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**Dale Underwriting Partners  
Special Purpose Arrangement 6131**

**Annual Report and Accounts  
31 December 2021**

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## **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

S D Redmond\*

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**

D G Peters

### **Registered Auditors**

Ernst & Young LLP

### **Signing Actuary**

Ernst & Young LLP

## 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 2021.

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 calendar year 2021 is a loss of £1,718,953 (2020: loss £4,371,071) on a gross written premium of £13,944,908 (2020: £8,834,582).

The loss for the financial year is mainly attributable to the SPA's exposure to losses arising from Hurricane Ida within the contingency book of business as well as an increase of losses arising from their Covid-19 exposure. The premium income is not yet at a level to adequately cover the SPA expense base, therefore their expense ratio is particularly high.

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

### Principal activity and review of the business

The SPA's principal activity is a whole account quota share of its host, Dale Underwriting Partners Syndicate 1729.

For the 2021 Year of Account, the SPA assumes 60% of the Specialty insurance class written through the host, Syndicate 1729.

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

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Specialty Insurance	13,945	8,835
	<hr/>	<hr/>
	13,945	8,835

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

	<b>2021</b>	<b>2020</b>	<b>Change</b>
	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Gross written premiums	13,945	8,835	57.8%
Loss for the financial year	(1,262)	(4,424)	71.5%
Total comprehensive income	(1,719)	(4,371)	60.7%
Combined ratio	116.5%	180.5%	(64.0%)

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

## Managing Agent's report continued

The return on capacity as at 31 December 2021 is shown below:

	2021 YOA Open	2020 YOA Open	2019 YOA Closed
Capacity (£'000)	20,000	12,000	12,000
Forecast*/Result (£'000)	(942)	(1,577)	(3,133)
Return on capacity (%)	(4.7%)	(13.1%)	(26.1%)

\*2020 & 2021 YOA forecasts are unaudited

## 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 at least quarterly to oversee the risk management framework. The host Syndicate Board, a sub-committee of the Agency Board, reviews the risk profile as reflected in the risk register, and monitors performance against risk appetite using a series of key risk indicators. The principal risk 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 host Syndicate 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 host Syndicate Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the Asta Actuarial team 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 reinsurance counterparty risk which is the risk of default by one or more of its reinsurers and Syndicate intermediaries. The Syndicate Board's policy is that they will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee sets approval and usage criteria, monitors reinsurer ratings and is required to approve and oversee the application of the reinsurer approval policy

### 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 expenses 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. To mitigate this risk the host Syndicate Board and Investment Committee reviews cash flow projections regularly and ensures that, where needed, the host Syndicate has liquidity facilities in place or has utilised the option of a cash call from Capital providers.

## **Managing Agent's report continued**

The host Syndicate has in place an overdraft facility with ProAssurance Corporate Capital Limited, one of its largest capital providers and has also in place a line of credit with Barclays Bank. The SPA has called on its capital provider of the 2019 year of account.

### **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 an operational risk and control framework, detailed procedures manual, thorough training programme and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

### **Regulatory risk**

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

The SPA has no appetite for failing to treat customers fairly. The SPA manages and monitors its customer risk through a suite of risk indicators and reporting metrics as part of its documented customer risk framework. The customer risk framework is consistently applied across all Asta syndicates and is overseen by the Conduct Oversight Group (COG), which is an AMA Board Committee that includes a non-executive director as a member who fulfils the role of Customer Champion.

### **Group / strategic risk**

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

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

### **Future developments**

The decision has been made to discontinue the SPA for the 2022 year of account onwards. The Specialty line of business will continue to be written in the host Syndicate but will be fully retailed within that syndicate.

The SPA is exposed to LIBOR through banks, investment holdings or reinsurance contracts, and with LIBOR being replaced at the end of 2021 the SPA is assessing the impact this will have on them with remedial action to be put in place should it be needed.

The Directors of the Managing Agent have assessed the Syndicate's ability to continue as a going concern by considering the available capital and any expected material changes to its operations. Based on the assessment, they continue to adopt the going concern basis in preparing the financial statements.

