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**Pioneer Syndicate 1980**

**Syndicate Annual Report and Accounts**  
31 December 2020

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## **Directors and Administration**

### **Managing Agent**

Asta Managing Agency Ltd

### **Directors**

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

Non-Executive Directors\*

### **Company Secretary**

N J Burdett

### **Managing Agent's Registered Office**

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

### **Managing Agent's Registered Number**

1918744

### **Active Underwriter**

G Rayner      Resigned 01 January 2020

### **Run-off Manager**

G Rayner      Appointed 13 May 2020  
G Rayner      Resigned 30 September 2020  
N Ferrier      Appointed 01 October 2020

### **Bankers**

Citibank N.A,  
RBC Dexia  
Lloyds Bank

### **Investment Managers**

New England Asset Management (NEAM)

### **Registered Auditors**

Deloitte LLP

### **Signing Actuary**

Ernst & Young LLP

## Run-off Managers report

Pioneer Syndicate 1980 entered Run-off at the end of the 2019 year-of-account on 31 December 2019. This decision was made by the Syndicate on 14 November 2019 following challenges in securing third-party capital to support the Syndicate's approved 2020 SBF. Following this decision and public announcement the Syndicate wrote reduced income in November and December 2019, completing the year below its approved 2019 SBF GWP volumes.

I am pleased to report that the first year of the Run-off of the portfolio during 2020 has been achieved in an orderly manner meeting the objective of managing live policies through to natural expiry as well as managing claims to a professional standard. The Run-off of the Syndicate will continue to be managed by Asta Managing Agency Ltd with services outsourced to Pioneer Underwriting Ltd, thus retaining continuity and benefit from knowledge of the portfolio.

I am focused on fulfilling all obligations to policyholders by continuing to apply the Syndicate's existing claims handling philosophy and preparing the Syndicate for an orderly exit by way of RITC at the end of 2021. The management processes in place and decision-making via the Run-off Committee during 2021 will:

- Ensure that claims handling services are provided with the interests of policyholders at the forefront;
- Protect Lloyd's, Asta's, and Pioneer's reputation with policyholders;
- Meet all regulatory standards;
- Ensure operational cost-efficiencies during Run-off.
- Identify a RITC solution from the options available at the natural close of the 2019 YoA at the end of 2021.

All underwriting controls remain in place and there is a focus on reduction in 1980's exposure and policy duration subject to lead/follow dynamics and best interests of the insured. From 2021, the number of live policies will be much reduced, having steadily come down since the beginning of 2020. The business lines with a longer policy duration, typically Engineering and Renewables project risks are being actively managed on this basis.

We have achieved a great deal during the first year of the Syndicate Run-off and continue to focus on management of claims to the highest standard set by Lloyd's and Asta to ensure that we meet all obligations to policyholders.

Nick Ferrier – Syndicate 1980 Run-off Manager

## Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2020.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008"), and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The annual report has been prepared on a going concern basis. For further information, please see note 1 to the financial statements.

### Results

The result for the calendar year 2020 is a loss of \$28,647,616. (2019: loss of \$33,757,072). Profits and losses will be distributed and collected by reference to the results of individual underwriting years.

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

### Principal activity and review of the business

The Syndicate's principal activity was the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate ceased underwriting on the 1<sup>st</sup> January 2020 and entered into voluntary run off.

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

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Casualty	1,241	25,432
Engineering & MPE	1,768	13,801
Financial Institutions	(1,238)	15,055
International Property	(176)	429
Marine	(1,015)	13,100
Onshore Energy	542	14,186
Operational Power	429	14,683
Professional Indemnity	784	44,125
US Property	3,452	50,164
	<hr/>	<hr/>
	5,787	190,975

## Managing Agent's report continued

The Syndicate's key financial performance indicators during the year was as follows;

	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>
Gross written premiums	5,787	190,975	(97.0%)
Loss for the financial year	(28,684)	(33,757)	(15.1%)
Combined ratio	(162.6%)	(136.2%)	26.5%

The combined ratio is the ratio of net claims incurred (which includes an unexpired risk reserve) and net operating expenses to net premiums earned. Lower ratios represent better performance.

