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Syndicate 1955

Annual Report
For the year ended 31 December 2021

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Report of the Managing Agent

The Directors of Arch Managing Agency Limited ("AMAL"), (the "Managing Agent") present their annual report, financial statements of managed Syndicate 1955 (the "Syndicate") for the year ended 31 December 2021.

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) for the closed 2019 year of account. Underwriting year accounts are not required until the closure of the year of account, typically at the 36 month stage.

Principal Activities

Syndicate 1955 currently underwrites general insurance and reinsurance business in the Lloyd's Market. The business within these segments includes Marine, Aviation and Transport, Energy, Property, Financial Lines, Accident & Health, Casualty and Specialty.

Ownership

As at 31 December 2021, the Syndicate was managed by AMAL and the ultimate parent company is Arch Capital Group Ltd ("ACGL"), a Bermuda-based company. ACGL operates in Bermuda, the United States of America, Europe, Canada, and Australia. ACGL is listed on the Nasdaq Stock Market and its registered address is Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda.

For 2019 and 2020 underwriting years the single largest corporate member is Arch Corporate Member Ltd ("ACML") (formally Barbican Corporate Member Ltd) and for 2021 underwriting year the single largest corporate member is Arch Syndicate Investments Ltd ("ASIL"). The Syndicate also has a number of third party capital providers across each of the three underwriting years.

Directors

The Directors of the Managing Agent who held office during the year were as follows:

S. Bashford	Chief Underwriting Officer	
N. Denniston	Independent Non-Executive Director and Chairman	
K. Felisky	Independent Non-Executive Director	*(appointed 09.06.2021)*
M. Hammer-Dahinden	Group Non-Executive Director	
J. Kittinger	Chief Financial Officer	
P. Leoni	Chief Underwriting Officer	
J. Mentz	Group Non-Executive Director	
P. Storey	Independent Non-Executive Director	
H. Sturgess	President and Chief Executive Officer	
W. Canagaretna	Director	*(resigned 08.01.2021)*
P. Martin	Independent Non-Executive Director	*(resigned 12.01.2021)*
A. Flanagan	Group Non-Executive Director	*(resigned 31.12.2021)*

The Directors are covered by third party indemnity insurance policies.

Report of the Managing Agent *(continued)*

Review of the Business

Our underwriting strategy is to operate in Specialty lines of business, writing both insurance and reinsurance, in which underwriting expertise can make a meaningful difference to operating results. Syndicate 1955 underwrites at Lloyd’s in the wholesale insurance market and through selective delegated underwriting authorities for regional markets. To achieve our objectives our insurance and reinsurance operating principles are to:

- Capitalise on profitable underwriting opportunities;
- Centralise responsibility for underwriting;
- Maintain underwriting discipline throughout the market cycle;
- Focus on providing superior claims management; and
- Utilise broker and managing general agent distribution platforms.

Our underwriting philosophy is to generate an underwriting profit through prudent risk selection and appropriate pricing across the underwriting cycle. To achieve this, we encourage adherence to uniform underwriting standards across each product line focusing on: risk selection; desired attachment point; limits and retention management; due diligence, including financial condition, claims history, management and exposure; underwriting authority and approval limits; and collaborative decision-making.

The rating environment continued to have a positive impact during 2021, with firmer pricing for many lines of business. Reflecting the strengthened rating environment, the Syndicate’s underwriting strategy for 2021 was therefore more offensive, actively seeking out new business and also maximising the opportunities for growth which has helped reduce the loss incurred in the financial year. These factors have been reflected with a 14% increase in forecasted gross written premium per the syndicate business forecast (“SBF”) via the addition of Parametric cover and large increases in written premium for Cyber and US casualty Treaty classes of business. Notwithstanding the competitive environment, the Managing Agent has sought to maintain its underwriting discipline and execute its philosophy on superior risk selection.

The focus for 2021 has been the continued growth of Syndicate 1955 through expansion of profitable lines of business including the split stamp arrangement for insurance lines with Syndicate 2012, which results in proportional growth in these lines of business on the 2021 underwriting year. Disciplined growth and development of business will continue to be supported by the Board of the Managing Agency.

As at the 31 December 2020, AMAL on behalf of the Members’ of the Syndicate entered into an agreement with an external party for the reinsurance to close (“RITC”) of the Syndicates 2018 underwriting year. The RITC covers legacy business underwritten by the Syndicate on the 2018 and prior underwriting years, resulting in the Syndicate having only transactions relating to 2019 to 2021 underwriting years during the 2021 financial year.

The Syndicate has net liabilities at 31 December 2021 of £23.9m (2020: £44.3 liability). Majority of this decrease is attributed to the RITC of the 2018 and prior years of account to an external party.

The Syndicate recorded an underwriting loss before investment income of £6.6m (2020: £40.2m loss), mainly driven by an improvement in underwriting performance and the RITC of 2018 and prior years of account.

The Syndicate has utilised several whole account quota share arrangements that impacted the 2021 calendar year. Those included the following:

Quota Share to SPA 6132:
2019 underwriting year = 15.18% and an additional 5% on Financial Institutions and Cyber classes, all of which amounted to £48.1m of cumulative ceded premium

2020 underwriting year = 15.46% and an additional 5% on Financial Institutions and Cyber classes, all of which amounted to £46.6m of cumulative ceded premium.

2021 underwriting year = 15.05% which amounted to £46.4m of ceded premium.

The cessions were calculated on the Syndicate’s result net of external reinsurance and are ceded on a funds withheld basis.

Report of the Managing Agent *(continued)*

Review of the Business *(continued)*

Key Performance Information and Metrics

Taking into account the Special Purpose Arrangement ("SPA") cessions, the Syndicate's key financial performance indicators during the year were as follows:

	2021	**2021**	**2021**	**2020**	**2020**	**2020**
	Total written	**SPA cession**	**Retained**	**Total written**	**SPA cession**	**Retained**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Gross premiums written	341.6	-	341.6	269.8	-	269.8
Gross premiums earned	319.7	-	319.7	284.4	-	284.4
Net premiums earned	224.6	(35.4)	189.2	239.9	(27.9)	212.0
Net claims incurred	(149.8)	23.5	(126.3)	(213.3)	24.9	(188.4)
Other technical income, net of reinsurance	-	-	-	(1.2)	-	(1.2)
Investment return	(1.7)	0.1	(1.6)	10.9	(1.3)	9.6
Operating expenses	(81.6)	12.0	(69.6)	(75.2)	11.4	(63.8)
Realised and unrealised movements on foreign exchange	-	-	-	-	-	-
Profit for the year	(8.5)	0.2	(8.3)	(38.9)	7.1	(31.8)
Net Claims ratio	66.7%	66.4%	66.7%	88.9%	89.2%	88.9%
Net Expense ratio	36.3%	33.9%	36.8%	31.4%	40.9%	30.1%
Net Combined ratio	103.0%	100.3%	103.5%	120.3%	130.1%	119.0%

Premiums written

In 2021, The Syndicate operated through two segments, Insurance and Reinsurance. These segments produced an aggregate of Gross written premiums of £341.6m, 26.6% higher than 2020. During 2021 the Syndicate continued its strategy of capitalising on profitable underwriting opportunities and benefited from improved rate environment. The Syndicate opened one new line of business in 2021 and also saw growth across various established lines of business. This growth can be seen in note 6.

Claims incurred

During 2021 we saw a decrease of claims incurred due to the impact on Covid-19 in 2020 underwriting year. Management reviewed the Syndicate's overall provision in light of the outcome of the FCA's Business Interruption Test Case.

Other losses for which the Syndicate had large exposure during the year were Hurricane Ida (£7.9m net) and civil unrest in South African (£2.4m net).

The reserves are considered to remain an accurate reflection of the Syndicate's exposure with no material additional provisions arising from the outcome of the test case.

Report of the Managing Agent *(continued)*

Review of the Business *(continued)*

Operating Expenses

Net operating expenses, which include acquisition costs and other operating expenses, increased by £5.8m to £69.6m (2020: £63.8m). This increase is in line with the expected increase per the SBF.

Non-Technical Result

The total loss for the year of £8.5m due to the Syndicate have improved by £22.7m (2020: £31.2m loss) on the non-technical account, driven mainly by the result on the technical account, but the loss on foreign exchange of £0.3m (2020: £0.6m gain) has deteriorated the result.

Corporate and Social Responsibility

Our success is anchored by our culture of ethics and compliance. The Board recognises the pivotal role it plays in promoting ethical standards and integrity in the conduct of our business and is committed to maintaining a reputation for high standards of business conduct.

As part of Arch Capital Group Ltd (“ACGL”), we maintain a Code of Business Conduct (the “Code”) which sets expectations and provides guidance to our employees in key areas, including honest and fair dealing, anti-bribery and corruption, potential conflicts of interest, gifts, safety, harassment and discrimination prevention, antitrust and competition and document retention. Our Code applies to everyone, including the Board, and is reviewed regularly to remain current with changing laws, regulations and industry best practices.

To reinforce our commitment to these standards, the Syndicate provides training to all employees on the Code and makes other resources available, including a 24-hour ethics hotline.

The Syndicate is committed to providing equal opportunities to potential and actual staff. Our policy states that all of our employment related decisions must be based on an individual’s job qualifications and performance and not based on any characteristic protected by law, such as age, gender assignment, marital status, being pregnant or on maternity leave, disability, race, religions, sex or sexual orientation.

Our success also depends on developing our employees so they can grow with the Syndicate. We provide high calibre learning and engagement programs to foster meaningful career development for all employees and encourage employees to execute a personal development plan with their managers.

Risk management strategy and risk appetite

The Syndicate has a set of risk appetite statements that are appropriate for its individual business model and strategy. Risk appetite statements setting out clear descriptions detailing appropriate levels of risk are in place for each material area of risk. Each of these statements is supported by a set of key risk indicators for detailed monitoring which are regularly reviewed and escalated where appropriate through the governance structure to the Board. Key risk indicators are set at levels that ensure sufficient remedial actions are put in place to ensure the Syndicate responds early to emerging threats. Risk appetites are reviewed, at a minimum, annually by the Board to ensure that the Syndicate retains full coverage over its risks.

Report of the Managing Agent *(continued)*

Risk management strategy and risk appetite *(continued)*

The table below sets out our strategic risk objectives and shows, at a high level, examples of corresponding appetite statements:

Strategic risk objective	***Risk appetite statement***
Maintain capital adequacy	Maintain sufficient capital to a defined target
Deliver stable earnings	Profitability over a defined period
Stable and efficient access to funding and liquidity	Cash outflows met under stress
Maintain stakeholder confidence	No appetite for material reputational, legal or regulatory risks

The aim of the risk framework is to provide a robust, proportionate, proactive and forward-looking process for risk management across the Syndicate. A central component of this framework is the Syndicate's policies, which inform the business as to how it is required to conduct its activities and its risk management processes to remain within risk appetite. The Syndicate employs a number of risk tools to manage and monitor risk. The output of our risk management activities is thoroughly tested and reported upon both internally and externally. The policies cover all key risks to which the Syndicate is exposed.

The Syndicate incorporates the identification, assessment, management, control, reporting and mitigation of risk as part of our daily operations. We believe the strengths of our risk framework are:

- Strong culture and risk leadership underpinned by training of our people;
- Engagement with the business;
- Embedded risk management processes, linking risk and capital;
- Quantitative approach to risk analysis through use of a robust economic capital model;
- Qualitative risk assessment and management information; and
- Influencing decision-making and shaping behaviours, via the provision of accurate, timely and relevant risk advice and challenge.

The Syndicate's risk management, internal audit, and compliance processes are coordinated to ensure that their respective activities are effective and complementary.

Covid-19 Pandemic

The global pandemic resulting from the novel coronavirus (including variants of the coronavirus such as Delta and Omicron, "COVID-19") has disrupted the global economy, causing a significant slowdown in economic activity around the world. Businesses around the world, including ours, have been impacted by the restrictions on travel, some business activities and non-essential services and the reverberations of severe curtailment of normal activities. Since the start of the pandemic, we have taken proactive steps to ensure the health and safety of our employees with the majority of our employees working from home to maintain business continuity. Our employees and businesses have adapted to the changing needs of our clients, customers and business partners. We remain committed to continuing to carry on our business activities without interruption during these challenging times.

Report of the Managing Agent *(continued)*

Principal risks and uncertainties

The Syndicate writes products that are subject to a number of uncertainties and risks. It is a key role of the risk function to ensure that these risks have been identified, measured and considered throughout the business.

Principal risks	Impact	Strategy, management and mitigation
Strategic risk The economic climate could put at risk our ability to meet our strategic objectives in the areas of distribution, pricing, claims, costs, and international diversification ultimately causing the Syndicate not to meet its business plan.	The value of the Syndicate decreases, resulting in a lack of ACGL Group confidence.	The Syndicate's strategic ambitions include management of strategic risk in accordance with the ACGL Group premium and profitability plans and targets. We do this through: • Constant monitoring and management of agreed strategic targets; • Monitoring of cost savings to ensure they remain on track; and • Monitoring and reporting of capital levels.
Underwriting and pricing risk We are subject to the risk that inappropriate business could be written (or not specifically excluded) and inappropriate prices charged. This includes, but is not limited to, catastrophe risk arising from losses due to unpredictable natural and man-made events affecting multiple covered risks.	Adverse loss experience impacting current year and future year business performance.	Syndicate 1955's insurance risk strategy is to maintain an acceptable level of underwriting exposure within preferred business lines, across a diverse range of distribution channels, products and geographies. We do this through: • Underwriting guidelines for all business transacted, restricting the types and classes of business that may be accepted; • Exception reports and underwriting monitoring tools; • Internal quality assurance programmes; • Pricing policies by product line; • Analysis of comprehensive data to refine pricing; • Quarterly line of business reviews to monitor performance and adequacy of pricing; • Monthly monitoring and reporting of natural and man-made catastrophe risk against appetite; • Purchase of reinsurance to limit exposures; and • Analysis of all property portfolios to determine expected maximum losses.
Reserving risk Due to the uncertain nature and timing of the risks to which we are exposed, we cannot precisely determine the amounts that we will ultimately pay to meet the liabilities covered by the insurance policies written leading to a risk that reserves may not be adequate for the risks underwritten.	Adverse development in prior year reserves resulting in significant deviations in earnings.	Syndicate 1955's reserve risk strategy is to book best estimate reserves being adequate compared to the independent actuaries' best estimate. Technical reserves are estimated by: • A range of actuarial and statistical techniques, with projections of ultimate claims cost involving assumptions across a range of variables, including estimates of trends in claims frequency and average claim amounts based on facts and circumstances at a given point in time; • Making assumptions on other variable factors including; the legal, social, economic and regulatory environments. Other factors considered include business mix, consumer behaviour, market trends, underwriting assumptions, risk pricing models, inflation in medical care costs, future earnings inflation and other relevant forms of inflation, the performance and operation of reinsurance assets and future investment returns; and • Stress and scenario testing.