## **Environmental, Social and Governance (ESG)**

In 2020 Asta initiated work to identify ESG priorities and build out its ESG framework, incorporating sections covering Asta's own ESG framework and the framework for its managed syndicates. This work will be built out in 2022 and used to inform the ESG frameworks for managed syndicates. The framework is aligned to Lloyd's ESG guidance from October 2021, and to Asta's climate change work detailed below.

## Managing Agent's report continued

### Climate change

Following the Prudential Regulation Authority's (PRA) Supervisory Statement in 2019 and subsequent Dear CEO letter in 2020, Asta have built a climate change framework, applicable to all syndicates, covering the physical, transition and liability climate change risks, based on the underlying business written by each syndicate. Asta and its managed syndicates accept climate change risk where it is an inherent part of an insurance business model, providing it is understood, managed and controlled and/or compensated. There is no appetite for uncontrolled, unmanaged exposure to the financial risks of climate change.

A measure for climate change exposure within insurance risk appetites has been implemented to highlight where time and resource is most required in order to manage the potential exposure and successfully steer portfolios through global changes. The Syndicate has identified the level of climate change exposure in its business plans and will manage this accordingly, with the ability to change the level of risk being taken in future and thereby amend the oversight and monitoring framework.

The framework ensures Board-level engagement and accountability with the PRA's requirements, assigning clear responsibilities for managing Asta's and its syndicate's financial risks associated with climate change. The AMA Finance Director, who is a Board member, is responsible for the climate change framework, including identifying and managing financial climate related risks.

### Coronavirus

The Agency and host Syndicate have continued to monitor Government guidelines throughout 2021 and have implemented a trial phase of "Hybrid" working. Hybrid working allows staff to work both remotely and in the more traditional office environment to meet business needs. The pre pandemic 9 to 5 office regime would appear to be a thing of the past as the demand for flexible working becomes a key consideration for both new and existing members of staff.

The Agency are committed to finding an operational Hybrid working policy that delivers on all client and regulatory needs while offering staff the flexibility to work remotely. The Agency also recognises the need for staff to develop within their roles and that face to face on the job training is essential in ensuring staff are able to reach their full potential. The Hybrid working structure will be updated through 2022 to optimise working practices. The Agency and host Syndicate are ready to adapt to any change in guidelines and potential seasonal spikes and foresee no business interruptions throughout 2022.

Hybrid working through 2021 has seen the Agency deliver from both a regulatory and client standpoint with no adverse outcomes through remote working.

The reserve held at the end of 2020 in relation to Covid has deteriorated slightly during 2021 due to continued lockdowns effecting additional events, as well as an amendment to the level of recoveries from this event.

There is continued assessment of liquidity, market and credit risk and the implications on the SPA are monitored, in conjunction with other insurance events, and are escalated to Board level where appropriate.





## 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 SPA 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 subject to changes arising on the adoption of new accounting standards in the year.
- ) 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 Dale Underwriting Partners SPA 6131

#### Opinion

We have audited the syndicate annual accounts of syndicate 6131 ('the syndicate') for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 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 2021 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. 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 as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

#### Conclusions relating to going concern

In auditing the syndicate annual accounts, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of 12 months from when the syndicate annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

## **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 directors of the managing agent are responsible for the other information contained within the annual report.

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.

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 course of 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 this gives rise to a material misstatement in the syndicate annual accounts themselves. 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
- ) certain disclosures of the managing agents' emoluments specified by law are not made; or
- ) we have not received all the information and explanations we require for our audit.

## **Independent auditor's report continued**

### **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.

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.

### **Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- ) We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd's in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- ) We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance. We also performed procedures to understand the culture of compliance and governance including the obtainment and review of the code of conduct, employee handbook and whistleblowing policy. Furthermore in order to assess the internal views of risks and their likelihoods, we have reviewed the risk register and risk event summary for the syndicate.
- ) For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.

## Independent auditor's report continued

- J For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- J The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- J We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, on the valuation of claims outstanding and estimated premium income, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the syndicate annual accounts were free from fraud or error.

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.