The performance of the Syndicate has been assessed by measuring, as a percentage of underwriting capacity, the 36-month forecasted result on a funded accounting basis for a "closed" underwriting year of account.

The return on capacity for the 2018 closed year of account at 31 December 2020 is shown below, together with the forecast of the 2019 open year of account.

	<b>2019 YOA</b>	<b>2018 YOA</b>
	<b>Open</b>	<b>Closed</b>
Capacity (\$'000)	128,577	239,018
Forecast result (\$'000)	(22,862)	(78,708)
Forecast return on capacity (%)	(17.8%)	(32.9%)

## Principal risks and uncertainties

The Agency Risk Committee meets at least quarterly to oversee the risk management framework. The Run-off Committee, a sub-committee of the Agency Board, reviews the risk profile as reflected in the risk register, and monitors performance against risk appetite using a series of key risk indicators. The principal risk and uncertainties facing the Syndicate are as follows:

### Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Run-off Committee manages insurance risk through the approved run off plan. The Run-off Committee then monitors performance against the run off plan through the year. Reserve adequacy is monitored through quarterly review by the Asta Actuarial team and the Reserving Committee.

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

### **Credit risk**

The key aspect of credit risk is reinsurance counterparty risk which is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Run-off Committee's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation where required. The Agency Reinsurance Security Committee sets approval and usage criteria, monitors reinsurer ratings and is required to approve and oversee the application of the reinsurer approval policy.

### **Market risk**

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Run-off Committee, a sub-committee of the Agency Board.

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

In addition, an Investment Committee which reports to the Run-off Committee ensures that the Syndicate's investment portfolio is managed by the external investment manager in accordance with the Syndicate's risk appetite and to guidelines as approved by the Run-off Committee.

### **Liquidity risk**

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash or can only meet obligations at excessive cost. To mitigate this risk the Run-off Committee and Investment Committee reviews cash flow projections regularly and ensures that, where needed, the Syndicate has liquidity facilities in place or has utilised the option of a cash call from Capital providers.

The syndicate has called on capital providers of the 2018 year of account.

### **Operational risk**

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of an operational risk and control framework, detailed procedures manual, thorough training programme and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

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



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

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

### **Group / strategic risk**

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

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

### **Future developments**

On the 21st January 2021 commutation settlement offers in respect of the 2014 – 2017 whole account reinsurers were made by Liberty, the outcome of which will flow through the loss portfolio transfer present on the 2018 YOA. Discussions with reinsurers is ongoing and no legal agreement has yet been made.

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

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

In 2020 Asta initiated work to document relevant ESG requirements and complete an assessment of its current business model against these requirements. This work culminated in a number of actions to strengthen Asta's ESG Framework which will be completed in 2021. This work will also inform Asta's approach to its syndicates' ESG frameworks and is aligned to Lloyd's ESG work demonstrated through the Lloyd's ESG report produced in December 2020, and to Asta's climate change work detailed below

### **Climate change**

Following the Prudential Regulation Authority's (PRA) Supervisory Statement in 2019 and subsequent Dear CEO letter in 2020, AMA have ensured Board-level engagement and accountability with the PRA's requirements, assigning clear responsibilities for managing AMA's and its syndicate's financial risks associated with climate change. The AMA Finance Director, who is a Board member, is responsible for identifying and managing financial climate related risks.

The Syndicate and AMA are working together to establish a framework for assessing the impacts of climate change. This framework considers the impacts in relation to Governance, Disclosure, Risk Management, Scenario Analysis, Counterparty assessment and Investment Strategy.

## Managing Agent's report continued

### Coronavirus

Since the start of 2020, there has been a global outbreak of the Coronavirus, Covid-19, which is a new virus that predominantly affects lungs and airways. Many countries have reacted to contain the spread of the virus by isolating whole affected areas and infected individuals. This has resulted in wide-ranging operational changes across many industries, including syndicates operating in the Lloyd's of London insurance market.

