5,368

13. Debtors arising out of reinsurance operations

	$'000
Due within one year	18,397
Due after one year	-
	18,397

14. Creditors arising out of reinsurance operations

	$'000
Due within one year	(95)
Due after one year	-
	(95)

15. Disclosure of interests

Managing Agent's interest

During 2019 Asta was the Managing Agent for ten Syndicates and four Special Purpose Arrangements. Syndicate 1729, 1897,1980, 2357, 2525, 2689, 2786, 3268, 4242 and 5886 as well as Special Purpose Arrangements 1892, 6123, 6126, and 6131 were managed on behalf of third party capital providers.

On 01 July 2019, Asta took on management of Special Purpose Arrangement 1892.

On 11 October 2019, Syndicate 2357 migrated to Nephila Syndicate Management Ltd.

On 1 January 2020 Asta took on management of Syndicate 2288.

The agency also provides administrative services to Syndicates and Special Purpose Arrangements, also undertaking 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).

16. Related parties

Asta provides services and support to Syndicate 4242 in its capacity as Managing Agent. The 2017 year of account was charged managing agency fees of $1.2m. Asta also recharged $2.8m worth of service charges to the 2017 year of account. As at 31 December 2019, nothing was owed to Asta in respect of this service.

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 Managing Agent is owned by Asta Capital Limited, a company incorporated in the U.K. and registered in England and Wales. Paraline International, a wholly owned subsidiary of Paraline Group Ltd (Paraline Group), owns 28.2% of Asta Capital Limited.

Paraline Group, a company registered in Bermuda, facilitated 13.9% of the Syndicate's insurance capacity through its owned corporate member. Paraline Reinsurance Ltd (Paraline Re), an indirectly owned Bermudian reinsurance company of Paraline Group supports the Paraline corporate member's participation on the Syndicate. An affiliate of Paraline Group, Elliott CCM Limited, provided another 1.8% of capacity.

Paraline Group is a joint shareholder of Beat Capital Partners Ltd (Beat). Within the Beat group are the corporate members Beat CCM 6 Ltd and Beat CCM 9 Ltd which also participate on the Syndicate. Unrelated foreign reinsurers fully support these two corporate members' participation.

	2017 Underwriting Year $'000
Paraline CCM Ltd	13.93%
Hannover Re AG (via Beat CCM 6 Ltd)	6.41%
Labuan Re Underwriting Limited	14.58%
IAT CCM Limited	9.00%
SCOR Underwriting Limited	11.96%
Hampden Members	11.60%
Taiping Re UK Ltd	9.00%
Everest Corp Member Ltd	6.75%
Elliott CCM Ltd	1.77%
Sompo Japan Nipponkoa (via Beat CCM 9 Ltd)	11.50%
Securis LCM Limited	3.50%
Total	100.00%

Several of the members feature in the Syndicate's catastrophe reinsurance programme, along with other 3rd party reinsurers – these arrangements are conducted at arm's length.

17. Post balance sheet event

The 2017 underwriting year has a reinsurance asset under dispute. The amount has arisen due to a dispute with a reinsurer as to their share of reinsurance losses. There is naturally an element of uncertainty over the actual recovery pending resolution of the dispute. Management have decided to keep the 2017 underwriting year of account open for an additional year to allow time for this dispute to be fully assessed and closed. The year of account is now expected to close on 31 December 2020.

The 2017 underwriting year loss, less members' agents' fees and cash calls, of $7.0m may be called from members during 2020, although the final settlement amount and date will depend on the resolution of the disputed reinsurance asset.

Summary of Closed Year Results – unaudited

as at 31 December 2019

Year of Account	2011	2012	2013	2014	2015	2016	2017
Syndicate allocated capacity (£'000)	**80,000**	**80,000**	**80,000**	**80,000**	**90,000**	**95,000**	**100,000**
Syndicate allocated capacity ($'000)	**125,600**	**124,000**	**124,272**	**99,200**	**121,500**	**120,650**	**132,000**
Number of Underwriting members	10	12	10	10	10	11	**11**
Aggregate net premiums ($'000)	36,900	43,635	50,534	53,565	59,959	53,676	**48,244**
Results for an illustrative share of £10,000	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Gross premiums	13,409	14,805	15,628	16,915	18,134	19,608	**20,069**
Net premiums	4,613	5,454	6,354	6,696	6,662	5,650	4,824
Reinsurance to close from an earlier account	104	94	318	294	214	284	594
Net claims	(1,627)	(2,669)	(1,403)	(1,571)	(2,417)	(4,726)	(10,816)
Reinsurance to close	(94)	(318)	(294)	(240)	(297)	(561)	(1,739)
Profit/(Loss) on exchange	4	(5)	(6)	(4)	(16)	(11)	-
Syndicate operating expenses	(146)	(327)	(38)	(467)	(330)	(343)	191
Balance on technical account	2,854	2,230	4,931	4,708	3,816	293	(6,947)
Investment income less investment expenses and charges and investment gains less losses	5	1	6	5	24	52	**22**
Profit on ordinary activities	2,859	2,231	4,937	4,713	3,840	345	(6,925)
Illustrative personal expenses							
Profit commission	(289)	(242)	(519)	(553)	(445)	(6)	-
Personal expenses	(547)	(474)	(785)	(306)	(300)	(315)	(324)
Profit (Loss) after illustrative profit commission and personal expenses	2,023	1,515	3,633	3,854	3,095	24	(7,249)
	£	**£**	£	£	£	£	£
Profit (Loss) after illustrative profit commission and personal expenses	1,219	975	2,454	3,108	2,292	19	(5,492)

Notes

1. The summary of closed year results has been prepared from the audited accounts of the Syndicate. This summary however is not audited.

2. Personal expenses have been stated at the amount which would be incurred pro rata by individual Names writing the illustrative premium income in the Syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes, has been excluded.

3. As regards the 2017 year of account, an illustrative share of £10,000 represents 0.01% of the respective allocated capacity.