## 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.

*Robert Bruce (Senior statutory auditor)*

*for and on behalf of Ernst & Young LLP, Statutory Auditor*

*London*

*03 March 2022*

## Income statement

### Technical account - General business

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Gross premiums written	3	13,945	8,835
Outward reinsurance premiums		(2,115)	(3,192)
Net written premiums		11,830	5,643
Change in the provision for unearned premiums			
Gross amount		(2,159)	(1,777)
Reinsurers' share		(436)	1,524
Change in the net provision for unearned premiums	4	(2,595)	(253)
<b>Earned premiums, net of reinsurance</b>		9,235	5,390
<b>Allocated investment return transferred from the non-technical account</b>		4	23
Claims paid			
Gross amount		(6,515)	(5,880)
Reinsurers' share		3,951	462
		(2,564)	(5,418)
Changes in claims outstanding			
Gross amount		(367)	(5,253)
Reinsurers' share		(2,728)	5,121
Change in the net provision for claims	4	(3,095)	(132)
<b>Claims incurred, net of reinsurance</b>		(5,659)	(5,550)
<b>Net operating expenses</b>	5	(5,101)	(4,177)
<b>Balance on technical account – general business</b>		(1,521)	(4,314)

## Income statement continued

### Non-technical account - General business

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Balance on technical account – general business		(1,521)	(4,314)
Investment income		4	23
Allocated investment return transferred to the general business technical account		(4)	(23)
Exchange gains/(losses)		259	(110)
<b>Loss for the financial year</b>		<b>(1,262)</b>	<b>(4,424)</b>

All the amounts above are in respect of continuing operations.

The notes on pages 17 to 34 form part of these financial statements.

### Statement of other comprehensive income

For the year ended 31 December 2021

	2021 £'000	2020 £'000
<b>Loss for the financial year</b>	<b>(1,262)</b>	<b>(4,424)</b>
OCI – Currency translation differences	(457)	53
<b>Total comprehensive loss for the year</b>	<b>(1,719)</b>	<b>(4,371)</b>

### Statement of changes in Members' balances

For the year ended 31 December 2021

	2021 £'000	2020 £'000
At 1 January	(7,564)	(3,193)
Total comprehensive loss for the financial year	(1,719)	(4,371)
Collection from members' personal reserve funds	2,131	-
<b>At 31 December</b>	<b>(7,152)</b>	<b>(7,564)</b>



## Statement of financial position

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
<b>Assets</b>			
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums	4	1,268	1,682
Claims outstanding	4	2,841	5,524
		<hr/>	<hr/>
		4,109	7,206
<i>Debtors</i>			
Debtors arising out of reinsurance operations	9	10,604	2,828
		<hr/>	<hr/>
		10,604	2,828
<i>Prepayments and accrued income</i>			
Deferred acquisition costs	4	1,617	1,394
Other prepayments and accrued income		4	4
		<hr/>	<hr/>
		1,621	1,398
		<hr/>	<hr/>
<i>Total assets</i>		16,334	11,432

The notes on pages 17 to 34 form part of these financial statements.

## Statement of financial position continued

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
<b>Members' balance and liabilities</b>			
<i>Capital and reserves</i>			
Members' balances		(7,152)	(7,564)
<i>Liabilities</i>			
<i>Technical provisions</i>			
Provision for unearned premiums	4	6,640	4,408
Claims outstanding	4	7,049	6,695
		<hr/>	<hr/>
		13,689	11,103
<i>Creditors</i>			
Creditors arising out of reinsurance operations	10	9,689	7,829
		<hr/>	<hr/>
		9,689	7,829
<i>Accruals and deferred income</i>		108	64
		<hr/>	<hr/>
<i>Total liabilities</i>		23,486	18,996
		<hr/>	<hr/>
<i>Total members' balances and liabilities</i>		16,334	11,432

The notes on pages 17 to 34 form part of these financial statements.