As part of the ongoing activities of the Asta Risk Management Framework, such circumstances are considered and work has been undertaken to assess the insurance, operational and economic risks associated with the outbreak and any impact on the Syndicate has been mitigated or addressed where possible.

The Syndicate has incurred material losses as a result of Covid-19, with the financial impact assessed as part of the reserving and capital modelling processes.

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

Working arrangements across the Agency and the Syndicate have been adjusted in line with government restrictions and guidance. While working remotely has proved challenging at times the overall experience has been successful. Staff have embraced new technology and maintained active communication with each other and clients. The IT infrastructure has dealt well with the changes and we have seen minimal downtime. The Agency and Syndicate have continued to meet the business and regulatory requirements.

The Agency plans to maintain the current form of operations for the foreseeable future with no adverse effects anticipated

### Directors

Details of the directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 1. Changes to directors from the last report were as follows:

C N Griffiths  
K A Green

Appointed 01 January 2020  
Appointed 01 February 2020

### Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's Auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

### Auditors

The Managing Agent intends to reappoint Deloitte as the Syndicate's auditors.

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

### **Syndicate Annual General Meeting**

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 30 April 2021.

On behalf of the Board

N J Burdett  
Company Secretary  
04 March 2021

## Statement of Managing Agent's responsibilities

The Managing Agent is responsible for preparing the financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare financial statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The financial statements 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 financial statements, the managing agent is required to:

- select suitable accounting policies and then apply them consistently subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and
- prepare the Syndicate 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 is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditors' report to the members of Syndicate 1980**

### **Independent auditor's report to the members of Syndicate 1980**

#### **Report on the audit of the syndicate annual financial statements**

##### **Opinion**

In our opinion the syndicate annual financial statements of Syndicate 1980 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual financial statements which comprise:

- the income statement;
- the statement of changes in Members' balances;
- the statement of financial position
- the statement of cash flows; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

##### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### **Conclusions relating to going concern**

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue in operations for a period of at least twelve months from when the syndicate financial statements are authorised for issue.

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

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

### **Other information**

The other information comprises the information included in the annual report, other than the syndicate annual financial statements and our auditor's report thereon. The managing agent is responsible for the other information contained within the annual report. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement themselves. 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 in this regard.

### **Responsibilities of managing agent**

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the syndicate annual financial statements**

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

A further description of our responsibilities for the audit of the syndicate annual financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Extent to which the audit was considered capable of detecting irregularities, including fraud**

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

## Independent auditor's report continued

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team including relevant internal specialists such as actuarial and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

Valuation of technical provisions are a significant risk area as they involve a high level of management judgement, are inherently uncertain and are highly material. We pinpointed the valuation of gross technical provisions (in particular, the incurred but not yet reported claims, "IBNR") of Casualty and Professional Indemnity classes of business as a significant audit risk and fraud risk due to the wide range of outcomes that may be supportable for each claim. We tested the valuation of Casualty and Professional Indemnity IBNR by:

- involving Deloitte actuaries to assess the appropriateness of the methodology and assumptions used by management;
- carrying out an independent reserve projections for the Casualty and Professional Indemnity classes of business;
- evaluating the design and implementation of internal controls around the reserving cycle, including management's reserving model and assessing management's controls around identification of material adjustments due to events occurring post year-end;
- testing the integrity of the data used in the actuarial calculations on a statistical basis by agreeing to underlying syndicate records; and
- for other classes of business, we inspect and read management's and SAO provider's documentation with regards to the methodology and assumptions that have been used and where possible benchmark assumptions used against peers.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

## Independent auditor's report continued

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management , *internal audit* and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with Lloyd's.

### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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

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

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

#### Matters on which we are required to report by exception

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

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

#### Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Knight FCA  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
04 March 2021



## Income statement

### Technical account - General business

For the year ended 31 December 2020

	Notes	2020 \$'000	2019 \$'000
Gross premiums written	3	5,787	190,975
Outward reinsurance premiums		<u>(6,004)</u>	<u>(110,655)</u>
Net written premiums		(217)	80,320
Change in the provision for unearned premiums			
Gross amount		86,936	37,090
Reinsurers' share		<u>(48,799)</u>	<u>(26,772)</u>
Change in the net provision for unearned premiums	4	38,137	10,318
<b>Earned premiums, net of reinsurance</b>		37,920	90,638
<b>Allocated investment return transferred from the non-technical account</b>		1,295	3,265
Claims paid			
Gross amount		(105,653)	(116,908)
Reinsurers' share		<u>41,495</u>	<u>37,120</u>
Net claims paid		(64,158)	(79,788)
Changes in the provision for claims outstanding			
Gross amount		13,780	(72,074)
Reinsurers' share		<u>7,384</u>	<u>60,534</u>
Change in the net provision for claims	4	21,164	(11,540)
<b>Claims incurred, net of reinsurance</b>		(42,994)	(91,328)
<b>Net operating expenses</b>	5	<u>(18,678)</u>	<u>(32,095)</u>
<b>Balance on technical account – general business</b>		<u>(22,457)</u>	<u>(29,520)</u>

All the amounts above are in respect of continuing operations.

The notes on pages 19 to 45 form part of these financial statements.

## Income statement continued

### Non-technical account - General business

For the year ended 31 December 2020

	Notes	2020 \$'000	2019 \$'000
<b>Balance on technical account – general business</b>		(22,457)	(29,520)
Investment income	8	1,295	3,265
Allocated investment return transferred to the general business technical account		(1,295)	(3,265)
Exchange losses		<u>(6,191)</u>	<u>(4,237)</u>
<b>Loss for the financial year</b>		<u>(28,648)</u>	<u>(33,757)</u>

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

All the amounts above are in respect of continuing operations.

The notes on pages 19 to 45 form part of these financial statements.

### Statement of changes in Members' balances

For the year ended 31 December 2020

	2020 \$'000	2019 \$'000
At 1 January	(73,360)	(39,603)
Loss for the financial year	(28,648)	(33,757)
Cash Calls made to date	<u>60,015</u>	<u>-</u>
At 31 December	<u>(41,993)</u>	<u>(73,360)</u>

## Statement of financial position

As at 31 December 2020

	Notes	2020 \$'000	2019 \$'000
<b>ASSETS</b>			
<i>Investments</i>			
Financial investments	9	114,848	130,528
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums	4	2,907	51,855
Claims outstanding	4	<u>118,769</u>	<u>110,381</u>
		121,676	162,236
<i>Debtors</i>			
Debtors arising out of direct insurance operations	10	11,305	44,472
Debtors arising out of reinsurance operations	11	16,949	18,992
Other debtors	12	<u>82</u>	<u>278</u>
		28,336	63,742
<i>Cash and other assets</i>			
Cash at bank and in hand	15	4,530	3,034
<i>Prepayments and accrued income</i>			
Deferred acquisition costs	4	1,331	26,171
Prepayments and accrued income		<u>303</u>	<u>458</u>
		1,634	26,629
<i>Total assets</i>		<u>271,024</u>	<u>386,169</u>

The notes on pages 19 to 45 form part of these financial statements.

## Statement of financial position continued

As at 31 December 2020

	Notes	2020 \$'000	2019 \$'000
<b>MEMBERS' BALANCE AND LIABILITIES</b>			
<i>Capital and reserves</i>			
Members' balances		(41,993)	(73,360)
<b>Liabilities</b>			
<i>Technical provisions</i>			
Provision for unearned premiums	4	4,708	91,898
Claims outstanding	4	<u>279,262</u>	<u>291,234</u>
		283,970	383,132
<i>Creditors</i>			
Creditors arising out of direct insurance operations	13	711	369
Creditors arising out of reinsurance operations	14	<u>13,352</u>	<u>60,114</u>
		14,063	60,483
<i>Accruals and deferred income</i>		14,984	15,914
<i>Total liabilities</i>		<u>313,017</u>	<u>459,529</u>
<i>Total members' balances and liabilities</i>		<u>271,024</u>	<u>386,169</u>

The notes on pages 19 to 45 form part of these financial statements.