Report of the Managing Agent *(continued)*

Principal risks and uncertainties *(continued)*

Principal risks	Impact	Strategy, management and mitigation
Ceded reinsurance risk The risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated.	Adverse impact on the financial results.	The Syndicate's reinsurance programmes are determined from the underwriting team business plans and seek to protect Syndicate 1955's capital from an adverse volume or volatility of claims on both per risk and per event basis. • The Syndicate aims to establish appropriate retention levels, limits of protection with clear policy wordings that are consistent with keeping within the Board's risk tolerance and achieving the target rates of return; • Provide stable, sustainable core capacity for each product line with non-core reinsurance purchased when market conditions allow; • ACGL security guidelines are in place to ensure that we deal with a panel of trusted reinsurers; and • The Syndicate also benefits from a whole account quota share with Syndicate 6132 on each of the underwriting years.
Operational risk The risks of direct or indirect losses resulting from inadequate or failed internal processes, fraudulent claims or from systems and people, or from external events including changes in the competitor, regulatory or legislative environments.	Adverse events with potential financial, reputational, legal and customer impacts.	Syndicate 1955 recognises that certain operational risks are unavoidable and seeks to limit exposure to operational risks through ensuring that an effective infrastructure, robust systems and controls and appropriately experienced and qualified individuals are in place throughout the organisation. • We have enhanced many of our operational processes. This includes enhancing our Risk Management framework to integrate risk, business and capital strategies; • We maintain a robust internal control environment; • We maintain a robust risk capture, management and reporting system; and • We recognise the value of our human resources and have appropriate Human Resources ("HR") policies to develop and retain our staff.
Investment risk *Market risk* – the risk of adverse financial impact due to changes in fair values of future cash flows of instruments held in the investment portfolio as a result of changes in interest rates, credit spread and foreign exchange rates. *Credit risk* – the risk of exposure if another party fails to perform its financial obligations, including failing to perform them in a timely manner. *Liquidity risk* – the risk of maintaining insufficient financial resources to meet business obligations as and when they fall due.	Adverse movements due to asset value reduction, mismatch in assets and liabilities, and default of third parties. Inability to meet cash flows under stress.	Syndicate 1955's investment strategy is to protect the value of capital, focusing on assets that we consider are capable of producing a consistent and recurring flow of income over time. Syndicate 1955's liquidity management ensures that a minimum percentage of consolidated investments are held in liquid, short-term money market securities, to ensure that there are sufficient liquid funds available to meet obligations to policyholders and other creditors as they fall due. Our investment portfolio is managed and controlled through: • The Investment Committee receives advice from New England Asset Managers; • Investment strategy and guidelines are proposed to the Board by the Investment Committee and monitored by the Investment Committee; • Diverse holding of types of assets including geographies, sectors and credit ratings; and • Stress testing and scenario analysis.

Report of the Managing Agent *(continued)*

Principal risks and uncertainties *(continued)*

Principal risks	Impact	Strategy, management and mitigation
Counterparty credit risk We partner with many suppliers and the failure of any of these to perform their financial obligations or perform them in a timely manner could result in a financial loss. The principal area of counterparty risk is our use of inter-company quota share reinsurance as a capital management tool.	Loss due to default of banks, reinsurers, brokers or other third parties.	Syndicate 1955's strategy is to avoid risk of large losses from counterparty failures through prudent counterparty selection and review of credit exposures. • Credit limits are set for counterparties, particularly reinsurers; • Requirement for minimum credit ratings for reinsurers; • Broker credit exposures are monitored by the business; and • The credit risk arising out of the inter-company quota share is managed through use of a trust fund arrangement.
Regulatory risk Changes in law and regulations are not identified, understood, or are inappropriately and incorrectly interpreted, or adopted, or business practices are not efficiently modified. Further, there is a risk that current legal or regulatory requirements are not complied with.	Customer impact, financial loss and regulatory censure. Regulatory sanction, legal action or revenue loss.	Syndicate 1955's regulatory risk strategy is to comply with all laws and regulations. • Continued focus on key regulatory issues, including pricing and reserving adequacy during both soft and hard market conditions; • We have a constructive and open relationship with our regulators; and • We continue to monitor all regulatory changes as and when they are required by our regulators.
Conduct risk The risk of failing to deliver the appropriate treatment for our customers throughout all stages of the customer journey and that our people fail to behave with integrity.	Potential customer detriment, financial loss and regulatory censure and sanction.	Syndicate 1955's conduct risk strategy is to ensure good customer outcomes: • Our organisational culture prioritises a consistent approach towards customers and the interests of customers are at the heart of how we operate; and • We have developed a robust customer conduct risk management framework to minimise our exposure to conduct risk.
Group and reputational risk We are dependent on the strength of our Group, our reputation with customers and distributors in the sale of products and services. We have entered into various strategic partnerships that are important to the marketing, sale and distribution of our products.	Loss of Group value negatively impacts our ability to retain and write new business.	Syndicate 1955 derives benefits from being part of the ACGL Group. Group risk is primarily managed at the executive level, through building strong relationships with all parties. Syndicate 1955's reputational risk strategy is to protect our brand and reputation. We do this through: • Our brand and reputation risk are regularly reviewed by various governance committees; and • We seek to offer a superior service to customers and to treat customers fairly in line with Financial Conduct Authority ("FCA") principles.
Risks arising out of the COVID-19 Pandemic On 11 March 2020, the World Health Organisation declared a pandemic in relation to the outbreak of the COVID-19 virus. In particular, the following areas are exposed to increased risk as a result of the pandemic: • Loss exposure and reserve adequacy; • Valuation of the investment portfolio; • Recoverability of debtor balances; and • Operational Risk.	The Syndicate's capital may be negatively impacted.	The Syndicate has evaluated / addressed these risks as follows: • Continuous review of COVID loss development and subsequent relevant developments; • Performance and valuation review of the investment portfolio; • Consideration of any impact on recoverability of debt; • Successful implementation of work from home environment and ability to bind business during the pandemic.

Report of the Managing Agent *(continued)*

Outlook and Future Developments

The Syndicate has had an improved financial year, with a total loss of £8.5m (2020: loss £31.2m). The Syndicate grew in existing lines of business in 2021 due to increased rates and entering into the split stamp arrangement with Syndicate 2012.

Looking to 2022, we look to further capitalise on the increase in rates observed across the market with the aim of improving the combined ratio to achieve a positive return on capital to the Members of Syndicate 1955.

The SBF for 2022 underwriting year includes "Mortgage Indemnity" and "Portfolio Solutions", new lines of business which has been approved by Lloyd's to write during the 2022 underwriting year. These new lines of business, together with continued growth in existing lines of business are expected to contribute to the Syndicate's targeted growth in 2022. Whilst growth continues to be a focus, the Syndicate's governance and underwriting controls continue to place strong emphasis on risk selection and price adequacy, contributing to overall underwriting discipline with the aim of placing profitable business.

The whole account quota share with Syndicate 6132 has not been renewed for 2022 YOA but the corporate member of Syndicate 6132 will participate as a third party capital provider on the Syndicate.

Climate Change

Throughout the year, there has been continued focus on the impact of the Syndicate's operations on the community and the environment. Environmental, Social and Governance ("ESG") has entered the mainstream in recent years as stakeholders evaluate organisations not only to gauge their money-making ability, but also their commitment to making positive change in the world and their ability to manage risks arising out of environmental and social changes.

The Syndicate, as part of the wider ACGL group, is governed by the ESG Steering Committee, which is chaired by the Group's Chief ESG Officer, who has responsibility for coordinating and managing the oversight of ACGL's growing ESG programme. The Directors of the Managing Agent review the output of the ESG Steering Committee, and where deemed appropriate incorporate its recommendations in their management of the Syndicate.

In addition, the directors have made an assessment of the specific risk of climate change to the Syndicate and have identified potential risks relating to underwriting and investment risks, each of which has been set out in further detail below. The Syndicate has embedded management of climate change risks into its standard approach for risk management. This is a fast-changing area and both the Syndicate and the wider insurance market will continue to develop approaches to better understand and manage potential risks from climate change.

Underwriting risks

The Syndicate has a well-established exposure management framework, used to measure and manage catastrophe loss probability. The exposed policies are modelled by country and peril to estimate loss probabilities from natural catastrophe events, such as cyclones, windstorms, earthquakes, floods, bushfires and other hazards.

The whole portfolio is reassessed on a quarterly basis and the assessment includes modelling of historic events and probabilistic extremes of events across relevant geographic regions. Climate change signals, such as warming of sea surface temperatures are incorporated into the parameterisation of the model used.

The Syndicate's models are tested for sensitivity and stress tested against the Syndicate's historic claims experience. The key metric used is the 1 in 250 year stress test performed on a gross and net basis, which are tracked quarterly.

A number of scenarios have been considered based on the PRA's 2021 General Insurance Stress Test climate change specifications, which show that there could be a long-term impact to modelled losses relating to US Windstorm exposures, although it is anticipated that we would remain within current risk appetites.

Report of the Managing Agent *(continued)*

Outlook and Future Developments *(continued)*

The Managing Agency, on behalf of the Syndicate, is looking at all aspects of the potential new underwriting environment that may emerge with the advent of various aspects of climate change. Both first and third party underwriters are working to continually assess the impact of various climate change scenarios on the existing and future portfolio, including but not limited to changing weather pattern and changing sea levels and their impact on risk selection and aggregation; to novel litigation against various companies or their directors and officers for their alleged fault in enabling such change, which may impact risk selection and policy structure; to the opportunities generated by a changing economy. Arch is a writer of renewable energy business, of companies developing and manufacturing electric vehicles and insurers of various projects and research which both enable and profit from a new economy; this develops as the opportunity itself develops and has in itself challenges around pricing and policy form, in which we invest our own intellectual property.

<u>Investment risk</u>

The Syndicate has an investment portfolio worth £251.3m (2020: £347.5) which the Syndicate continues to invest on a prudent basis. Funds are held in terms of cash deposits or invested by the Syndicate's investment manager, New England Asset Management.

The investment committee, which has been delegated oversight of the Syndicate's investment portfolio by the Board of Directors is aware of the importance of stewardship and sustainability alongside integrating ESG into the overall governance structure, which involves the inclusion of Environmental, Social and Governance factors into wider investment analysis. At the ACGL level, ESG scores are incorporated into the overall portfolio analysis on a regular basis, the outcome of which is made available to the local investment committee.

Arch is fully cognisant of the emerging importance of climate change as a fundamental societal issue and is actively investigating opportunities in underwriting, investments and its operational organisation and supply chains to act responsibly and to support the trend towards a sustainable transition to the post-Carbon society.

In line with the PRA's expectations in SS3/19 and PS11/19, an initial plan has been put in place considering governance, risk management, scenario analysis and disclosure.

Donations
The Syndicate made no political or charitable contributions during the year (2020: £nil).

Financial Risk Management

The Syndicate's mission is to generate positive contribution to the growth in the Tangible Book Value of our ultimate parent company and the third party capital providers. We do this by maximising our return on equity within a defined 'risk appetite'. It is essential that we understand the risks the Syndicate is exposed to, namely strategic risk, insurance risk, operational risk, market risk, credit risk, liquidity risk, counterparty risk, regulatory risk, conduct risk, reputation risk and capital risk. Note 4 expands on these risks, including the Syndicate's management of these risks.

Independent Auditors

The independent auditors, PricewaterhouseCoopers LLP, were appointed during the year and have indicated their willingness to continue in office and they will be re-appointed by the Directors of the Managing Agent for the forthcoming year.
Approved by the Board and signed on behalf of the Board by:

Pasquale Leoni
Director
Arch Managing Agency Limited
3 March 2022

Syndicate 1955

Reports and Annual Accounts
For the year ended 31 December 2021

Statement of Managing Agent's Responsibilities

The Directors are responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law and regulations, including Financial Reporting Standard 102 "*The Financial Reporting Standard Applicable in the UK and Republic of Ireland*" ("FRS 102"), and Financial Reporting Standard 103 "*Insurance Contracts*" ("FRS 103").

In accordance with *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008*, managing agents are required to prepare Syndicate annual accounts for each financial year which give a true and fair view of the state of affairs of the Syndicate and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards, including FRSs 102 and 103 have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- Prepare the annual accounts on the basis that the Syndicate will continue to write future business, unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent confirms it has complied with the above requirements in preparing the annual accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Disclosure of Information to Auditors

Each of the persons who are Directors of the Managing Agent at the date of approval of this report confirms that:

- So far as the Director is aware, there is no information relevant to the audit of the Syndicate's annual accounts for the year ended 31 December 2021 of which the auditors are unaware; and
- Each Director has taken all the steps that they ought to have taken in their duty as a Director of the Managing Agent in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Independent Auditors' Report to the Members of Syndicate 1955

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1955's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report, which comprise: the Statement of Financial Position as at 31 December 2021; Profit and Loss Account: Technical Account – General Business, Profit and Loss Account: Non-Technical Account, the Statement of Cash Flows, and the Statement of Changes in Members' Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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 at least twelve months from when the syndicate annual accounts are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the syndicate's ability to continue as a going concern.

Our responsibilities and the responsibilities of the Managing Agent with respect to going concern are described in the relevant sections of this report.

Independent Auditors’ Report to the Members of Syndicate 1955 *(continued)*

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors’ report thereon. The Managing Agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Managing Agent,(the ’Managing Agent’s Report), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent’s Report

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 year ended 31 December 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent’s Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent’s Responsibilities, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of 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 as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors’ 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 auditors’ 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.

Independent Auditors' Report to the Members of Syndicate 1955 *(continued)*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- discussions with the Audit Committee, management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- reviewing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the estimation of claims outstanding, with a focus on the IBNR claims, and the estimation of gross premiums written;
- identifying and testing journal entries based on selected fraud risk criteria, in particular journal entries with unusual account combinations or posted by unexpected users;
- evaluating the business rationale for any significant transactions identified outside the normal course of business; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, 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.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Report to the Members of Syndicate 1955 *(continued)*

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Sean Forster (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2022

Profit and Loss Account: Technical Account – General Business

For the year ended 31 December 2021

	Notes	**2021 £000**	**2020 £000**
Gross premiums written	6	341,607	269,818
Outward reinsurance premiums		(134,526)	(53,130)
Net premiums written		207,081	216,688
Change in the gross provision for unearned premiums		(21,938)	14,573
Change in the provision for unearned premiums, reinsurers' share		4,106	(19,275)
Change in the net provision for unearned premiums		(17,832)	(4,702)
Earned premium, net of reinsurance		189,249	211,986
Allocated investment return transferred from non-technical account		(1,640)	9,680
Other technical income, net of reinsurance		-	(1,162)
Total technical income		**187,609**	**220,504**
Claims incurred, net of reinsurance			
Claims paid			
-gross amount		(76,778)	(263,853)
-reinsurers' share		42,787	119,771
	14	(33,991)	(144,082)
Change in the provision for claims			
-gross amount		(134,762)	17,466
-reinsurers' share		42,501	(61,845)
		(92,261)	(44,379)
Claims incurred, net of reinsurance	14	(126,252)	(188,461)
Net operating expenses	7	(66,345)	(59,897)
Standard personal expenses	7	(3,264)	(3,951)
Total technical charges		**(195,861)**	**(252,309)**
Balance on the technical account for general business		**(8,252)**	**(31,805)**

All Operations are continuing.

The notes on pages 21 to 47 form part of these financial statements.

Profit and Loss Account: Non-Technical Account
For the year ended 31 December 2021

	Notes	2021 £000	2020 £000
Balance on the general business technical account		(8,252)	(31,805)
Investment income		3,390	5,090
(Loss) / gain on the realisation of investments		(1,914)	328
Investment expenses and charges		(310)	(65)
Unrealised (loss) / gain on investments		(2,806)	4,327
	8	**(1,640)**	**9,680**
Allocated investment return transferred to the general business technical account		1,640	(9,680)
Non-technical (loss) / profit on exchange		(256)	8
Total loss for the year		**(8,508)**	**(31,797)**

There are no other comprehensive income or expense other than those reported in the Income Statement, thus no Statement of Comprehensive Income has been prepared.

The notes on pages 21 to 47 form part of these financial statements.