The financial statements on pages 12 to 34 were approved by board of directors on 24 February 2022 and were signed on its behalf by:

R P Barke  
Director  
03 March 2022

## Statement of cash flows

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
<b>Cash flows from operating activities</b>			
<i>Loss on ordinary activities</i>		(1,262)	(4,424)
Increase in gross technical provisions		2,586	6,726
Decrease/(Increase) in reinsurers' share of gross technical provisions		3,097	(6,298)
(Increase) in debtors		(7,776)	(932)
Increase in creditors		1,860	5,330
Movement in other assets/liabilities		(179)	(455)
Foreign exchange of other income		(453)	76
Investment Return		(4)	(23)
<i>Net cash (outflows) from operating activities</i>		(2,131)	-
<b>Cash flows from investing activities</b>			
Investment income received		-	-
<i>Net cash outflows from investing activities</i>		-	-
<b>Cash flows from financing activities</b>			
Collection from members' personal reserve funds		2,131	-
Other		-	-
<i>Net cash inflows from financing activities</i>		2,131	-
<b>Net increase in cash and cash equivalents</b>		-	-
<b>Cash and cash equivalents at beginning of year</b>		-	-
<b>Exchange differences on opening cash</b>		-	-
<b>Cash and cash equivalents at end of year</b>		-	-

## Notes to the financial statements

For the year ended 31 December 2021

### 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 financial statements are prepared in GBP which is the reporting and presentational currency of the SPA and rounded to the nearest £'000. The functional currency of the SPA is US Dollars.

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

The SPA assumes premium solely through its quota share contract with its host, Syndicate 1729. Premium is ceded from the host, and assumed by the SPA, gross of the SPA's share of the host's acquisition costs.

#### 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.

#### 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;

## Accounting policies continued

- (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 consistently 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 gross of the SPA's share of the hosts acquisition costs, and exclude taxes and duties levied on them.

Other key estimates contained within the syndicate close process are premium estimates and the earning pattern of recognising premium over the life of the contract. In the syndicate the premium written is initially based on the estimated premium income ('EPI') of each contract. Where premium is sourced through binders, the binder EPI is pro-rated across the binder period. This is done on a straight-line basis. The underwriters adjust their EPI estimates as the year of account matures. As the year of account closes premiums are adjusted to match the actual signed premium. An accrual for estimated future reinstatement premiums is retained. Premiums are earned on a straight-line basis over the life of each contract. At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

### 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. These premiums are recognised (by the host, and therefore within the SPA) on the date on which the policy commences.

### 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,

## Accounting policies continued

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, uses a number of statistical techniques to assist in making these estimates.

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

The directors consider that the provisions for gross claims and related reinsurance recoveries 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.

## 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 insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

## Unexpired risks

A provision for unexpired risks is made where claims and related expenses 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 2021 the SPA did not have an unexpired risk provision (2020 £nil).

## Deferred acquisition costs

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

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

## Reinsurance assets

The SPA share of the 2021 underwriting year reinsurance premium is 60% of the total reinsurance protection bought "in-common" with the host in respect of the specialty insurance class written through the host. Amounts recoverable from reinsurers are estimated in a manner consistent with the

## Accounting policies continued

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 or losses recognised in 2021.

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

## Insurance receivables

All insurance receivables are due from the host Syndicate 1729 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.

## Insurance payables

All insurance payables are due for settlement with the host Syndicate 1729 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 and the reporting currency 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.

## Accounting policies continued

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:

	<b>2021</b>	<b>2020</b>
	<b>Year End</b>	<b>Year End</b>
USD	1.35	1.37
CAD	1.71	1.74
EUR	1.19	1.12
JPY	155.97	141.12

## 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.

The SPA operates on a funds withheld basis and therefore holds no investments. However, in accordance with the SPA Agreement, applicable investment income is allocated to the SPA from the host Syndicate using the experience account balances as a measure of income due

## Taxation

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

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

## Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% on the profit on a year of account basis subject to a 2 year deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months. There is no profit commission payable as there is no profit anticipated.