The financial statements on pages 14 to 45 were approved by board of directors on 1 March 2021 and were signed on its behalf by:

R P Barke  
Director  
04 March 2021

## Statement of cash flows

For the year ended 31 December 2020

	Notes	2020	2019
		\$'000	\$'000
<b>Cash flows from operating activities</b>			
<i>Loss for the financial year</i>		(28,648)	(33,757)
(Decrease)/Increase in gross technical provisions		(99,162)	33,937
Decrease/(Increase) in reinsurers' share of gross technical provisions		40,560	(34,927)
Decrease in debtors		35,210	34,865
(Decrease)/Increase in creditors		(46,420)	7,087
Decrease in other assets		25,191	10,775
(Decrease) in other liabilities		(930)	(6,558)
Movement in foreign exchange		(389)	(485)
Investment return		<u>(1,295)</u>	<u>(3,265)</u>
<i>Net cash (outflow)/inflow from operating activities</i>		<u>(75,883)</u>	<u>7,672</u>
<b>Cash flows from investing activities</b>			
Purchase of other financial investments		(95,136)	(318,693)
Sale of other financial investments		120,956	266,253
Investment income received		<u>947</u>	<u>2,511</u>
<i>Net cash inflow/(outflow) from investing activities</i>		<u>26,767</u>	<u>(49,929)</u>
<b>Cash flows from financing activities</b>			
Cash Call from members		60,015	-
Members' agents fee advances		<u>-</u>	<u>-</u>
<i>Net cash inflow from financing activities</i>		<u>60,015</u>	<u>-</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		10,899	(42,257)
<b>Cash and cash equivalents at beginning of year</b>		22,229	64,001
<b>Exchange differences on opening cash</b>		<u>368</u>	<u>485</u>
<b>Cash and cash equivalents at end of year</b>	15	<u><b>33,496</b></u>	<u><b>22,229</b></u>

## Notes to the financial statements

For the year ended 31 December 2020

### 1. Basis of preparation

#### Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

These financial statements are prepared under the historical cost convention as modified by the recognition of certain financial assets and liabilities measured at fair value.

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

### 2. Accounting policies

#### Use of estimates

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

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

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

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

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

## **Accounting policies continued**

### **Significant accounting policies**

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's financial statements.

#### **Gross premiums**

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates, primarily relating to binder business, are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying future premium, is that past premium development can be used to project future premium development.

#### **Reinsurance premiums**

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods. They are recognised on the date on which the policy commences.

#### **Claims incurred**

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. An element of IBNR also relates to specific large losses, such as catastrophe events.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business and the claims experience for the year. The Syndicate uses a number of statistical techniques to assist in making these estimates where relevant.

## Accounting policies continued

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

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

### Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

### Unexpired risks

A provision for unexpired risks is made where claims and related expenses are likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.

At the 31 December 2020 the Syndicate had a \$16k (2019: \$1.0m) net unexpired risk provision.

### Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio. It is not the Syndicate's policy to reallocate a portion of indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies, to acquisition costs.

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



## Accounting policies continued

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

### Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2020 or 2019.

### Insurance and reinsurance receivables

Insurance and reinsurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are not recognised when the de-recognition criteria for financial assets have been met.

### Insurance and reinsurance payables

Insurance and reinsurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

### Foreign currencies

The Syndicate's functional currency and presentational currency is US Dollars.

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

Exchange differences are recorded in the non-technical account.