Statement of Financial Position
As at 31 December 2021

	Notes	2021 £000	2020 £000
ASSETS			
Financial Investments			
Shares and other variable-yield securities	*13*	14,257	34,798
Debt securities and other fixed-income securities	*13*	207,076	263,443
Overseas deposits as investments		12,087	25,465
		233,420	**323,706**
Reinsurers' share of technical provisions			
Provision for unearned premiums	*14*	44,615	48,694
Claims outstanding		196,893	390,878
	14	**241,508**	**439,572**
Debtors			
Debtors arising out of direct insurance operations		80,823	72,555
Debtors arising out of direct reinsurance operations		34,613	106,054
Other debtors	*10*	7,417	2,179
		122,853	**180,788**
Other assets			
Cash at bank and in hand		14,897	18,069
Overseas deposits	*13*	2,984	5,700
Deposits with ceding undertakings		423	-
Other assets	*11*	24	3,302
		18,328	**27,071**
Prepayments and accrued income			
Deferred acquisition costs		23,820	24,589
Other prepayments and accrued income		785	1,682
TOTAL ASSETS		**640,714**	**997,408**
LIABILITIES			
Capital and reserves			
Members' balance		(23,916)	(44,304)
Technical provisions			
Provision for unearned premiums	*14*	136,998	130,214
Claims outstanding		418,211	794,858
	14	**555,209**	**925,072**
Creditors			
Creditors arising out of direct insurance operations		96	2,165
Creditors arising out of reinsurance operations		92,642	100,934
Other creditors	*10*	10,998	8,645
		103,736	**111,744**
Accruals and deferred income	*12*	5,685	4,896
TOTAL LIABILITIES (and members' balance)		**640,714**	**997,408**

The notes on pages 21 to 47 form part of these financial statements

The financial statements on pages 17 to 20 were approved by the Board of Arch Managing Agency Limited on 28 February 2022 and were signed on their behalf by:

Jason Kittinger
Chief Financial Officer
Arch Managing Agency Limited
3 March 2022

Statement of Changes in Members' Balance
For the year ended 31 December 2021

	2021 £000	2020 £000
Brought forward at 1 January	(44,304)	(18,662)
Loss for the financial year	(8,508)	(31,797)
Distribution of loss – cash call	28,896	6,155
Members' balances carried forward at 31 December	**(23,916)**	**(44,304)**

The notes on pages 21 to 47 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2021

Reconciliation of operating profit to net cash inflow from operating activities	**2021 £000**	**2020 £000**
Operating loss on ordinary activities	(8,508)	(31,797)
Decrease in gross technical provisions	(369,863)	(43,493)
Increase in reinsurers' share of gross technical provisions	198,063	133,940
Decrease in debtors	57,936	58,064
Decrease in creditors	(8,008)	(74,464)
Increase in other assets / liabilities	5,465	4,309
Investment return	1,640	(9,680)
Change in market value and currency	1,150	(11,443)
Net cash from operating activities	**(122,125)**	**25,436**
Purchase of equity and debt instruments	(320,577)	(312,978)
Sale of equity and debt instruments	231,727	241,195
Investment income received	1,676	5,353
Prior year RITC impact	203,849	
Net cash inflow / (outflow) from investing activities	**116,675**	**(66,430)**
Loss distribution	28,896	6,155
RITC transfer to external party	(28,896)	-
Cash flows from financial activities	**-**	**6,155**
Foreign exchange on cash equivalents	(438)	607
Net decrease in cash and cash equivalents	(5,450)	(34,938)
Cash at bank and in hand at beginning of year	23,769	58,100
Cash at bank and in hand at end of year	**17,881**	**23,769**

The notes on pages 21 to 47 form part of these financial statements

Notes to the Financial Statements

1 General Information

The Syndicate transacts in the underwriting of general insurance and reinsurance business at Lloyd's with underwriting capacity being provided by ASIL, ACML and various third party capital providers. The address of the Managing Agent registered office is 60 Great Tower Street, London, EC3R 5AZ.

2 Statement of compliance

The financial statements of the Syndicate have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "*The Financial Reporting Standard applicable in the UK and Republic of Ireland*" ("FRS 102"), Financial Reporting Standard 103, "*Insurance Contracts*" (FRS 103), *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008* and the Companies Act 2006.

The Syndicate financial statements have been prepared in compliance with the provisions of *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations* relating to insurance groups.

3 Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(b) Going Concern

The Directors of the Managing Agent have assessed the Syndicate's ability to continue as a going concern by considering, amongst other things, the Syndicate's reserve strength, available capital, future business plan 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.

(c) Foreign Currency

(i) Functional and presentation currency

The Syndicate's functional and reporting currency is pounds sterling.

These financial statements are presented in pounds sterling ("pounds" or "GBP"), which is the functional currency of the Syndicate, and are rounded to the nearest thousand unless otherwise stated.

(ii) Foreign currency

The results and financial positions of the non-functional currencies are retranslated into the functional currency as follows:

- monetary assets and liabilities are retranslated at the closing rate at the balance sheet date;
- income and expenses are retranslated at the average rate of exchange during the year; and
- all resulting exchange differences are recognised through the non-technical account.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies *(continued)*

(d) Insurance Contracts

(i) Classification

Contracts under which the Syndicate accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts.

(ii) Recognition and measurement

Revenue

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums incepted but not yet received or notified to the Syndicate. Premiums written are shown gross of commission payable to intermediaries, and exclude taxes and duties levied on premiums.

The earned proportion of premiums is recognised as revenue. Premiums are earned from the date of inception of risk mostly on a time apportionment basis. In the opinion of the Directors of the managing agent the resulting earned portion is not materially different from one based on the pattern of incidence of risk. For lines of business where the earned proportion would be materially different a pattern based on incidence of risk is applied.

Outwards Reinsurance

Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the related direct insurance or inwards reinsurance business. Reinsurance contracts that operate on a ‘losses occurring’ basis are accounted for in full over the year of coverage, whilst ‘risk attaching’ policies are expensed using the same earnings year as the underlying premiums on a daily pro rata basis.

Reinsurance commission income

Commissions on reinsurance premiums are earned in a manner consistent with the recognition of the costs of the reinsurance, generally on a pro-rata basis over the terms of the policies reinsured.

Unearned premium provision

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date calculated on a time apportionment basis. In the opinion of the Directors of the managing agent the resulting provision is not materially different from one based on the pattern of incidence of risk. For lines of business where the earned proportion would be materially different a pattern based on incidence of risk is applied.

Claims

Claims incurred comprise notified claims and related expenses in the year together with changes in the estimates of what we ultimately expect to pay on claims based on facts and circumstances known at the balance sheet date. The insurance reserves include the Syndicate’s total cost of claims incurred but not reported (“IBNR”).

Claims outstanding comprise provisions for the Syndicate’s best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual reported claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made and are disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Notes to the Financial Statements (continued)

3 Significant Accounting Policies (continued)

(d) Insurance Contracts (continued)

Claims (continued)

The Syndicate's reserving policy is to use recognised actuarial techniques appropriate to the loss experience that exists. Where there is limited loss experience our choice of method has primarily been the expected loss method.

We select the initial expected loss and loss adjustment expense ratios based on information derived from our underwriters and actuaries during the initial pricing of the business, supplemented by industry data where appropriate. These ratios consider, amongst other things, rate changes and changes in terms and conditions that have been observed in the market.

For a given underwriting year, additional weight is given to the historic paid and incurred loss development methods in the reserving process, assuming that case reserving practices are consistently applied over time. This reserving process makes some key assumptions that historical paid and reported development patterns are stable.

For catastrophe-exposed business, our reserving process also includes the use of catastrophe models for known events, a heavy reliance on analysis of individual catastrophic events and management judgement. The development of property losses can be unstable, especially for policies characterised by high severity, low frequency losses.

Reinsurance recoveries in respect of estimated claims incurred but not reported are booked in line with the underlying programme, adjusted to reflect changes in the nature and extent of the Syndicate's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies. Reinsurance liabilities are primarily premiums payable for reinsurance.

Unexpired risk provision

Provision is made for unexpired risks arising from contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

(iii) Reinsurance assets and liabilities

The Syndicate cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Syndicate of its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the insured policies and in accordance with the relevant reinsurance contract. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the comprehensive income for the period.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies (continued)

(d) Insurance Contracts *(continued)*

(iv) Deferred acquisition costs

Acquisition costs which represent commission and other related underwriting expenses are deferred over the year in which the related premiums are earned. The deferred expenses relate to underwriter salaries, office costs, and marketing which are deferred based on a ratio between bound and quoted policies by line of business. To the extent that acquisition costs are deferred and considered irrecoverable against the related unearned premiums, they are written off to net operating expenses as incurred.

The deferred acquisition cost represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date. The acquisition costs are expensed from the date of inception of risk on mostly a time apportionment basis. For lines of business where using a time apportionment basis would lead to a materially different result to applying a pattern based on incident of risk, the risk-based earning pattern is applied.

(e) Financial Instruments

The Syndicate has accounted for financial instruments using Sections 11 and 12 of FRS 102.

(i) *Financial assets*

Basic financial assets, including loans, trade receivables and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at market rate of interest.

Loans and receivables and cash and cash equivalents are initially recognised on the date that they are originated. All other basic financial assets are recognised initially on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

Basic financial assets are recognised initially at cost and subsequently measured at amortised cost.

At the end of each reporting period the Syndicate's basic financial assets are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets' original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed and the reversal recognised in the profit or loss.

The Syndicate's investments in debt securities are classified as fair value through profit and loss financial assets. These are initially recognised at fair value, which is normally the transaction price. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in the profit and loss account.

The fair value is determined based on the fair value hierarchy, which defined by the standard are as follows:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies (continued)

(e) Financial Instruments *(continued)*

The Syndicate derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Syndicate is recognised as a separate asset or liability.

(ii) *Financial Liabilities*

Financial liabilities, including trade and other payables, bank loans, and loans from fellow group companies are recognised initially at transaction price on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

Subsequent measurement is at amortised cost, using the effective interest rate method.

The Syndicate derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Syndicate has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Syndicate's cash management are included as a component of cash and cash equivalents.

(g) Taxation

Under Schedule 19 of the Finance Act 1993, managing agents at Lloyd's are not required to deduct basic-rate income tax from trading income. In addition, all UK basic-rate 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.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading "Other Debtors".

No provision has been made for any other overseas tax payable by the Corporate Member on underwriting results.

(h) Deposits with Ceding Undertakings

Deposits with Ceding Undertakings are measured at cost.

Notes to the Financial Statements *(continued)*

4 Management of Risk

The Syndicate's core business is to take risk and our mission is to generate a positive contribution to the growth in the Tangible Book Value (TBV) of our ultimate parent company, ACGL, and our third party capital providers. We do this through our objective of maximising return on equity within a defined 'risk appetite'. It is therefore essential that we understand the significant exposures we face to manage the business well. It is also important that our knowledge of those risks underpins every important decision we make across the Syndicate. The risks from our core business of insurance represent our most significant exposures.

(a) Strategic Risk

This is the risk that the Syndicate's strategy is inappropriate or that the Syndicate is unable to implement its strategy. Where events supersede the Syndicate's strategic plan this is escalated at the earliest opportunity through the Syndicate's monitoring tools and governance structure.

On a day-to-day basis, the Syndicate's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. Staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm our low risk tolerance by aligning interests of all stakeholders.

(b) Insurance Risk

(i) Underwriting Risk

The process of selecting and pricing insurance risks is addressed through a framework of policies, procedures and internal controls. Risk selection is our business and our procedures are designed to ensure that the evaluation of risk is transparent and logical. We have a clearly defined appetite for underwriting risk, which dictates our business plan.

To ensure that our risk appetite is not exceeded, we maintain disciplined underwriting, which is reviewed through quarterly underwriting meetings, regularly monitor closely our exposures to and aggregations of risk in particular places, and buy reinsurance to limit our losses from disasters. We adapt our business plan, target products and reinsurance programme to ensure our book of business is well diversified. The Syndicate's long-term underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit volatility. This is achieved by accepting a spread of business over time, segmented between different classes of business and geography.

The quality of our underwriting models and our capability to accurately measure our aggregate exposure are key to managing this risk. Our underwriters are given incentives to make sound decisions that are aligned with the Syndicate's overall strategic objectives and risk appetite. Clear limits are also placed on their authority. We regularly review our policy wordings in the light of legal developments to ensure the Syndicate's exposure is restricted, as far as possible, to those risks identified in the policy at the time it was issued.

The Syndicate has large aggregate exposures to natural and man-made catastrophic events. These risks are inherently uncertain as it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss which any given occurrence will generate. The Syndicate regularly monitors its exposure to catastrophic events, including earthquake, wind and terrorism, using a catastrophe modelling tool, ("AIR") (Property, Terrorism and Onshore Energy), both locally and at Arch Group level. Additionally, the Syndicate regularly monitors its exposure to man-made realistic disaster scenarios.

The Syndicate seeks to limit its loss exposure by purchasing reinsurance to limit exposure to certain extreme events. The Syndicate monitors concentration risk through limiting its loss exposure by geographical and line of business diversification.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(b) Insurance Risk *(continued)*

The Syndicate's largest exposures to natural catastrophe 1 in 250 year stress events, gross and net basis at December 2021 are:

Territory	Peril	Gross $m	Net $m
USA	Windstorm	195.5	42.4
USA	Earthquake	148.0	24.1
Japan	Earthquake	66.3	10.8
Japan	Windstorm	17.8	3.8
Europe	Windstorm	12.6	3.7

In common with all insurers, the Syndicate is exposed to price volatility. However, the Syndicate is firm in its resolve to exit business that is unlikely to generate underwriting profit. Additionally, the Syndicate alters its appetite for the lines of business and the layers it writes within them in response to market conditions.

The Syndicate writes a significant amount of premium income through coverholder arrangements to whom binding authority is given to accept risks on behalf of the Syndicate. This delegation is strictly controlled through tight underwriting guidelines and limits, and extensive monitoring, review and audits.

(ii) Reserving and Claims Risk

The Syndicate's claims teams are focused upon delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the Syndicate's broader interests. Our objective is to set prompt and accurate case reserves for all known claims liabilities, including provisions for expenses.

The Syndicate operates to a prudent best estimate reserving philosophy. Reserve estimates are derived by the internal actuary after consultation with individual underwriters, claims team, actuarial analysis of the loss reserve development and comparison with market benchmarks. The objective is to produce reliable and appropriate estimates that are consistent over time and across classes of business. The internal actuary's loss assessments are peer reviewed by ACGL actuaries, and the reserves also are subject to review by external actuaries. Where legal disputes are reflected in the book's history, reserves are established taking these into account. Larger disputes are reviewed individually in conjunction with the claims team and legal advice received. Reserves are not discounted for the time value of money.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(b) Insurance Risk *(continued)*

The following table shows the impact of an increase or reduction in claims handling expense and number of IBNR claims, on the profit or loss account.

	Claims inflation assumption £000		**Claims handling expenses £000**		**Number of IBNR claims £000**	
	+5% increase	**-5% reduction**	**+10% increase**	**-10% reduction**	**+5% increase**	**-5% reduction**
2021 Impact on profit after tax and equity						
Gross of Reinsurance	(20,911)	20,911	(350)	350	(16,148)	16,148
Net of Reinsurance	(11,066)	11,066	(350)	350	(8,613)	8,613
2020 Impact on profit after tax and equity						
Gross of Reinsurance	(39,743)	39,743	(673)	673	(22,388)	22,388
Net of Reinsurance	(20,199)	20,199	(673)	673	(10,558)	10,558

(iii) Ceded Reinsurance Risk

Reinsurance risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, resulting in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. The Syndicate's reinsurance programmes are determined from the underwriting team business plans and seek to protect Syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In 2021, the Syndicate bought a combination of proportional and non-proportional reinsurance treaties and facultative reinsurance to reduce the maximum net exposure. The Syndicate aims to establish appropriate retention levels and limits of protection that are consistent with keeping within the Board's risk tolerance and achieving the target rates of return. The efficacy of protection sought is assessed against the cost of reinsurance, taking into consideration current and expected market conditions.