## 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 SPAs are apportioned between the Managing Agent and the SPAs 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:

<b>2021</b>	<b>Gross written premiums</b>	<b>Gross premium earned</b>	<b>Gross claims incurred</b>	<b>Gross operating expenses</b>	<b>Reinsurance balance</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Reinsurance:						
Casualty	4,445	4,297	(888)	(1,524)	(821)	1,064
Property	5,192	5,210	(5,602)	(2,454)	(264)	(3,110)
Aviation	4,308	2,279	(392)	(1,123)	(243)	521
<b>Total</b>	<b>13,945</b>	<b>11,786</b>	<b>(6,882)</b>	<b>(5,101)</b>	<b>(1,328)</b>	<b>(1,525)</b>

<b>2020</b>	<b>Gross written premiums</b>	<b>Gross premium earned</b>	<b>Gross claims incurred</b>	<b>Gross operating expenses</b>	<b>Reinsurance balance</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Reinsurance:						
Casualty	4,131	3,110	(3,613)	(1,889)	787	(1,605)
Property	4,348	3,775	(7,370)	(2,129)	3,097	(2,627)
Aviation	356	173	(150)	(159)	31	(105)
<b>Total</b>	<b>8,835</b>	<b>7,058</b>	<b>(11,133)</b>	<b>(4,177)</b>	<b>3,915</b>	<b>(4,337)</b>

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

All premiums were concluded in the UK.

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 2021.

## 4. Technical provisions

	2021			2020		
	Gross provisions £'000	Reinsurance assets £'000	Net £'000	Gross provisions £'000	Reinsurance assets £'000	Net £'000
<b>Claims outstanding</b>						
Balance at 1 January	6,695	(5,524)	1,171	1,645	(619)	1,026
Change in claims outstanding	367	2,728	3,095	5,253	(5,121)	132
Effect of FX and other movement	(13)	(45)	(58)	(203)	216	13
<b>Balance at 31 December</b>	<b>7,049</b>	<b>(2,841)</b>	<b>4,208</b>	<b>6,695</b>	<b>(5,524)</b>	<b>1,171</b>
Claims notified	2,837	(1,606)	1,231	1,163	(2,592)	(1,429)
Claims incurred but not reported	4,212	(1,235)	2,977	5,532	(2,932)	2,600
<b>Balance at 31 December</b>	<b>7,049</b>	<b>(2,841)</b>	<b>4,208</b>	<b>6,695</b>	<b>(5,524)</b>	<b>1,171</b>
<b>Unearned premiums</b>						
Balance at 1 January	4,408	(1,682)	2,726	2,732	(289)	2,443
Change in unearned premiums	2,159	436	2,595	1,777	(1,524)	253
Effect of movements in exchange rates	73	(22)	51	(101)	131	30
<b>Balance at 31 December</b>	<b>6,640</b>	<b>(1,268)</b>	<b>5,372</b>	<b>4,408</b>	<b>(1,682)</b>	<b>2,726</b>
<b>Deferred acquisition costs</b>						
Balance at 1 January	1,394	-	1,394	977	-	977
Change in deferred acquisition costs	206	-	206	447	-	447
Effect of movements in exchange rates	17	-	17	(30)	-	(30)
<b>Balance at 31 December</b>	<b>1,617</b>	<b>-</b>	<b>1,617</b>	<b>1,394</b>	<b>-</b>	<b>1,394</b>

## 5. Net operating expenses

	2021	2020
	£'000	£'000
Acquisition costs	(3,245)	(2,579)
Change in deferred acquisition costs	206	447
Administration expenses	(2,062)	(2,045)
Net operating expenses	(5,101)	(4,177)

## 6. Staff costs

	2021	2020
	£'000	£'000
Wages and salaries	(399)	(436)
Social security costs	(52)	(55)
Other pension costs	(106)	(52)
	(557)	(543)

The average number of employees working during the year for the SPA were as follows:

	2021	2020
Administration and finance	-	-
Underwriting	5	5
Claims	-	-
	5	5

## 7. Auditor's remuneration

	2021	2020
	£'000	£'000
Audit of the SPA annual accounts	(43)	(41)
Other services pursuant to Regulations and Lloyd's Byelaws	(29)	(28)
Other non-audit services	(13)	(12)
	(85)	(81)

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

## 8. Emoluments of the directors of Asta Managing Agency Ltd

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

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the SPA.

No other compensation was payable to key management personnel.