## Accounting policies continued

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

	<b>2020</b>	<b>2019</b>
	<b>Year End</b>	<b>Year End</b>
GBP	0.730	0.758
CAD	1.270	1.303
EUR	0.818	0.894
AUD	1.292	1.424
JPY	103.007	109.038

### Financial assets and liabilities

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

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

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

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

A financial asset or financial liability is measured initially at fair value plus, for a financial liability at amortised cost, transaction costs that are directly attributable to its acquisition or issue.

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

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

## **Accounting policies continued**

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

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

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

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

### **Investment return**

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

### **Fair value measurement of investments**

Financial instruments that are classified as fair value through the profit or loss account are assigned a level using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

## Accounting policies continued

Level 1 financial instruments comprise government bonds that are regularly traded, deposits with credit institutions and collective investment schemes which comprise Money Market Funds.

- Bonds have been valued at fair value using quoted prices in an active market.
- Deposits with credit institutions are included at cost plus accrued income.
- Money Market Funds are valued on a stable net asset value (NAV) basis. Money Market Funds are readily convertible into cash, are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Level 2 financial instruments are less regularly traded government and agency bonds, supranational bonds, corporate bonds, currency derivatives, bond futures, and fund investments.

- Bonds are included in the balance sheet at bid price using prices supplied by the custodian or by the investment managers, who obtain market data from numerous independent pricing services. The prices used are reconciled against a common market pricing source.
- Currency derivatives and bond futures are included at market price.
- Investments in regulated collective investment schemes are valued on the NAVs of each of the individual funds as published publicly by the managers.
- Investments in pooled investments in unregulated investment schemes (hedge funds) are valued based on the underlying NAVs of each of the individual funds. Hedge fund NAVs are provided by the administrators of the schemes.
- Investments in investment pools are valued on the valuations supplied by the investment manager (Lloyd's).

The fair value for level 3 financial instruments is derived from inputs that are not observable. Level 3 securities include a mandatory loan with Lloyd's in relation to funding Lloyd's Brussels. The syndicate does not have any other level 3 investments.

## Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from 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 other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

## Pension costs

The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

## **Accounting policies continued**

### **Syndicate operating expenses**

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed Syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used, and volume of business transacted.

Syndicate 1980 has accrued for the expected provision of future run off expenses through to cessation. The expenses have been split between a general provision and the claims handling provision.

### 3. Segmental analysis

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

2020	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b><u>Direct</u></b>						
Casualty	1,040	11,570	(7,621)	(5,272)	(51)	(1,374)
Engineering & MPE	1,666	11,434	(12,150)	(5,210)	2,407	(3,519)
Financial Institutions	(1,137)	5,518	(6,483)	(2,514)	1,491	(1,988)
International Property	(18)	4	(186)	(2)	98	(86)
Marine	(2,801)	2,329	(1,313)	(1,060)	(128)	(172)
Onshore Energy	487	3,726	(8,812)	(1,697)	3,366	(3,417)
Operational Power	715	4,686	(4,696)	(2,135)	835	(1,310)
Professional Indemnity	761	19,538	(18,362)	(8,901)	2,835	(4,890)
US Property	3,894	20,104	(22,005)	(9,160)	4,573	(6,488)
	4,607	78,909	(81,628)	(35,951)	15,426	(23,244)
<b><u>Reinsurance</u></b>						
Prior Year Loss Portfolio Transfer	-	2,089	(1,448)	-	1,669	2,310
Other Reinsurance	1,180	11,725	(8,797)	(6,294)	548	(2,818)
	1,180	13,814	(10,245)	(6,294)	2,217	(508)
<b>Total</b>	<b>5,787</b>	<b>92,723</b>	<b>(91,873)</b>	<b>(42,245)</b>	<b>17,643</b>	<b>(23,752)</b>