The Syndicate's reinsurance philosophy is to:

- Provide stable, sustainable core capacity for each product line with non-core reinsurance purchased when market conditions allow;
- Reduce volatility;
- Achieve a broad spread of well rated security;
- Purchase reinsurance to limit exposure from maximum line sizes and accumulations with Catastrophe limits purchased up to our risk appetite;
- Utilise AIR as the standard model throughout ACGL;
- Comply with the guidance from the ACGL Security Committees;
- Apply common standards throughout ACGL;
- Consider hard and soft factors such as ability to pay and willingness to pay;
- Set cession limits by reinsurer and by lines of business; and
- Strive for 100% of security rated A- or higher. When this is not the case we aim to have these collateralised per note 17.

The Syndicate also benefits from a whole account quota share with Syndicate 6132, the level of which is set for each individual underwriting year.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(c) Operational Risk

Management continually review potential operational risk factors and has enacted controls to meet these. They have been classified as follows:

Operational Risk Classification	Description
People	Loss of staff (underwriting and key non-underwriting) or inability to recruit; issues concerning integrity and competence of staff, including training; succession; manual inputting error; lack of management supervision; inadequate performance and or failure of escalation to management; and data protection breach or loss.
Processes	Inappropriate underwriting; inappropriate claims and reserve handling; inappropriate reinsurance purchasing; inadequate performance or failure of a third-party supplier; inadequate segregation of duties; inadequate management information; weak processing controls; and failure of corporate governance.
Systems (including Cyber Attack)	Hardware/software failure; network telecommunications software; IT third-party provider inadequate performance or failure; inadequate virus protection; inadequate system or security information; insufficient or untested business continuity processes; insufficient processing capacity; system breach defects; and systems error.
External events, including physical security and business continuity	Natural or man-made disasters leading to business continuity threat; external financial crime, including theft or fraud; changes to the regulatory environment; external security breach; and power outage.
Outsourcing, including delegated underwriting	Inadequate performance or failure of an outsourced service provider, including breach of agreement.
Financial crime, including Anti-Money Laundering	Internal or external fraud; electronic crime; money laundering; terrorist financing; bribery and corruption; market abuse; and insider dealing.
Legal	Risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of the Syndicate's activities.

The operational risk profile is reviewed by the Risk Committee and the controls to mitigate the risks are included in the Risk Register. Risk owners are required to report to the Risk Committee and review the relevant risks and are responsible for identifying new, emerging or changing risks and any subsequent control changes required to realign the risks with the risk appetite. When measuring operational risk, both quantitative factors, in the form of the probable loss, and qualitative factors, in the form of an assessment of the likely reputational impact or the ability of the Syndicate to deliver its service, are taken into account and contribute to determining the risk tolerance.

In respect of one of our largest operational risks, failure of an outsourced service provider, we have formal Service Level Agreements and monitoring processes in place for all key outsourced providers including IT service providers and coverholders. We also have a formal disaster recovery plan in place that deals with both workspace recovery and the retrieval of communications, IT systems and data if a major problem occurred. These procedures would enable us to move the affected operations to alternative facilities very quickly. The disaster recovery plan is tested regularly.

Identifying, planning for and controlling emerging risks is an important part of our risk management activity across all aspects of our business, including underwriting, operations and strategy. We make a significant effort to try to identify material emerging threats to the Syndicate. It is a core responsibility of each of our committees and we believe we take all reasonable steps to minimise the likelihood and impact of emerging risks and to prepare for them in case they occur.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(d) Market Risks

Our investment results are subject to a variety of risks, including changes in the business, financial condition or results of operations of the entities in which we invest, as well as changes in general economic conditions and overall market conditions. Valuations of investments are also exposed to potential loss from various market risks, including changes in equity prices, interest rates, and exchange rates.

The Syndicate's primary investment objective is to preserve capital and to ensure adequate liquidity for settling policyholder claims, while also providing a return that meets or exceeds the total return of the assigned benchmark for each portfolio. Technical funds, those funds held for reserves, are invested primarily in high quality bonds and cash. The high quality and short duration of these funds allows the Syndicate to meet its aim of paying valid claims quickly. These funds, as far as possible, are maintained in the currency of the original premiums for which they are set aside to reduce foreign exchange risk.

Market risk also encompasses the risk of default of counterparties, which is primarily with issuers of bonds in which we invest. Our third-party investment managers are issued guidelines as to the type and nature of bonds in which to invest.

The value of the Syndicate's fixed-income securities is inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the fixed-income investments would tend to rise and vice versa, assuming that credit spreads remain constant.

The sensitivity of the price of a bond is also closely correlated to its duration. The longer the duration of a security, the greater its price volatility.

Interest Rate shift in basis Points

Interest rate risk	**2021**	**2020**
	£000	**£000**
Impact of 50 basis point increase on result	(2,902)	(2,690)
Impact of 50 basis point decrease on result	2,898	2,078
Impact of 50 basis point increase on net assets	(2,902)	(2,690)
Impact of 50 basis point decrease on net assets	2,898	2,078

(e) Currency Risk

The Syndicate is exposed to currency risk in respect of liabilities under insurance policies and reinsurance recoverable debtors under reinsurance policies, denominated in currencies other than sterling. The most significant currencies to which the Syndicate is exposed are the USD, AUD, EUR, CAD and JPY.

The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Assets and liabilities are appropriately matched and as such, the impact to the net result of the Syndicate through movements in the exchange rates between GBP, USD, AUD, EUR, CAD and JPY are mitigated. (See note 4 (g) for asset liability matching table).

(f) Credit Risk

Exposure to credit risk arises from financial transactions with counterparties including debtors, borrowers, brokers, policyholders, reinsurers and guarantors. The Syndicate uses the credit ratings assigned to particular counterparties to measure credit risk.

To lessen the risk of the Syndicate's exposure to any particular reinsurer, exposure limits are approved. On behalf of the Syndicate, ACGL has developed processes to formally examine all reinsurers before entering into new business arrangements.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(f) Credit Risk *(continued)*

The Syndicate has established guidelines for its investment managers regarding the type, duration and quality of investments within the Syndicate guidelines. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

(i) Credit distribution of invested assets and cash

A.M Best	**2021 £000**	**2021 %**	**2020 £000**	**2020 %**
AAA	24,069	10.2	151,520	46.0
AA	144,334	61.0	75,520	22.9
A	48,939	20.7	86,577	26.3
BBB	9,961	4.2	5,021	1.5
BBB or less	1,568	0.7	4,131	1.3
Not rated	7,533	3.2	6,636	2.0
Total	**236,404**	**100.0**	**329,405**	**100.0**

Credit distribution of reinsurance receivables

A.M. Best	**2021 £000**	**2021 %**	**2020 £000**	**2020 %**
AA	15,676	7.4	48,345	11.8
A	184,960	87.2	336,883	82.4
BBB or less	74	0.0	166	0.0
Not rated	11,504	5.4	23,553	5.8
Total	**212,214**	**100.0**	**408,947**	**100.0**

All recoverable amounts are gross of any internally modelled impairment provision.

(ii) Credit Risk – Ageing and Impairment

Financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					
	Neither due nor impaired	**Up to three months**	**Three to six months**	**Six months to one year**	**Greater than one year**	**Financial assets that have been impaired**	**Total**
2021	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Shares and other variable-yield securities and unit trusts	14,257	-	-	-	-	-	14,257
Debt securities	207,076	-	-	-	-	-	207,076
Overseas deposits as investments	12,087	-	-	-	-	-	12,087
Other deposits	2,984	-	-	-	-	-	2,984
Deposits with ceding undertakings	423	-	-	-	-	-	423
Reinsurers' share of claims outstanding	196,893	-	-	-	-	-	196,893
Reinsurance debtors	-	2,661	6,017	4,477	562	-	13,717
Insurance debtors	60,790	12,258	3,434	4,341	-	-	80,823
Other debtors	93,479	1,960	1,045	1,073	-	-	97,557
Cash at bank and in hand	14,897	-	-	-	-	-	14,897
Total credit risk	**602,886**	**16,879**	**10,496**	**9,891**	**562**	**-**	**640,714**

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(f) Credit Risk *(continued)*

	Neither due nor impaired	Financial assets that are past due but not impaired: Up to three months	Three to six months	Six months to one year	Greater than one year	Financial assets that have been impaired	Total
	£000	£000	£000	£000	£000	£000	£000
2020							
Shares and other variable-yield securities and unit trusts	34,798	-	-	-	-	-	34,798
Debt securities	263,443	-	-	-	-	-	263,443
Overseas deposits as investments	25,465	-	-	-	-	-	25,465
Other deposits	5,700						5,700
Deposits for ceding undertakings	-	-	-	-	-	-	-
Reinsurers' share of claims outstanding	390,878	-	-	-	-	-	390,878
Reinsurance debtors	-	10,685	11,218	18,798	6,055	-	46,756
Insurance debtors	27,400	18,053	15,001	12,101	-	-	72,555
Other debtors	130,137	2,119	3,124	4,364	-	-	139,744
Cash at bank and in hand	18,069	-	-	-	-	-	18,069
Total credit risk	**895,890**	**30,857**	**29,343**	**35,263**	**6,055**	**-**	**997,408**

(g) Liquidity Risk

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due and maintain a liquidity position. The Syndicate's approach is to manage its cash flows so that it can reasonably survive a significant loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. Regular cash flow monitoring ensures that maturing deposits are sufficient to meet cash calls.

We run stress tests to estimate the impact of a major catastrophe on our cash position in order to identify any potential issues. We also run scenario analyses that consider the impact on our liquidity should a number of adverse events occur simultaneously, such as an economic downturn and declining investment returns combined with unusually high insurance losses.

Our investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be realised before maturity or at short notice. Hence a high proportion of our investments are in liquid assets, which reduces our risk of making losses because we may have to sell assets quickly.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

Asset Liability Matching

The Syndicate reviews currency asset and liability positions on a regular basis. The currency net assets / (liabilities) positions denote the Syndicate's foreign exchange risk as a result of the translation of subordinated currency positions that are different to the reporting currency of the Syndicate. The main subordinate trading currencies are USD, AUD, EUR, CAD & JPY. The following table describes the net assets / (liabilities) positions at the year end.

	GBP	USD	EUR	CAD	AUD	JPY	OTH	Total
	£000	£000	£000	£000	£000	£000	£000	£000
2021								
Financial investments	9,881	172,989	21,532	14,049	2,882	-	-	221,333
Overseas Deposits	1,609	893	-	2,479	7,106	-	-	12,087
Insurance and reinsurance receivables	(1,321)	70,134	10,091	6,288	7,632	22,612	-	115,436
Reinsurers' share of technical provisions	25,207	189,193	5,705	2,504	3,640	15,259	-	241,508
Cash at bank and in hand	6,623	1,327	4,518	-	1,243	1,143	43	14,897
Other assets	16,948	14,391	1,039	1,208	1,376	491	-	35,453
Total assets	**58,947**	**448,927**	**42,885**	**26,528**	**23,879**	**39,505**	**43**	**640,714**
Technical provisions	(45,176)	(412,332)	(22,955)	(11,369)	(13,274)	(50,103)	-	(555,209)
Insurance and reinsurance payables	(1,097)	(54,254)	(10,174)	(7,262)	(7,983)	(11,968)	-	(92,738)
Other creditors	(30,158)	13,444	47	22	5	-	(43)	(16,683)
Total liabilities	**(79,431)**	**(453,142)**	**(33,082)**	**(18,609)**	**(21,252)**	**(62,071)**	**(43)**	**(664,630)**

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

	GBP	USD	EUR	CAD	AUD	JPY	OTH	Total
	£000	£000	£000	£000	£000	£000	£000	£000
2020								
Financial investments	20,729	218,943	35,163	16,807	6,599	-	-	298,241
Overseas Deposits	2,146	4,896	-	4,625	13,798	-	-	25,465
Insurance and reinsurance receivables	36,572	117,783	8,959	1,789	3,638	12,414	(2,545)	178,610
Reinsurers' share of technical provisions	44,661	330,300	30,005	3,674	12,729	18,203	-	439,572
Cash at bank and in hand	9,735	653	7,426	-	1,727	4,183	45	23,769
Other assets	9,024	19,247	1,585	544	432	708	211	31,751
Total assets	**122,867**	**691,822**	**83,138**	**27,439**	**38,923**	**35,508**	**(2,289)**	**997,408**
Technical provisions	(116,527)	(621,834)	(72,645)	(14,161)	(31,725)	(68,180)	-	(925,072)
Insurance and reinsurance payables	2,743	(93,606)	(5,470)	(1,609)	(2,919)	(2,238)	-	(103,099)
Other creditors	(9,578)	(3,509)	(185)	(75)	(84)	(110)	-	(13,541)
Total liabilities	**(123,362)**	**(718,949)**	**(78,300)**	**(15,845)**	**(34,728)**	**(70,528)**	**-**	**(1,041,712)**

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

The Syndicate manages the impact of currency fluctuations by attempting to ensure currency matching is maintained where feasible. In addition, as part of this process, currency trades may be made to maintain the desired currency net asset allocations. The Syndicate has established foreign exchange facilities with a number of banks to cater for these transactions.

Exchange Sensitivity Analysis

The following table describes the sensitivity to currency change on net assets.

	EUR Net Assets in GBP			USD Net Assets in GBP			AUD Net Assets in GBP		
	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase
Net assets/(liabilities) at 31 December 2021	9,803	980	(980)	(4,215)	(422)	422	2,627	263	(263)
Net assets/(liabilities) at 31 December 2020	4,838	484	(484)	(27,127)	(2,713)	2,713	4,195	420	(420)

	CAD Net Assets in GBP			JPY Net Assets in GBP		
	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase
Net assets/(liabilities) at 31 December 2021	7,919	791	(791)	(22,566)	(2,257)	2,257
Net assets/(liabilities) at 31 December 2020	11,593	1,159	(1,159)	(35,019)	(3,502)	3,502

The above sensitivity analysis is based on the way the Syndicate manages the currencies exposure. The increase shown in the table above reflects the weakening of the currency shown against sterling and a decrease reflects the strengthening of the currency against sterling.

(h) Counterparty Credit Risk

With regard to premium debtor risk, the Syndicate ensures that all brokers are subject to a due diligence protocol and that they have terms of business agreements in place. An approval system also exists for new brokers, and broker performance is regularly reviewed. System exception reports highlight trading with non-approved brokers, and the Syndicate's credit control team regularly monitors the ageing and collectability of debtor balances. Bank credit ratings and concentrations are also monitored at the Investment Committee.

The largest single reinsurer counterparty is Syndicate 6132 in respect of the whole account quota share reinsurance. The reinsured claims outstanding in the credit distribution of reinsurance receivables table above (Page 31) are included within the balance that has a credit rating of 'A+'. The balances due from Syndicate 6132 have further security as it is fully collateralised.

In addition, the Company monitors all key counterparties, including exposures to banking counterparties, on an ongoing basis. Bank credit ratings are monitored by the Investment Committee.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(i) Regulatory Risk

This risk is affected by changes in law and regulations which are not identified, understood, or are inappropriately and incorrectly interpreted, or adopted, or business practices are not efficiently modified. Further, there is a risk that current legal or regulatory requirements are not complied with. We have a constructive and open relationship with our regulators.