The emoluments of the Active Underwriter are borne by the host, Syndicate 1729.

## 9. Debtors arising out of reinsurance operations

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
Due from intermediaries within one year	3,602	-
Due from intermediaries after one year	7,002	2,828
	<u>10,604</u>	<u>2,828</u>

## 10. Creditors arising out of reinsurance operations

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Due to intermediaries:</b>		
Reinsurance ceded (within one year)	4,769	1,762
Reinsurance accepted (due after one year)	2,730	3,848
Reinsurance ceded (due after one year)	2,190	2,219
	<u>9,689</u>	<u>7,829</u>

## 11. Related parties

Asta provides service and support to SPA 6131 in its capacity as Managing Agent. Managing Agency fees of £0.1m (2020: £0.1m) and service charges of £0.2m (2020: £0.3m) were recharged by Asta to the SPA during 2021. As at 31 December 2021 an amount of £0.03m (2020: £0.02m) was owed to Asta in respect of services provided.

ProAssurance Corporate Capital Limited is a significant but not fully aligned capital provider. ProAssurance Corporate Capital Limited is a subsidiary of ProAssurance Corporation a public company based in Alabama, USA.

From time to time, SPAs 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 arms length basis.

## **12. Disclosure of interests**

### **Managing Agent's interest**

During 2021 Asta was the Managing Agent for eleven Syndicates, four Special Purpose Arrangements and one Syndicate in a Box. Syndicate 1609, 1729, 1980, 1988, 2288, 2525, 2689, 2786, 3268, 4242 and 5886 as well as Special Purpose Arrangements 1416, 1892, 6123, and 6131 and Syndicate in a Box 4747 were managed on behalf of third party capital providers.

On 1 July 2021, Asta took on management of Syndicate 1988.

On 8 August 2021, Asta novated Syndicate 5886 to Blenheim Managing Agency.

On 1 October 2021, Asta took on the management of Special Purpose Syndicate 1416

On 1 January 2022, Asta took on the management of Syndicate 1699

On 1 January 2022, Asta took on the management of Syndicate in a box 1902

On 10 February 2022, Asta reinsured to close Syndicate 1980 into Riverstone Syndicate 3500

On 10 February 2022, Asta took on management of Syndicate in a box 2880.

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

## **Risk management continued**

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

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

### **b) Capital management objectives, policies and approach**

#### **Capital framework at Lloyd's**

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of SPA 6131 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 SPA on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 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 SPA (funds in SPA) or as the member's share of the members' balances on each SPA on which it participates. Accordingly, the

## **Risk management continued**

ending members balances reported on the statement of financial position on page 15, represent resources available to meet members' and Lloyd's capital requirements.

### **c) Insurance risk**

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

The 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 SPA 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.

### **Key assumptions**

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

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

### **Sensitivities**

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

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

## Risk management continued

	<b>2021</b>	<b>2020</b>
	<b>£'000</b>	<b>£'000</b>
<b>Gross</b>		
Five percent increase	352	335
Five percent decrease	(352)	(335)
<b>Net</b>		
Five percent increase	210	59
Five percent decrease	(210)	(59)

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.

<b>Underwriting year</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Estimate of cumulative gross claims incurred:</b>				
At end of underwriting year	941	1,617	3,064	4,569
One year later	3,220	7,939	3,942	
Two years later	4,500	13,360		
Three years later	4,696			
Less cumulative gross paid	(4,114)	(11,984)	(1,568)	(1,852)
Liability for gross outstanding claims	582	1,376	2,374	<u>2,717</u>
Total gross outstanding claims				<u>7,049</u>



## Risk management continued

Underwriting year	2018	2019	2020	2021
	£'000	£'000	£'000	£'000
<b>Estimate of cumulative net claims incurred:</b>				
At end of underwriting year	911	1,574	1,652	3,636
One year later	1,522	4,416	1,713	
Two years later	2,400	10,261		
Three years later	4,164			
Less cumulative net paid	<u>(4,114)</u>	<u>(9,367)</u>	<u>(285)</u>	<u>(1,800)</u>
Liability for net outstanding claims	50	894	1,428	<u>1,836</u>
Total net outstanding claims all years				<u>4,208</u>

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

### d) Financial risk

#### 1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to honour their obligation to the SPA.

The following policy and procedure is in place to mitigate the exposure to credit risk.