## Segmental analysis continued

2019 restated	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b><u>Direct</u></b>						
Casualty	25,066	28,839	(20,229)	(9,602)	(760)	(1,752)
Engineering & MPE	11,508	13,443	(17,768)	(4,477)	3,955	(4,847)
Financial Institutions	14,206	15,378	(5,109)	(5,120)	(3,339)	1,810
International Property	184	1,370	302	(456)	(689)	527
Marine	13,825	16,097	(7,194)	(5,359)	(2,542)	1,002
Onshore Energy	6,297	6,679	(6,643)	(2,224)	836	(1,352)
Operational Power	6,982	5,648	(2,007)	(1,881)	(1,159)	601
Professional Indemnity	41,941	46,522	(15,088)	(15,490)	(10,292)	5,652
US Property	47,573	48,347	(54,243)	(16,098)	9,230	(12,764)
	167,582	182,323	(127,979)	(60,707)	(4,760)	(11,123)
<b><u>Reinsurance</u></b>						
Prior Year Loss Portfolio Transfer	-	6,014	(20,757)	-	(4,908)	(19,651)
Other Reinsurance	23,393	39,728	(40,246)	(15,231)	13,738	(2,011)
	23,393	45,742	(61,003)	(15,231)	8,830	(21,662)
<b>Total</b>	190,975	228,065	(188,982)	(75,938)	4,070	(32,785)

All premiums were derived in the UK.

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

The prior year segmental analysis has been restated to show the gross operating expenses instead of the net operating expenses as required by Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations. Accordingly, the RI share of operating expenses is presented under the reinsurance column which increase the total reinsurance balance by \$43,843k from the prior year presented (-\$39,773k) to \$4,070k.

## 4. Technical provisions

	2020			2019		
	Gross provisions \$'000	Reinsurance assets \$'000	Net \$'000	Gross provisions \$'000	Reinsurance assets \$'000	Net \$'000
<b>Claims outstanding</b>						
<b>Balance at 1 January</b>	291,234	(110,381)	180,853	221,625	(49,482)	172,143
Change in claims outstanding	(13,780)	(7,384)	(21,164)	72,074	(60,534)	11,540
Effect of movements in exchange rates	1,808	(1,004)	804	(2,465)	(365)	(2,830)
<b>Balance at 31 December</b>	<b>279,262</b>	<b>(118,769)</b>	<b>160,493</b>	<b>291,234</b>	<b>(110,381)</b>	<b>180,853</b>
Claims notified	90,478	(30,227)	60,251	95,580	(24,132)	71,448
Claims incurred but not reported	188,784	(88,542)	100,242	195,654	(86,249)	109,405
<b>Balance at 31 December</b>	<b>279,262</b>	<b>(118,769)</b>	<b>160,493</b>	<b>291,234</b>	<b>(110,381)</b>	<b>180,853</b>
<b>Unearned premiums</b>						
Balance at 1 January	91,898	(51,855)	40,043	127,570	(77,827)	49,743
Change in unearned premiums	(86,936)	48,799	(38,137)	(37,090)	26,772	(10,318)
Effect of movements in exchange rates	(254)	149	(105)	1,418	(800)	618
<b>Balance at 31 December</b>	<b>4,708</b>	<b>(2,907)</b>	<b>1,801</b>	<b>91,898</b>	<b>(51,855)</b>	<b>40,043</b>
<b>Deferred acquisition costs</b>						
Balance at 1 January	26,171	(14,309)	11,862	35,912	(21,649)	14,263
Change in deferred acquisition costs	(24,757)	13,508	(11,249)	(10,128)	7,556	(2,572)
Effect of movements in exchange rates	(83)	39	(44)	387	(216)	171
<b>Balance at 31 December</b>	<b>1,331</b>	<b>(762)</b>	<b>569</b>	<b>26,171</b>	<b>(14,309)</b>	<b>11,862</b>



## 5. Net operating expenses

	<b>2020</b>	<b>2019 restated</b>
	<b>\$'000</b>	<b>\$'000</b>
Acquisition costs	2,701	(53,642)
Change in deferred acquisition costs	(24,757)	(10,128)
RI acquisition costs	(1,017)	28,902
Change in RI deferred acquisition costs	13,508	7,556
Gross administration expenses	(20,189)	(12,168)
RI administration expenses	11,076	7,385
Net operating expenses	<u>(18,678)</u>	<u>(32,095)</u>

Members' standard personal expenses amounting to \$nil (2019: \$2,063k) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contribution and Managing Agency fees.