(j) Conduct Risk

Conduct risk describes the Syndicate's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. The Syndicate's approach starts with our strong culture which means we consider and understand the needs of our customers and form an important cultural base to getting this right. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite. We are able to extract conduct-related controls from the risk register to provide the Board with assurance that the expected behaviours towards customers are being demonstrated.

(k) Reputational Risk

Reputational risk is the risk of negative publicity as a result of the Syndicate's contractual arrangements, customers, products, services and other activities. Key sources of reputational risk include operation of a Lloyd's franchise and reliance upon the Arch brand in the United States, Europe and Australia. The Syndicate's preference is to minimise reputational risks, but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

(l) Capital Risk

The Syndicate uses an Internal Capital Model for setting economic capital along with a number of other uses. The Syndicate follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed, and the results are documented and reconciled to the Board's risk appetite where necessary.

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to supervision by the PRA under the Financial Services and Markets Act 2000 and in accordance with the Solvency II Directive.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1955 is not disclosed in these annual accounts.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate 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 Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one-year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Over and above this,

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(l) Capital Risk *(continued)*

Lloyd's applies a capital uplift to the Members' capital requirement, to derive 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.

Provision of capital by the member

The member may provide capital to meet its ECA through any mixture of (i) assets held in trust by Lloyd's specifically for that member (funds at Lloyd's "FAL"), (ii) assets held in and managed within a syndicate (funds in syndicate "FIS"), or (iii) undistributed members' balances.

Since FAL is not under the management of the Syndicate no amount has been shown in these Annual Accounts, however the Syndicate is able to make a call on the members' FAL to meet liquidity requirements or to settle losses. During the year, FAL was transferred to the syndicate accepting the RITC of 2018 and prior underwriting years to cover the losses.

Capital Management

The Board of AMAL has in place policies and procedures for managing compliance with regulatory capital requirements and its own capital management objective. This objective is to balance risk and return while maintaining economic and regulatory capital in accordance with risk appetite. The Board of AMAL has no appetite for the Syndicate failing to maintain sufficient capital. To this end, AMAL recalculates its ECA routinely at different points during the annual business cycle, and may also recalculate the ECA on an ad hoc basis if the risk management framework identifies significant changes to the risk profile, or as required by the Board.

(m) Risk Arising out of the COVID-19 Pandemic

Throughout 2021 the COVID-19 pandemic has continued to develop although changes to policy wordings and underwriting standards have removed most direct exposure to further losses. Whilst reducing over time as claims are settled, the Syndicate's exposure to COVID-19 losses remains material and continues to be monitored closely through the quarterly reserving cycle.

In addition to the reserve risk arising out of the COVID-19 pandemic, there is also potential indirect risks. These risks include second order impacts on the economy (e.g., as Governments withdraw financial support), the insurance industry and individual classes of business, such as economic disruption, interest rate and currency volatility, increased risk of security defaults and potential operational disruption to businesses. The Syndicate continues to monitor these potential risks as the political and economic landscape evolves.

5 Critical Accounting Judgements and Estimation Uncertainty

The preparation of the financial statements in conformity with the Generally Accepted Accounting Practice in the UK ("UK GAAP"), requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and judgements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These disclosures supplement the commentary on insurance and financial risk management in the Strategic Report.

(i) Key sources of estimation uncertainty

The areas of the Syndicate's business containing key sources of estimation uncertainty include the measurement of insurance and reinsurance assets and liabilities at the balance sheet date. The most significant of these involves the valuation of outstanding claims and, in particular, the provision for claims incurred but not reported.

Notes to the Financial Statements *(continued)*

5 Critical accounting judgements and estimation uncertainty *(continued)*

The processes used to determine the assumptions on which the measurement of insurance contract provisions is based, actual assumptions used, the effects of changes in assumptions, and an analysis of sensitivity to changes in assumptions are described below.

(ii) Process used to determine the assumptions for measuring insurance contracts

Claims Outstanding, i.e. loss reserves for the Syndicate are comprised of (1) estimated amounts for claims reported ("case reserves") and (2) IBNR losses. Claims personnel determine whether to establish a case reserve for the estimated amount of the ultimate settlement of individual claims. The estimate reflects the judgement of claims personnel based on general corporate reserving practices, the experience and knowledge of such personnel regarding the nature and value of the specific type of claim and, where appropriate, advice of counsel. The Syndicate also contracts with a number of outside third-party administrators in the claims process who, in certain cases, have limited authority to establish case reserves. The work of such administrators is reviewed and monitored by our claims personnel.

Loss Reserves are also established to provide for loss adjustment expenses and represent the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. Periodically, adjustments to the reported or case reserves may be made as additional information regarding the claims is reported or payments are made. IBNR reserves are established to provide for incurred claims which have not yet been reported to an insurer or reinsurer at the balance sheet date, as well as to adjust for any projected variance in case reserving. IBNR reserves are derived by subtracting paid losses and loss adjustment expenses and case reserves from estimates of ultimate losses and loss adjustment expenses. Actuaries estimate ultimate losses and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. The process of estimating reserves involves a considerable degree of judgement by management and, as of any given date, is inherently uncertain.

Ultimate losses and loss adjustment expenses are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. The Syndicate uses several methods for determining its reserves. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

Expected loss methods – these methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss and loss adjustment expense ratios are typically developed based upon the information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data available from organisations, such as statistical bureau and consulting firms, where appropriate. These ratios consider, among other things, rate increases and changes in terms and conditions that have been observed in the market. Expected loss methods are useful for estimating ultimate losses and loss adjustment expenses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available, and is commonly applied when limited loss experience exists for a syndicate.

Historical incurred loss development methods – these methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. These methods use incurred losses (i.e. the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods may be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses may be less reliable than other methods.

Bornhuetter-Ferguson ("B-F") paid and incurred loss methods – these methods utilise actual paid and incurred losses and expected patterns of paid and incurred losses, taking the initial expected ultimate losses into account to determine an estimate of expected ultimate losses. The B-F paid and incurred loss methods are useful when there are few reported claims and a relatively less stable pattern of reported losses.

Notes to the Financial Statements *(continued)*

5 Critical accounting judgements and estimation uncertainty *(continued)*

Additional analyses – other methodologies are often used in the reserving process for specific types of claims or events, such as catastrophic or other specific major events, including COVID-19. These include vendor catastrophe models, which are typically used in the estimation of Loss Reserves at the early stage of known catastrophic events before information has been reported to an insurer or reinsurer, and analyses of specific industry events, such as large lawsuits or claims.

The selection of a method to determine the Syndicate's reserves is driven by not only the characteristics of the lines of business, but also by the development stage of the years of account and the availability, credibility and relevance (for future projection) of in-house or benchmark data. For short-tail lines of business, such as Property and Offshore Operating, reserves will mostly be calculated using the expected loss ratio method for the most recent year of account, unless early loss experience necessitates an upward deviation, before moving to the more data-driven methods for more mature years. For long-tail lines of business, typically the Casualty and D&O classes, reflecting slower loss emergence and settlement, the expected loss ratio method is usually applied for longer than 1 year, unless early loss experience necessitates an upward deviation, before allowing for benign claims experience using more data-driven methods.

(iii) Premium Accruals

Where bordereaux for binders are not received on a timely basis, premium accruals are created by the underwriting teams on a quarterly basis. The accruals are based on a combination of assessment of previous premium bookings and consultation with the delegated underwriting authorities. Accruals are monitored on an ongoing basis by the underwriting teams and finance.

6 Segmental Information

Segmental information required by *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008* is as follows:

2021	**Gross Premiums Written**	**Gross Premiums Earned**	**Gross Claims Incurred**	**Gross Operating Expenses**	**Ceded Balance**	**Total**
	2021	**2021**	**2021**	**2021**	**2021**	**2021**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Direct Insurance						
Accident and health	2,945	2,863	(9,342)	(991)	2,512	(4,958)
Marine	16	9	-	(3)	(1)	5
Aviation	(160)	1,115	(42)	(1,818)	(463)	(1,208)
Transport	-	-	-	-	-	-
Energy – marine	23,753	14,531	(2,010)	(4,278)	(6,371)	1,872
Energy – non marine	683	1,120	(375)	2,890	(1,126)	2,509
Fire and other damage to property	7,488	5,366	(14,617)	(1,037)	2,194	(8,094)
Third party liability	82,859	74,735	(42,115)	(53,691)	719	(20,352)
Pecuniary Loss	7,226	10,964	(2,488)	(1,876)	(3,031)	3,569
Direct Total	**124,810**	**110,703**	**(70,989)**	**(60,804)**	**(5,567)**	**(26,657)**
Reinsurance						
Casualty	41,682	37,420	(29,767)	(12,326)	(657)	(5,329)
Property	85,101	83,674	(48,390)	6,972	(11,419)	30,837
Marine	67,275	66,083	(45,883)	(12,649)	(14,018)	(6,467)
Energy	5,526	10,466	(7,274)	1,998	(1,914)	3,277
Motor	13,228	8,131	(9,055)	(2,564)	408	(3,081)
Aviation	3,985	3,192	(182)	(696)	(1,507)	806
Reinsurance Total	**216,797**	**208,966**	**(140,551)**	**(19,265)**	**(29,107)**	**20,043**
Total	**341,607**	**319,669**	**(211,540)**	**(80,069)**	**(34,674)**	**(6,614)**

Notes to the Financial Statements *(continued)*

6 Segmental Information *(continued)*

2020	**Gross Premium Written Restated* 2020 £000**	**Gross Premium Earned Restated* 2020 £000**	**Gross Claims Incurred Restated* 2020 £000**	**Gross Operating Expenses Restated* 2020 £000**	**Ceded Balance Restated* 2020 £000**	**Total Restated* 2020 £000**
Direct						
Accident and health	3,495	2,921	(9,474)	(1,923)	1,922	(6,554)
Marine	401	386	346	409	(4,091)	(2,950)
Aviation	(1,338)	7,663	(5,514)	(770)	(1,386)	(7)
Transport	1,192	1,239	(2,311)	(399)	1,826	355
Energy – marine	6,541	8,439	(5,080)	(2,971)	(2,218)	(1,830)
Energy – non marine	6,275	9,022	2,157	(9,914)	(1,778)	(513)
Fire and other damage to property	10,503	19,016	(5,303)	(8,514)	980	6,179
Third party liability	50,718	55,912	(56,346)	(16,588)	15,598	(1,424)
Pecuniary Loss	3,450	6,139	(2,326)	(882)	(3,709)	(778)
Direct Total	**81,237**	**110,737**	**(83,851)**	**(41,552)**	**7,144**	**(7,522)**
Reinsurance						
Casualty	40,491	43,937	(55,865)	(7,325)	13,421	(5,832)
Property	68,258	64,186	(41,556)	(13,453)	(7,368)	1,809
Marine	55,130	44,118	(44,256)	(6,144)	(15,527)	(21,809)
Energy	12,156	13,807	(9,760)	(2,222)	(3,069)	(1,244)
Motor	11,888	7,101	(8,885)	(1,847)	(323)	(3,954)
Aviation	658	525	(2,193)	(593)	658	(1,603)
Reinsurance Total	**188,581**	**173,674**	**(162,515)**	**(31,584)**	**(12,208)**	**(32,633)**
Total	**269,818**	**284,411**	**(246,366)**	**(73,136)**	**(5,064)**	**(40,155)**

* The 2020 segmental analysis has been restated to provide information at a more granular class of business level and to reflect new business written through Lloyd's Insurance Company S.A. as reinsurance. This change has been made to improve clarity of disclosure and not to correct a prior year error.

The ceded balance represents the charge or benefit to the technical account from the aggregate of all items relating to outwards reinsurance.

The segmental information presented above is not impacted by the Part VII transfer of business to Lloyd’s Brussels. Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020. In line with Society of Lloyd’s guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd’s Brussels.

This treatment is consistent with the treatment in the Profit and Loss Technical Account.

Notes to the Financial Statements *(continued)*

7 Operating Expenses

Within gross operating expenses are included commissions for direct insurance of £20.6m in 2021 (2020: £25.8m).

	2021 £000	2020 £000
Acquisition costs	(57,091)	(47,866)
Change in deferred acquisition costs	2,173	(6,810)
Administrative expenses	(21,886)	(14,474)
Reinsurance commissions and profit participation	10,459	9,253
Standard personal expenses	(3,264)	(3,951)
	(69,609)	**(63,845)**

Administrative expenses include:

	2021 £000	2020 £0
Fees payable to the Syndicate's auditors and their associates for the audit of the Syndicate's annual accounts	203	200
Audit services pursuant to regulation	257	100
Other services	-	-
Total	**460**	**300**

8 Investment Income

	2021 £000	2020 £0
Interest and similar income		
From financial instruments designated as at fair value through profit or loss	3,080	5,025
From investments designated as at fair value through profit or loss		
Net (loss) / gain on realisation of investments	(1,914)	328
Unrealised (loss) / gain on investments	(2,806)	4,327
Total Investment income	**(1,640)**	**9,680**

9 Directors' Remuneration and Employee Costs

(a) Directors' remuneration

The Directors of AMAL and the Active Underwriter received the following aggregate remuneration charged to the Syndicate during the year:

	2021 £000	2020 £000
Directors of the Managing Agent	2,168	1,400
Active Underwriter	180	200

Further information in respect of the Directors of AMAL is provided in that Managing Agent's financial statements.

Notes to the Financial Statements *(continued)*

9 Directors' Remuneration and Employee Costs *(continued)*

(b) Employee Costs

The average number of staff employed by Arch Europe Insurance Services Ltd ("AEIS") and Arch Underwriters Europe Ltd ("AUEL"), but working for the Syndicate during the year, analysed by category is as follows:

	2021	2020
Underwriting	29	40
Administration and finance	90	51
Claims	21	15
	140	**106**

The Managing Agent has a service and secondment agreement with AEIS and AUEL, whereby staff employed by AEIS and AUEL are provided to the Managing Agent.

	2021	2020
	£000	**£000**
Salaries	8,609	5,911
Social security and pension costs	1,971	311
	10,580	**6,222**

10 Other Debtors and Creditors

	2021 £000	2020 £000
Amounts due from associated undertakings	7,417	2,179
Amounts due to associated undertakings	(10,998)	(8,645)
	(3,581)	**(6,466)**

11 Other Assets

	2021 £000	2020 £000
Claim Float	24	3,302
	24	3,302

12 Accruals and Deferred Income

	2021 £000	2020 £000
Reinsurance share of deferred acquisition costs	5,462	4,474
Deferred income	223	422
	5,685	**4,896**

Notes to the Financial Statements *(continued)*

13 Financial Investments

	Fair Value 2021 £000	Cost 2021 £000	Fair Value 2020 £000	Cost 2020 £000
Shares and other variable-yield securities				
Short term & cash equivalents	9,508	9,508	30,049	30,049
Loans with credit institutions	4,749	4,749	4,749	4,749
	14,257	**14,257**	**34,798**	**34,798**
Debt securities and other fixed-income securities				
Fixed Interest – Approved Securities	118,605	118,997	118,183	115,190
Fixed Interest – Other	83,718	84,200	138,749	135,167
Variable Interest – Approved Securities	3,676	3,692	-	-
Variable Interest - Other	1,077	1,074	6,511	6,478
	207,076	**207,963**	**263,443**	**256,835**

The Managing Agent believes that the carrying value of the investments is supported by their underlying net assets. The financial investments shown above are all listed investments.