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 sub committee of the Board.

## Risk management continued

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.

2021	£'000			Total
	Neither past due or impaired	Past due	Impaired	
Reinsurers share of claims outstanding	2,841	-	-	2,841
Reinsurance debtors	3,602	-	-	3,602
Other debtors	9,891	-	-	9,891
Total	16,334	-	-	16,334

2020	£'000			Total
	Neither past due or impaired	Past due	Impaired	
Reinsurers share of claims outstanding	5,524	-	-	5,524
Other debtors	5,908	-	-	5,908
Total	11,432	-	-	11,432

The table below provides information regarding the credit risk exposure of the SPA at 31 December 2021 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.

2021	£'000						Total
	AAA	AA	A	BBB	BBB or less	Not Rated	
Reinsurers share of claims outstanding	-	-	2,066	-	-	775	2,841
Reinsurance debtors	-	-	3,367	-	-	235	3,602
Total	-	-	5,433	-	-	1,010	6,443

2020	£'000						Total
	AAA	AA	A	BBB	BBB or less	Not Rated	
Reinsurers share of claims outstanding	-	-	5,518	-	-	6	5,524
Total	-	-	5,518	-	-	6	5,524

## Risk management continued

### 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.

#### 2) 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.

2021	£'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
Claims outstanding	-	3,221	2,355	622	851	7,049
Creditors	-	4,769	4,920	-	-	9,689
Total	-	7,990	7,275	622	851	16,738

2020	£'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
Claims outstanding	-	3,073	2,413	698	511	6,695
Creditors	-	1,762	6,067	-	-	7,829
Total	-	4,835	8,480	698	511	14,524

#### 3) 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 US Dollars and its exposure to foreign exchange risk arises primarily with respect to transactions in EUR, JPY, GBP and CAD. The SPA seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

## Risk management continued

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

2021	£'000					
	GBP	USD	EUR	CAD	JPY	Total
Total Assets	(126)	14,879	2,887	(15)	(1,291)	16,334
Total Liabilities	(9,747)	(12,331)	(1,386)	(13)	(9)	(23,486)
Net Assets	(9,873)	2,548	1,501	(28)	(1,300)	(7,152)

2020	£'000					
	GBP	USD	EUR	CAD	JPY	Total
Total Assets	354	9,083	1,992	3	-	11,432
Total Liabilities	(7,329)	(9,624)	(596)	(21)	(1,426)	(18,996)
Net Assets	(6,975)	(541)	1,396	(18)	(1,426)	(7,564)

The SPA matches its currency position so holds net assets across a number of currencies. The SPA takes into consideration the underlying currency of the SPA's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the SPA, against variation in foreign exchange rates. As a result, the SPA holds a significant proportion of its assets in foreign currency adjustments.

### 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 USD, CAD, EUR and JPY simultaneously. The analysis is based on the information as at 31st December 2021.

	Impact on profit and member's balance	
	2021	2020
	Profit/(Loss)	Profit/(Loss)
	£'000	£'000
Sterling weakens		
10% against other currencies	272	(59)
20% against other currencies	544	(118)
Sterling strengthens		
10% against other currencies	(272)	59
20% against other currencies	(544)	118

## **16. Post balance sheet events**

The SPA will RITC into the 2020 YOA. The host will collect £3,132,803 from the member in 2022, in relation to the 2019 year of account losses in US Dollars. The RITC value will be passed through to the SPA 2020 experience account.

During 2021 it was announced that agreement had been reached for Asta Capital Limited to be acquired by Davies Group, subject to regulatory approval. As at the date of the financial statements this transaction has not yet completed with the expectation that it will complete in 2022.

During February 2022, Russia instigated military action in Ukraine. This event is still developing as at the date of the Financial Statements, but has been assessed by the Directors as an event that will increase risk and uncertainty globally in the foreseeable future. The directors will continue to monitor developments and endeavour to mitigate these risks where possible