The fair values above were determined using the fair value hierarchy as defined in Note 3 (e) (i). The split by level is:

As at 31 December 2021

	Level 1 £000	Level 2 £000	Level 3 £000
Other variable-yield securities	9,508	-	4,749
Debt securities and other fixed-income securities	39,536	167,540	-
Overseas Deposits	-	12,087	-
	49,044	**179,627**	**4,749**

As at 31 December 2020

	Level 1 £000	Level 2 £000	Level 3 £000
Other variable-yield securities	30,049	-	4,749
Debt securities and other fixed-income securities	69,279	194,164	-
Overseas Deposits	-	25,465	-
	99,328	**219,629**	**4,749**

Notes to the Financial Statements *(continued)*

14 Technical Provisions

(a) Summary of net technical provisions:

	Gross 2021 £000	Ceded 2021 £000	Net 2021 £000	Gross 2020 £000	Ceded 2020 £000	Net 2020 £000
Notified claims	95,241	(46,186)	49,055	347,091	(154,264)	192,827
IBNR (incl ULAE)	322,970	(150,707)	172,263	447,767	(236,614)	211,153
Unearned Premium	136,998	(44,615)	92,383	130,214	(48,694)	81,520
Total	**555,209**	**(241,508)**	**313,701**	**925,072**	**(439,572)**	**485,500**

(b) Reconciliation of claims technical provisions:

	2021 £000	2020 £000
Net claims technical provisions brought forward		
Outstanding claims	192,827	176,855
IBNR claims	211,153	135,689
	403,980	**312,544**
Losses incurred in the year		
Current accident year	122,554	105,737
Prior accident years	3,698	123,806
	126,252	**229,543**
Paid losses		
Current accident year	(10,509)	(9,459)
Prior accident years	(23,482)	(134,623)
	(33,991)	**(144,082)**
Net RITC impact	(273,014)	-
Foreign exchange differences	(1,908)	5,975
Net claims technical provisions carried forward		
Outstanding claims	49,055	192,827
IBNR claims	172,263	211,153
	221,318	**403,980**

Notes to the Financial Statements *(continued)*

14 Technical Provisions *(continued)*

(c) Gross claims development triangles – by underwriting year

Underlying Pure Year	At end of u/w year	One year later	Two years later	Cumulative payments	Outstanding reserves
	£000	**£000**	**£000**	**£000**	**£000**
2019	128,329	222,141	237,085	90,816	146,269
2020	110,089	170,725	-	27,896	142,829
2021	140,660	-	-	11,547	129,113
Total	**379,078**	**392,866**	**237,085**	**130,259**	**418,211**

(d) Net claims development triangles – by underwriting year

Underlying Pure Year	At end of u/w year	One year later	Two years later	Cumulative payments	Outstanding reserves
	£000	**£000**	**£000**	**£000**	**£000**
2019	56,438	104,965	110,936	45,591	65,345
2020	56,604	99,035	-	17,142	81,893
2021	79,166	-	-	5,087	74,080
Total	**192,208**	**204,000**	**110,936**	**67,820**	**221,318**

Notes to the Financial Statements *(continued)*

14 Technical Provisions *(continued)*

The tables below show the movements that occurred in the insurance provisions and related reinsurance assets during the year.

Claims Provisions

	Gross 2021 £000	Ceded 2021 £000	Net 2021 £000	Gross 2020 £000	Ceded 2020 £000	Net 2020 £000
At 1 January	794,858	(390,878)	403,980	821,574	(503,848)	317,726
Movement per technical account	134,762	(42,501)	92,261	(17,466)	61,845	44,379
Commutation impact	-	-	-	-	47,781	47,781
RITC impact	(511,516)	238,502	(273,014)	-	-	-
Exchange rate impact	107	(2,016)	(1,909)	(9,250)	3,344	(5,906)
31 December	**418,211**	**(196,893)**	**221,318**	**794,858**	**(390,878)**	**403,980**

Unearned Premiums

	Gross 2021 £000	Ceded 2021 £000	Net 2021 £000	Gross 2020 £000	Ceded 2020 £000	Net 2020 £000
At 1 January	130,214	(48,694)	81,520	146,991	(69,664)	77,327
Movement per technical account	21,938	(4,106)	17,832	(14,573)	19,275	4,702
Commutation impact	-	-	-	-	(1,013)	(1,013)
RITC impact	(16,428)	9,388	(7,040)	-	-	-
Exchange Rate Impact	1,274	(1,203)	71	(2,204)	2,708	504
31 December	**136,998**	**(44,615)**	**92,383**	**130,214**	**(48,694)**	**81,520**

15 Funds at Lloyd's (FAL)

FAL are intended primarily to cover circumstances where syndicate 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 financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses through a formal process controlled by Lloyd's.

During the year, FAL was transferred from the Managing Agent to the external party accepting the RITC of 2018 and prior underwriting years to cover the losses.

Notes to the Financial Statements *(continued)*

16 Related Parties

(a) SPA Syndicate 6132:

The Syndicate has ceded reinsurance to SPA 6132 on a fund withheld basis.

For the 2019 Year of Account, the Syndicate ceded 15.18% across all classes and an additional 5% on Financial Institutions and Cyber classes which amounted to £48.1m.

For the 2020 Year of Account, the Syndicate ceded 15.46% across all classes and an additional 5% on Financial Institutions and Cyber classes which amounted to £46.6m.

For the 2021 Year of Account, the Syndicate ceded 15.05% across all classes which amounted to £46.4m.

(b) Key Management Personnel Compensation:

The key management personnel are deemed to be the Directors of the Managing Agent and the Active Underwriter.

The Directors' and the active underwriter remuneration has been disclosed separately in note 9 to the financial statements.

(c) Arch companies:

Syndicate 1955 and Syndicate 6132 are managed by AMAL. The Directors of AMAL regard ACGL, a company incorporated in Bermuda, as the ultimate holding company and controlling party. This is the largest company into which the Syndicate's results are consolidated. Copies of the consolidated financial statements of ACGL can be obtained from The Secretary. Arch Reinsurance Ltd. Is the smallest company into which the Syndicate's results are consolidated.

As at the end of 2021, the Syndicate had an outstanding debtor balance with ACGL of £nil (2020: £nil). A Managing Agency fee of £2.9m (2020: £2.3m) was payable from the Syndicate to the Agency during the year.

During 2021, the following Group companies contributed towards the Syndicate's Gross written premium: Castel Underwriting Agencies Limited wrote £nil (2020: £7.6m) and Arch Re Europe wrote £6.6m (2020: £8.0m).

During 2021, Syndicate 1955 entered into an outwards reinsurance contract with the following Group companies: Arch Re Ltd which resulted in ceded written premium of £47.8m (2020: £23.4) and Somers Re Ltd which resulted in ceded written premium of £2.5m (2020: £nil)

17 Off Balance Sheet Items

As at 31 December 2021, the Syndicate had received £103.5m of collateral (2020: £95.3m) from reinsurers with ratings lower than A-. Other than this, the Syndicate has not been party to any arrangement, not reflected in its Statement of Financial Position, where material risks or benefits arise for the Syndicate.

18 Post Balance Sheet Events

The developing conflict in Ukraine continues to be closely monitored. The Syndicate has exposure, in particular from policies covering political violence and war. This exposure is protected by reinsurance where gross losses are expected to be covered by the reinsurance in place. The current estimate of potential losses are not expected to be significant. Premiums written on a number of classes of business could be impacted in 2022 following the introduction of sanctions but will not impact on the overall operations of the Syndicate.

Directors of the Managing Agent and Administration

Directors of the Managing Agent as at 3 March 2022

S. Bashford
N. Denniston
K. Felisky
M. Hammer-Dahinden
J. Kittinger
P. Leoni
J. Mentz
P. Storey
H. Sturgess

Syndicate Secretary

P. Ralph

Managing Agent Registered Number

06948515

Managing Agent Registered Office

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Principal Bankers

Lloyds Bank
Citibank NA
Royal Trust Corporation of Canada

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London, SE1 2RT

Website

www.archinsurance.co.uk

Syndicate 1955

Underwriting Year Accounts
Closed 2019 Year of Account
31 December 2021

Statement of Managing Agent's Responsibilities

The Directors are responsible for preparing the Syndicate Underwriting Year Accounts in accordance with applicable law and regulations

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

- Select suitable accounting policies which are applied consistently and, where there are items which affect more than one Year of Account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the Reinsurance to Close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different Years of Account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- Take into account all income and charges relating to a closed Year of Account without regard to the date and receipt or payment;
- Make judgements and estimates that are reasonable and prudent; and
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate Underwriting Year Accounts.

The Managing Agent confirms it has complied with the above requirements in preparing the Syndicate Underwriting Year Accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Agency 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 auditors' report to the members of Syndicate 1955 - 2019 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 1955's syndicate underwriting year financial statements for the 2019 year of account for the 3 years ended 31 December 2021 (the "underwriting year financial statements"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its loss for the 2019 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Annual Report (the "Underwriting Year Accounts"), which comprise: the Statement of Financial Position for the closed 2019 Year of Account as at 31 December 2021; Profit and Loss Account: Technical Account – General Business and Profit and Loss Account: Non-Technical Account for the closed 2019 Year of Account for the 3 years then ended, and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the underwriting year financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the underwriting year financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

Without modifying our opinion, we draw attention to note 3 (a) of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the Use of this report paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Independent auditors' report to the members of Syndicate 1955 - 2019 closed year of account *(continued)*

In connection with our audit of the underwriting year financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the underwriting year financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the underwriting year financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2019 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements

Our objectives are to obtain reasonable assurance about whether the underwriting year financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 underwriting year financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

- discussions with the Audit Committee, management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

- evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;

- reviewing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the estimation of claims outstanding, with a focus on the IBNR claims, and the estimation of gross premiums written;

Independent auditors' report to the members of Syndicate 1955 - 2019 closed year of account *(continued)*

- identifying and testing journal entries based on selected fraud risk criteria, in particular journal entries with unusual account combinations or posted by unexpected users;

- evaluating the business rationale for any significant transactions identified outside the normal course of business; and

- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the underwriting year financial statements. Also, 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.
A further description of our responsibilities for the audit of the underwriting year financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Sean Forster (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2022

Profit and Loss Account: Technical Account – General Business

For the closed 2019 Year of Account for the three years ended 31 December 2021

	Notes	**Cumulative balance at 31 December 2021 £000**
Syndicate allocated capacity		221,997
Gross premiums written	6	307,525
Outward reinsurance premiums		(135,882)
Net premiums written		171,643
Earned premium, net of reinsurance		171,643
Allocated investment return transferred from non-technical account		2,891
Other technical income, net of reinsurance		-
Total technical income		**174,534**
Claims incurred, net of reinsurance		
Claims paid		
-gross amount		(92,805)
-reinsurers' share		45,272
		(47,533)
Change in the provision for claims		
-gross amount		(163,964)
-reinsurers' share		89,045
		(74,919)
Claims incurred, net of reinsurance		(122,452)
Net operating expenses	7	(57,497)
Standard personal expenses	7	(4,497)
Total technical charges		**(184,446)**
Balance on the technical account for general business		**(9,912)**

All Operations are continuing.

The notes on pages 57 to 74 form part of these financial statements.

Profit and Loss Account: Non-Technical Account

For the closed 2019 Year of Account for the three years ended 31 December 2021

	Notes	**Cumulative balance at 31 December 2021 £000**
Balance on the general business technical account		(9,912)
Investment income		2,926
Gains on the realisation of investments		299
Investment expenses and charges		(41)
Losses on the realisation of investments		(842)
Unrealised gain on investments		549
	8	**2,891**
Allocated investment return transferred to the general business technical account		(2,891)
Non-technical profit on exchange		3,225
Total loss for the underwriting year		**(6,687)**

There are no other comprehensive income or expense other than those reported in the Income Statement, thus no Statement of Comprehensive Income has been prepared.

The notes on pages 57 to 74 form part of these financial statements.

Statement of Financial Position
For the Closed 2019 Year of Account
As at 31 December 2021

	Notes	**2021**
ASSETS		**£000**
Financial Investments		
Shares and other variable-yield securities		3,889
Debt securities and other fixed-income securities		61,505
Overseas deposits as investments		4,823
		70,217
Reinsurers' share of technical provisions		
Provision for unearned premiums		2,903
Claims outstanding		80,663
		83,566
Debtors		
Debtors arising out of direct insurance operations		11,112
Debtors arising out of direct reinsurance operations		11,609
Other debtors	*9*	(332)
		22,389
Other assets		
Cash at bank and in hand		(558)
Overseas deposits		1,191
Deposits with ceding undertakings		423
Other assets	*10*	12
		1,068
Prepayments and accrued income		
Deferred acquisition costs		9
Other prepayments and accrued income		354
TOTAL ASSETS		**177,603**
LIABILITIES		
Capital and reserves		
Members' balance		6,687
Technical provisions		
Provision for unearned premiums		(5,471)
Claims outstanding		(146,269)
		(151,740)
Creditors		
Creditors arising out of direct insurance operations		(90)
Creditors arising out of reinsurance operations		(32,489)
Other creditors	*9*	(241)
		(32,820)
Accruals and deferred income	*11*	270
TOTAL LIABILITIES (and members' balance)		**(177,603)**

The Syndicate Underwriting Year Accounts on pages 54 to 56 were approved by the Board of Arch Managing Agency Limited on 28 February 2022 and were signed on their behalf by:

Jason Kittinger
Chief Financial Officer
Arch Managing Agency Limited
3 March 2021

Notes to the Financial Statements

1 General Information

The Syndicate transacts in the underwriting of general insurance and reinsurance business at Lloyd's with underwriting capacity for the 2019 underwriting year being provided by ACML and various third party capital providers. The address of the Managing Agent registered office is 60 Great Tower Street, London, EC3R 5AZ.

2 Statement of compliance

The financial statements of the Syndicate have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "*The Financial Reporting Standard applicable in the UK and Republic of Ireland*" ("FRS 102"), Financial Reporting Standard 103, "*Insurance Contracts*" (FRS 103), *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008* and the Companies Act 2006.

3 Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

(a) Basis of preparation

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 2019 year of account which has been closed by reinsurance to close as at 31 December 2021. Consequently, the balance sheet represents the assets and liabilities of the 2019 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three-year period until closure. These accounts cover the three years from the date of inception of the 2019 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

(b) Going Concern

These underwriting year accounts relate to a closed underwriting year of account and therefore matters relating to going concern are not relevant to the underwriting year accounts.

(c) Foreign Currency

(i) Functional and presentation currency

The Syndicate's functional and reporting currency is pounds sterling.

These financial statements are presented in pounds sterling ("pounds" or "GBP"), which is the functional currency of the Syndicate, and are rounded to the nearest thousand unless otherwise stated.

(ii) Foreign currency

The results and financial positions of the non-functional currencies are retranslated into the functional currency as follows:

- monetary assets and liabilities are retranslated at the closing rate at the balance sheet date;
- income and expenses are retranslated at the average rate of exchange during the year; and
- all resulting exchange differences are recognised through the non-technical account.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies *(continued)*

(d) Insurance Contracts

(i) Classification

Contracts under which the Syndicate accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts.

(ii) Recognition and measurement

Revenue

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums incepted but not yet received or notified to the Syndicate, less an allowance for cancellations. Premiums written are shown gross of commission payable to intermediaries, and exclude taxes and duties levied on premiums.

The earned proportion of premiums is recognised as revenue. Premiums are earned from the date of inception of risk mostly on a time apportionment basis. In the opinion of the Directors of the managing agent the resulting earned portion is not materially different from one based on the pattern of incidence of risk. For lines of business where the earned proportion would be materially different a pattern based on incidence of risk is applied.

Outwards Reinsurance

Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the related direct insurance or inwards reinsurance business. Reinsurance contracts that operate on a ‘losses occurring’ basis are accounted for in full over the year of coverage, whilst ‘risk attaching’ policies are expensed using the same earnings year as the underlying premiums on a daily pro rata basis.

Reinsurance commission income

Commissions on reinsurance premiums are earned in a manner consistent with the recognition of the costs of the reinsurance, generally on a pro-rata basis over the terms of the policies reinsured.

Unearned premium provision

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date calculated on a time apportionment basis. In the opinion of the Directors of the managing agent the resulting provision is not materially different from one based on the pattern of incidence of risk. For lines of business where the earned proportion would be materially different a pattern based on incidence of risk is applied.

Claims

Claims incurred comprise notified claims and related expenses in the year together with changes in the estimates of what we ultimately expect to pay on claims based on facts and circumstances known at the balance sheet date. The insurance reserves include the Syndicate’s total cost of claims IBNR.

Claims outstanding comprise provisions for the Syndicate’s best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual reported claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made and are disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Notes to the Financial Statements (continued)

3 Significant Accounting Policies (continued)

(d) Insurance Contracts (continued)

(ii) Recognition and measurement (continued)

Claims (continued)

The Syndicate's reserving policy is to use recognised actuarial techniques appropriate to the loss experience that exists. Where there is limited loss experience our choice of method has primarily been the expected loss method.

We select the initial expected loss and loss adjustment expense ratios based on information derived from our underwriters and actuaries during the initial pricing of the business, supplemented by industry data where appropriate. These ratios consider, amongst other things, rate changes and changes in terms and conditions that have been observed in the market.

For a given underwriting year, additional weight is given to the historic paid and incurred loss development methods in the reserving process, assuming that case reserving practices are consistently applied over time. This reserving process makes some key assumptions that historical paid and reported development patterns are stable.

For catastrophe-exposed business, our reserving process also includes the use of catastrophe models for known events, a heavy reliance on analysis of individual catastrophic events and management judgement. The development of property losses can be unstable, especially for policies characterised by high severity, low frequency losses.

Reinsurance recoveries in respect of estimated claims incurred but not reported are booked in line with the underlying programme, adjusted to reflect changes in the nature and extent of the Syndicate's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies. Reinsurance liabilities are primarily premiums payable for reinsurance.

Unexpired risk provision

Provision is made for unexpired risks arising from contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

(iii) Reinsurance assets and liabilities

The Syndicate cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Syndicate of its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the insured policies and in accordance with the relevant reinsurance contract. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the comprehensive income for the period.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies (continued)

(d) Insurance Contracts *(continued)*

(iv) Deferred acquisition costs

Acquisition costs which represent commission and other related underwriting expenses are deferred over the year in which the related premiums are earned. The deferred expenses relate to underwriter salaries, office costs, and marketing which are deferred based on a ratio between bound and quoted policies by line of business. To the extent that acquisition costs are deferred and considered irrecoverable against the related unearned premiums, they are written off to net operating expenses as incurred.

The deferred acquisition cost represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date. The acquisition costs are expensed from the date of inception of risk on mostly a time apportionment basis. For lines of business where using a time apportionment basis would lead to a materially different result to applying a pattern based on incident of risk, the risk-based earning pattern is applied.

(e) Financial Instruments

The Syndicate has accounted for financial instruments using Sections 11 and 12 of FRS 102.

(i) *Financial assets*

Basic financial assets, including loans, trade receivables and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at market rate of interest.

Loans and receivables and cash and cash equivalents are initially recognised on the date that they are originated. All other basic financial assets are recognised initially on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

Basic financial assets are recognised initially at cost and subsequently measured at amortised cost.

At the end of each reporting period the Syndicate's basic financial assets are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets' original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed and the reversal recognised in the profit or loss.

The Syndicate's investments in debt securities are classified as fair value through profit and loss financial assets. These are initially recognised at fair value, which is normally the transaction price. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in the profit and loss account.

The fair value is determined based on the fair value hierarchy, which defined by the standard are as follows:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies (continued)

(e) Financial Instruments *(continued)*

The Syndicate derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Syndicate is recognised as a separate asset or liability.

(ii) *Financial Liabilities*

Financial liabilities, including trade and other payables, bank loans, and loans from fellow group companies are recognised initially at transaction price on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

Subsequent measurement is at amortised cost, using the effective interest rate method.

The Syndicate derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Syndicate has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Syndicate's cash management are included as a component of cash and cash equivalents.

(g) Taxation

Under Schedule 19 of the Finance Act 1993, managing agents at Lloyd's are not required to deduct basic-rate income tax from trading income. In addition, all UK basic-rate 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.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading "Other Debtors".

No provision has been made for any other overseas tax payable by the Corporate Member on underwriting results.

(h) Deposits with Ceding Undertakings

Deposits with Ceding Undertakings are measured at cost.

Notes to the Financial Statements *(continued)*

4 Management of Risk

The Syndicate's core business is to take risk and our mission is to generate a positive contribution to the growth in the Tangible Book Value (TBV) of our ultimate parent company, ACGL, and our third party capital providers. We do this through our objective of maximising return on equity within a defined 'risk appetite'. It is therefore essential that we understand the significant exposures we face to manage the business well. It is also important that our knowledge of those risks underpins every important decision we make across the Syndicate. The risks from our core business of insurance represent our most significant exposures.

(a) Strategic Risk

This is the risk that the Syndicate's strategy is inappropriate or that the Syndicate is unable to implement its strategy. Where events supersede the Syndicate's strategic plan this is escalated at the earliest opportunity through the Syndicate's monitoring tools and governance structure.

On a day-to-day basis, the Syndicate's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. Staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm our low risk tolerance by aligning interests of all stakeholders.

(b) Insurance Risk

(i) Underwriting Risk

The process of selecting and pricing insurance risks is addressed through a framework of policies, procedures and internal controls. Risk selection is our business and our procedures are designed to ensure that the evaluation of risk is transparent and logical. We have a clearly defined appetite for underwriting risk, which dictates our business plan.

To ensure that our risk appetite is not exceeded, we maintain disciplined underwriting, which is reviewed through quarterly underwriting meetings, regularly monitor closely our exposures to and aggregations of risk in particular places, and buy reinsurance to limit our losses from disasters. We adapt our business plan, target products and reinsurance programme to ensure our book of business is well diversified. The Syndicate's long-term underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit volatility. This is achieved by accepting a spread of business over time, segmented between different classes of business and geography.

The quality of our underwriting models and our capability to accurately measure our aggregate exposure are key to managing this risk. Our underwriters are given incentives to make sound decisions that are aligned with the Syndicate's overall strategic objectives and risk appetite. Clear limits are also placed on their authority. We regularly review our policy wordings in the light of legal developments to ensure the Syndicate's exposure is restricted, as far as possible, to those risks identified in the policy at the time it was issued.

The Syndicate has large aggregate exposures to natural and man-made catastrophic events. These risks are inherently uncertain as it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss which any given occurrence will generate. The Syndicate regularly monitors its exposure to catastrophic events, including earthquake, wind and terrorism, using a catastrophe modelling tool, ("AIR") (Property, Terrorism and Onshore Energy), both locally and at Arch Group level. Additionally, the Syndicate regularly monitors its exposure to man-made realistic disaster scenarios.

The Syndicate seeks to limit its loss exposure by purchasing reinsurance to limit exposure to certain extreme events. The Syndicate monitors concentration risk through limiting its loss exposure by geographical and line of business diversification.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(b) Insurance Risk *(continued)*

(i) Underwriting Risk (continued)

The Syndicate's largest exposures to natural catastrophe 1 in 250 year stress events, gross and net basis at for the 2019 underwriting year at December 2021 are:

Territory	Peril	Gross $m	Net $m
Europe	Windstorm	0.4	0.2
USA	Earthquake	2.6	0.8
USA	Windstorm	0.5	0.2
Japan	Earthquake	0.8	0.1
Japan	Windstorm	0.3	0.1

In common with all insurers, the Syndicate is exposed to price volatility. However, the Syndicate is firm in its resolve to exit business that is unlikely to generate underwriting profit. Additionally, the Syndicate alters its appetite for the lines of business and the layers it writes within them in response to market conditions.

The Syndicate writes a significant amount of premium income through coverholder arrangements to whom binding authority is given to accept risks on behalf of the Syndicate. This delegation is strictly controlled through tight underwriting guidelines and limits, and extensive monitoring, review and audits.

(ii) Reserving and Claims Risk

The Syndicate's claims teams are focused upon delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the Syndicate's broader interests. Our objective is to set prompt and accurate case reserves for all known claims liabilities, including provisions for expenses.

The Syndicate operates to a prudent best estimate reserving philosophy. Reserve estimates are derived by the internal actuary after consultation with individual underwriters, claims team, actuarial analysis of the loss reserve development and comparison with market benchmarks. The objective is to produce reliable and appropriate estimates that are consistent over time and across classes of business. The internal actuary's loss assessments are peer reviewed by ACGL actuaries, and the reserves also are subject to review by external actuaries. Where legal disputes are reflected in the book's history, reserves are established taking these into account. Larger disputes are reviewed individually in conjunction with the claims team and legal advice received. Reserves are not discounted for the time value of money.

(iii) Ceded Reinsurance Risk

Reinsurance risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, resulting in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. The Syndicate's reinsurance programmes are determined from the underwriting team business plans and seek to protect Syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In 2021, the Syndicate bought a combination of proportional and non-proportional reinsurance treaties and facultative reinsurance to reduce the maximum net exposure. The Syndicate aims to establish appropriate retention levels and limits of protection that are consistent with keeping within the Board's risk tolerance and achieving the target rates of return. The efficacy of protection sought is assessed against the cost of reinsurance, taking into consideration current and expected market conditions.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(b) Insurance Risk *(continued)*

(iii) Ceded Reinsurance Risk (continued)

The Syndicate's reinsurance philosophy is to:

- Provide stable, sustainable core capacity for each product line with non-core reinsurance purchased when market conditions allow;
- Reduce volatility;
- Achieve a broad spread of well rated security;
- Purchase reinsurance to limit exposure from maximum line sizes and accumulations with Catastrophe limits purchased up to our risk appetite;
- Utilise AIR as the standard model throughout ACGL;
- Comply with the guidance from the ACGL Security Committees;
- Apply common standards throughout ACGL;
- Consider hard and soft factors such as ability to pay and willingness to pay;
- Set cession limits by reinsurer and by lines of business; and
- Strive for 100% of security rated A- or higher. When this is not the case we aim to have these collateralized.

The Syndicate also benefits from a whole account quota share with Syndicate 6132, the level of which is set for each individual underwriting year.

(c) Operational Risk

Management continually review potential operational risk factors and has enacted controls to meet these. They have been classified as follows:

Operational Risk Classification	Description
People	Loss of staff (underwriting and key non-underwriting) or inability to recruit; issues concerning integrity and competence of staff, including training; succession; manual inputting error; lack of management supervision; inadequate performance and or failure of escalation to management; and data protection breach or loss.
Processes	Inappropriate underwriting; inappropriate claims and reserve handling; inappropriate reinsurance purchasing; inadequate performance or failure of a third-party supplier; inadequate segregation of duties; inadequate management information; weak processing controls; and failure of corporate governance.
Systems (including Cyber Attack)	Hardware/software failure; network telecommunications software; IT third-party provider inadequate performance or failure; inadequate virus protection; inadequate system or security information; insufficient or untested business continuity processes; insufficient processing capacity; system breach defects; and systems error.
External events, including physical security and business continuity	Natural or man-made disasters leading to business continuity threat; external financial crime, including theft or fraud; changes to the regulatory environment; external security breach; and power outage.
Outsourcing, including delegated underwriting	Inadequate performance or failure of an outsourced service provider, including breach of agreement.
Financial crime, including Anti-Money Laundering	Internal or external fraud; electronic crime; money laundering; terrorist financing; bribery and corruption; market abuse; and insider dealing.
Legal	Risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of the Syndicate's activities.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(c) Operational Risk *(continued)*

The operational risk profile is reviewed by the Risk Committee and the controls to mitigate the risks are included in the Risk Register. Risk owners are required to report to the Risk Committee and review the relevant risks and are responsible for identifying new, emerging or changing risks and any subsequent control changes required to realign the risks with the risk appetite. When measuring operational risk, both quantitative factors, in the form of the probable loss, and qualitative factors, in the form of an assessment of the likely reputational impact or the ability of the Syndicate to deliver its service, are taken into account and contribute to determining the risk tolerance.

In respect of one of our largest operational risks, failure of an outsourced service provider, we have formal Service Level Agreements and monitoring processes in place for all key outsourced providers including IT service providers and coverholders. We also have a formal disaster recovery plan in place that deals with both workspace recovery and the retrieval of communications, IT systems and data if a major problem occurred. These procedures would enable us to move the affected operations to alternative facilities very quickly. The disaster recovery plan is tested regularly.

Identifying, planning for and controlling emerging risks is an important part of our risk management activity across all aspects of our business, including underwriting, operations and strategy. We make a significant effort to try to identify material emerging threats to the Syndicate. It is a core responsibility of each of our committees and we believe we take all reasonable steps to minimise the likelihood and impact of emerging risks and to prepare for them in case they occur.

(d) Market Risks

Our investment results are subject to a variety of risks, including changes in the business, financial condition or results of operations of the entities in which we invest, as well as changes in general economic conditions and overall market conditions. Valuations of investments are also exposed to potential loss from various market risks, including changes in equity prices, interest rates, and exchange rates.

The Syndicate’s primary investment objective is to preserve capital and to ensure adequate liquidity for settling policyholder claims, while also providing a return that meets or exceeds the total return of the assigned benchmark for each portfolio. Technical funds, those funds held for reserves, are invested primarily in high quality bonds and cash. The high quality and short duration of these funds allows the Syndicate to meet its aim of paying valid claims quickly. These funds, as far as possible, are maintained in the currency of the original premiums for which they are set aside to reduce foreign exchange risk.

Market risk also encompasses the risk of default of counterparties, which is primarily with issuers of bonds in which we invest. Our third-party investment managers are issued guidelines as to the type and nature of bonds in which to invest.

The value of the Syndicate’s fixed-income securities is inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the fixed-income investments would tend to rise and vice versa, assuming that credit spreads remain constant.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(d) Market Risks *(continued)*

The sensitivity of the price of a bond is also closely correlated to its duration. The longer the duration of a security, the greater its price volatility.

(i) Interest Rate shift in basis Points

Interest rate risk	**2021**
	£000
Impact of 50 basis point increase on result	(860)
Impact of 50 basis point decrease on result	811
Impact of 50 basis point increase on net assets	(860)
Impact of 50 basis point decrease on net assets	811

(e) Currency Risk

The Syndicate is exposed to currency risk in respect of liabilities under insurance policies and reinsurance recoverable debtors under reinsurance policies, denominated in currencies other than sterling. The most significant currencies to which the Syndicate is exposed are the USD, AUD, EUR, CAD and JPY.

The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Assets and liabilities are appropriately matched and as such, the impact to the net result of the Syndicate through movements in the exchange rates between GBP, USD, AUD, EUR, CAD and JPY are mitigated.

(f) Credit Risk

Exposure to credit risk arises from financial transactions with counterparties including debtors, borrowers, brokers, policyholders, reinsurers and guarantors. The Syndicate uses the credit ratings assigned to particular counterparties to measure credit risk.

To lessen the risk of the Syndicate’s exposure to any particular reinsurer, exposure limits are approved. On behalf of the Syndicate, ACGL has developed processes to formally examine all reinsurers before entering into new business arrangements.

The Syndicate has established guidelines for its investment managers regarding the type, duration and quality of investments within the Syndicate guidelines. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

(iii) Credit distribution of invested assets and cash

	2021	**2021**
A.M Best	**£000**	**%**
AAA	7,780	10.9
AA	42,997	60.2
A	14,317	20.0
BBB	3,058	4.3
BBB or less	626	0.9
Not rated	2,629	3.7
Total	**71,407**	**100.0**

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(f) Credit Risk *(continued)*

Credit distribution of reinsurance receivables

	2021	**2021**
A.M. Best	**£000**	**%**
AA	6,422	8.0
A	69,363	86.1
BBB or less	30	0.0
Not rated	4,713	5.9
Total	**80,528**	**100.0**

All recoverable amounts are gross of any internally modelled impairment provision.

(g) Liquidity Risk

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due and maintain a liquidity position. The Syndicate's approach is to manage its cash flows so that it can reasonably survive a significant loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. Regular cash flow monitoring ensures that maturing deposits are sufficient to meet cash calls.

We run stress tests to estimate the impact of a major catastrophe on our cash position in order to identify any potential issues. We also run scenario analyses that consider the impact on our liquidity should a number of adverse events occur simultaneously, such as an economic downturn and declining investment returns combined with unusually high insurance losses.

Our investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be realised before maturity or at short notice. Hence a high proportion of our investments are in liquid assets, which reduces our risk of making losses because we may have to sell assets quickly.

Asset Liability Matching

The Syndicate reviews currency asset and liability positions on a regular basis. The currency net assets / (liabilities) positions denote the Syndicate's foreign exchange risk as a result of the translation of subordinated currency positions that are different to the reporting currency of the Syndicate. The main subordinate trading currencies are USD, AUD, EUR, CAD & JPY.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

The following table describes the net assets / (liabilities) positions at the year end.

	GBP	USD	EUR	CAD	AUD	JPY	OTH	Total
	£000	£000	£000	£000	£000	£000	£000	£000
2021								
Financial investments	2,583	51,386	6,396	4,173	856	-	-	65,394
Overseas Deposits	2,743	465	-	570	2,236	-	-	6,014
Insurance and reinsurance receivables	(9,529)	15,677	1,980	4,270	1,622	8,701	-	22,721
Reinsurers' share of technical provisions	4,054	72,547	1,684	412	1,301	3,568	-	83,566
Cash at bank and in hand	29,337	(37,280)	2,265	449	4,628	-	43	(558)
Other assets	264	428	(274)	26	22	-	-	466
Total assets	**29,452**	**103,223**	**12,051**	**9,900**	**10,665**	**12,269**	**43**	**177,603**
Technical provisions	(10,588)	(111,037)	(5,946)	(1,284)	(3,386)	(19,499)	-	(151,740)
Insurance and reinsurance payables	(5,110)	(14,672)	(1,282)	(3,993)	(1,588)	(5,934)	-	(32,579)
Other creditors	55	19	5	(10)	3	-	(43)	29
Total liabilities	**(15,643)**	**(125,690)**	**(7,223)**	**(5,287)**	**(4,971)**	**(25,433)**	**(43)**	**184,290**

The Syndicate manages the impact of currency fluctuations by attempting to ensure currency matching is maintained where feasible. In addition, as part of this process, currency trades may be made to maintain the desired currency net asset allocations. The Syndicate has established foreign exchange facilities with a number of banks to cater for these transactions.

Exchange Sensitivity Analysis

The following table describes the sensitivity to currency change on net assets.

	EUR Net Assets in GBP			USD Net Assets in GBP			AUD Net Assets in GBP		
	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase
Net assets/(liabilities) at 31 December 2021	4,828	483	(483)	(22,467)	(2,247)	2,247	5,694	570	(570)

	CAD Net Assets in GBP			JPY Net Assets in GBP		
	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase
Net assets/(liabilities) at 31 December 2021	4,613	461	(461)	(13,164)	(1,316)	1,316

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

The sensitivity analysis is based on the way the Syndicate manages the currencies exposure. The increase shown in the table above reflects the weakening of the currency shown against sterling and a decrease reflects the strengthening of the currency against sterling.

(h) Counterparty Credit Risk

With regard to premium debtor risk, the Syndicate ensures that all brokers are subject to a due diligence protocol and that they have terms of business agreements in place. An approval system also exists for new brokers, and broker performance is regularly reviewed. System exception reports highlight trading with non-approved brokers, and the Syndicate's credit control team regularly monitors the ageing and collectability of debtor balances. Bank credit ratings and concentrations are also monitored at the Investment Committee.

The largest single reinsurer counterparty is Syndicate 6132 in respect of the whole account quota share reinsurance.

In addition, the Company monitors all key counterparties, including exposures to banking counterparties, on an ongoing basis. Bank credit ratings are monitored by the Investment Committee.

(i) Regulatory Risk

This risk is affected by changes in law and regulations which are not identified, understood, or are inappropriately and incorrectly interpreted, or adopted, or business practices are not efficiently modified. Further, there is a risk that current legal or regulatory requirements are not complied with. We have a constructive and open relationship with our regulators.

(j) Conduct Risk

Conduct risk describes the Syndicate's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. The Syndicate's approach starts with our strong culture which means we consider and understand the needs of our customers and form an important cultural base to getting this right. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite. We are able to extract conduct-related controls from the risk register to provide the Board with assurance that the expected behaviours towards customers are being demonstrated.

(k) Reputational Risk

Reputational risk is the risk of negative publicity as a result of the Syndicate's contractual arrangements, customers, products, services and other activities. Key sources of reputational risk include operation of a Lloyd's franchise and reliance upon the Arch brand in the United States, Europe and Australia. The Syndicate's preference is to minimise reputational risks, but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

(l) Capital Risk

The Syndicate uses an Internal Capital Model for setting economic capital along with a number of other uses. The Syndicate follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed, and the results are documented and reconciled to the Board's risk appetite where necessary.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(l) Capital Risk *(continued)*

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to supervision by the PRA under the Financial Services and Markets Act 2000 and in accordance with the Solvency II Directive.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1955 is not disclosed in these annual accounts.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate 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 Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one-year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Over and above this, Lloyd's applies a capital uplift to the Members' capital requirement, to derive 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.

Provision of capital by the member

The member may provide capital to meet its ECA through any mixture of (i) assets held in trust by Lloyd's specifically for that member (funds at Lloyd's "FAL"), (ii) assets held in and managed within a syndicate (funds in syndicate "FIS"), or (iii) undistributed members' balances.

Since FAL is not under the management of the Syndicate no amount has been shown in these Annual Accounts, however the Syndicate is able to make a call on the members' FAL to meet liquidity requirements or to settle losses. During the year, FAL was transferred to the syndicate receiving the RITC of 2018 and prior underwriting years to cover the losses.

Capital Management

The Board of AMAL has in place policies and procedures for managing compliance with regulatory capital requirements and its own capital management objective. This objective is to balance risk and return while maintaining economic and regulatory capital in accordance with risk appetite. The Board of AMAL has no appetite for the Syndicate failing to maintain sufficient capital. To this end, AMAL recalculates its ECA routinely at different points during the annual business cycle, and may also recalculate the ECA on an ad hoc basis if the risk management framework identifies significant changes to the risk profile, or as required by the Board.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(m) Risk Arising out of the COVID-19 Pandemic

Throughout 2021 the COVID-19 pandemic has continued to develop although changes to policy wordings and underwriting standards have removed most direct exposure to further losses. Whilst reducing over time as claims are settled, the Syndicate's exposure to COVID-19 losses remains material and continues to be monitored closely through the quarterly reserving cycle.

In addition to the reserve risk arising out of the COVID-19 pandemic, there is also potential indirect risks. These risks include second order impacts on the economy (e.g., as Governments withdraw financial support), the insurance industry and individual classes of business, such as economic disruption, interest rate and currency volatility, increased risk of security defaults and potential operational disruption to businesses. The Syndicate continues to monitor these potential risks as the political and economic landscape evolves.

5 Critical Accounting Judgements and Estimation Uncertainty

The preparation of the financial statements in conformity with the Generally Accepted Accounting Practice in the UK ("UK GAAP"), requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and judgements.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These disclosures supplement the commentary on insurance and financial risk management in the Strategic Report.

(i) Key sources of estimation uncertainty

The areas of the Syndicate's business containing key sources of estimation uncertainty include the measurement of insurance and reinsurance assets and liabilities at the balance sheet date. The most significant of these involves the valuation of outstanding claims and, in particular, the provision for claims incurred but not reported.

The processes used to determine the assumptions on which the measurement of insurance contract provisions is based, actual assumptions used, the effects of changes in assumptions, and an analysis of sensitivity to changes in assumptions are described below.

(ii) Process used to determine the assumptions for measuring insurance contracts

Claims Outstanding, i.e. loss reserves for the Syndicate are comprised of (1) estimated amounts for claims reported ("case reserves") and (2) incurred but not reported ("IBNR") losses. Claims personnel determine whether to establish a case reserve for the estimated amount of the ultimate settlement of individual claims. The estimate reflects the judgement of claims personnel based on general corporate reserving practices, the experience and knowledge of such personnel regarding the nature and value of the specific type of claim and, where appropriate, advice of counsel. The Syndicate also contracts with a number of outside third-party administrators in the claims process who, in certain cases, have limited authority to establish case reserves. The work of such administrators is reviewed and monitored by our claims personnel.

Loss Reserves are also established to provide for loss adjustment expenses and represent the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. Periodically, adjustments to the reported or case reserves may be made as additional information regarding the claims is reported or payments are made. IBNR reserves are established to provide for incurred claims which have not yet been reported to an insurer or reinsurer at the balance sheet date, as well as to adjust for any projected variance in case reserving. IBNR reserves are derived by subtracting paid losses and loss adjustment expenses and case reserves from estimates of ultimate losses and loss adjustment expenses. Actuaries estimate ultimate losses and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. The process of estimating reserves involves a considerable degree of judgement by management and, as of any given date, is inherently uncertain.

Notes to the Financial Statements *(continued)*

5 Critical accounting judgements and estimation uncertainty *(continued)*

(ii) Process used to determine the assumptions for measuring insurance contracts

Ultimate losses and loss adjustment expenses are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. The Syndicate uses several methods for determining its reserves. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

Expected loss methods – these methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss and loss adjustment expense ratios are typically developed based upon the information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data available from organisations, such as statistical bureau and consulting firms, where appropriate. These ratios consider, among other things, rate increases and changes in terms and conditions that have been observed in the market. Expected loss methods are useful for estimating ultimate losses and loss adjustment expenses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available, and is commonly applied when limited loss experience exists for a syndicate.

Historical incurred loss development methods – these methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. These methods use incurred losses (i.e. the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods may be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses may be less reliable than other methods.

Bornhuetter-Ferguson ("B-F") paid and incurred loss methods – these methods utilise actual paid and incurred losses and expected patterns of paid and incurred losses, taking the initial expected ultimate losses into account to determine an estimate of expected ultimate losses. The B-F paid and incurred loss methods are useful when there are few reported claims and a relatively less stable pattern of reported losses.

Additional analyses – other methodologies are often used in the reserving process for specific types of claims or events, such as catastrophic or other specific major events, including COVID-19. These include vendor catastrophe models, which are typically used in the estimation of Loss Reserves at the early stage of known catastrophic events before information has been reported to an insurer or reinsurer, and analyses of specific industry events, such as large lawsuits or claims.

The selection of a method to determine the Syndicate's reserves is driven by not only the characteristics of the lines of business, but also by the development stage of the years of account and the availability, credibility and relevance (for future projection) of in-house or benchmark data. For short-tail lines of business, such as Property and Offshore Operating, reserves will mostly be calculated using the expected loss ratio method for the most recent year of account, unless early loss experience necessitates an upward deviation, before moving to the more data-driven methods for more mature years. For long-tail lines of business, typically the Casualty and D&O classes, reflecting slower loss emergence and settlement, the expected loss ratio method is usually applied for longer than 1 year, unless early loss experience necessitates an upward deviation, before allowing for benign claims experience using more data-driven methods.

(iii) Premium Accruals

Where bordereaux for binders are not received on a timely basis, premium accruals are created by the underwriting teams on a quarterly basis. The accruals are based on a combination of assessment of previous premium bookings and consultation with the delegated underwriting authorities. Accruals are monitored on an ongoing basis by the underwriting teams and finance.

Notes to the Financial Statements *(continued)*

6 Segmental Information

Segmental information required by *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008* is as follows:

	Gross Premiums Written	Gross Premiums Earned	Gross Claims Incurred	Gross Operating Expenses	Ceded Balance	Total
	2021	**2021**	**2021**	**2021**	**2021**	**2021**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Direct Insurance						
Accident and health	3,614	3,614	(10,359)	(897)	3,554	(4,088)
Marine, aviation & transport	12,808	12,808	(8,209)	(3,851)	(1,390)	(642)
Fire and other damage to property	17,129	17,129	(8,354)	(1,428)	(2,171)	5,176
Third party liability	67,577	67,577	(50,547)	(46,980)	4,715	(25,235)
Credit and suretyship	5,901	5,901	(823)	(159)	(4,364)	555
Direct Total	**107,029**	**107,029**	**(78,292)**	**(53,515)**	**344**	**(24,234)**
Reinsurance Total	**200,496**	**200,496**	**(178,477)**	**(9,530)**	**1,832**	**14,321**
Total	**307,525**	**307,525**	**(256,769)**	**(62,845)**	**2,176**	**(9,913)**

The ceded balance represents the charge or benefit to the technical account from the aggregate of all items relating to outwards reinsurance.

7 Net Operating Expenses

Within gross operating expenses are included commissions for direct insurance of £27.6m cumulatively.

	Cumulative balance at 31 December 2021
	£000
Acquisition costs	(57,650)
Administrative expenses	(8,830)
Reinsurance commissions and profit participation	8,983
Standard personal expenses	(4,497)
	(61,994)

8 Investment Income

	£000
Interest and similar income	2,926
From financial instruments designated as at fair value through profit or loss	
From investments designated as at fair value through profit or loss	
Net loss on realisation of investments	(543)
Unrealised gain on investments	549
Investment management charges	
Investment management expenses, including interest	(41)
Total Investment income	**2,891**

Notes to the Financial Statements *(continued)*

9 Other Debtors and Creditors

	£000
Amounts due from associated undertakings	(332)
Amounts due to associated undertakings	(241)
	(573)

10 Other Assets

	£000
Claims Funds	12
	12

11 Accruals and Deferred Income

	£000
Accrued Income	270
	270

12 Funds at Lloyd's (FAL)

The Syndicate is supported by ACML and third party capital providers via FAL on the 2019 underwriting year. Since FAL is not under the management of the Syndicate no amount has been shown in these Annual Accounts, however the Syndicate is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

13 Related Parties

The Syndicate has ceded reinsurance to SPA 6132 on a fund withheld basis.

For the 2019 Year of Account, the Syndicate ceded 15.2% across all classes and an additional 5% on Financial Institutions and Cyber classes which amounted to £48.1m.

Syndicate 1955 and Syndicate 6132 are managed by AMAL. The Directors of AMAL regard ACGL, a company incorporated in Bermuda, as the ultimate holding company and controlling party. This is the largest company into which the Syndicate's results are consolidated. Copies of the consolidated financial statements of ACGL can be obtained from The Secretary. Arch Reinsurance Ltd. Is the smallest company into which the Syndicate's results are consolidated.

During the three years ending 31 December 2021, a Managing Agency fee of £2.2m was payable from the Syndicate to the Agency in relation to the 2019 underwriting year.

During the three years ending 31 December 2021, Castel Underwriting Agencies Limited contributed towards the Syndicate's Gross written premium writing £20.0m in relation to the 2019 underwriting year.

14 Reinsurance to Close

The 2019 underwriting year has RITC into the Syndicate's 2020 underwriting year at 31.12.2021.