The prior year has been restated to show the split of the gross (\$12,168k) and the RI administration expenses (\$7,385k), instead of the net administration expenses \$4,783 presented in the prior year.

## 6. Auditors' remuneration

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Audit of the Financial Statements	(190)	(182)
Other services pursuant to Regulations and Lloyd's Byelaws	(138)	(136)
Other services (Actuarial review)	(128)	(147)
	<u>(456)</u>	<u>(465)</u>

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

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

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

No emoluments of the directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the Run-off Manager are borne by Pioneer Group and recharged to the Syndicate.

No other compensation was payable to key management personnel.

## 8. Investment Return

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Income from other financial investments	920	2,641
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	<u>254</u>	<u>296</u>
<i>Total investment income</i>	1,174	2,937
Net unrealised gains on investments		
- Financial instruments at fair value through profit and loss	171	370
Investment expenses and charges	<u>(50)</u>	<u>(42)</u>
<i>Total investment return</i>	<u>1,295</u>	<u>3,265</u>
Average amount of funds available for investing during the year:		
Sterling	1,600	1,638
United States dollars	93,205	112,966
Canadian dollars	11,285	13,028
Euro	722	1,983
Australian dollars	13,355	9,397
Japanese yen	<u>47,267</u>	<u>39,341</u>
Combined in USD	<u>114,301</u>	<u>134,041</u>
Gross calendar year investment yield:		
Sterling	33	10
United States dollars	1,050	3,180
Canadian dollars	139	46
Australian dollar	<u>143</u>	<u>58</u>
Combined in USD	<u>1,295</u>	<u>3,265</u>

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each quarter during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

## 9. Financial Investments

	<b>2020</b>		
	<b>Carrying value</b>	<b>Purchase price</b>	<b>Listed</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	29,535	29,535	29,535
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	72,905	72,557	71,792
Overseas deposits as investments			
- Designated at fair value through profit or loss	12,408	12,408	12,408
	114,848	114,500	113,735

The difference between the Carrying value and Purchase price does not agree to note 8 unrealised gains as that balance is net of the whole account quota share.

	<b>2019</b>		
	<b>Carrying value</b>	<b>Purchase price</b>	<b>Listed</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	19,743	19,743	19,743
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	96,406	95,651	95,700
Overseas deposits as investments			
- Designated at fair value through profit or loss	14,379	14,379	14,379
	130,528	129,773	129,822

Amounts included within Shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These have the attributes of a cash instrument with the carrying value and purchase price being the same.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

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

## Financial investments continued

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2020				
Shares and other variable yield securities and units in unit trusts	21,881	7,085	569	29,535
Debt securities and other fixed income securities	19,974	52,931	-	72,905
Overseas deposits as investments	1,522	10,886	-	12,408
<b>Total</b>	<b>43,377</b>	<b>70,902</b>	<b>569</b>	<b>114,848</b>

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
31 December 2019				
Shares and other variable yield securities and units in unit trusts	6,036	13,159	548	19,743
Debt securities and other fixed income securities	16,203	80,203	-	96,406
Overseas deposits as investments	1,849	12,530	-	14,379
<b>Total</b>	<b>24,088</b>	<b>105,892</b>	<b>548</b>	<b>130,528</b>

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

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

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data.

## 10. Debtors arising out of direct insurance operations

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Due from intermediaries within one year	11,305	44,472
	<u>11,305</u>	<u>44,472</u>

## 11. Debtors arising out of reinsurance operations

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Due from ceding insurers within one year	16,949	18,913
Due from ceding insurers after one year	-	79
	<u>16,949</u>	<u>18,992</u>

## 12. Other assets

Other assets comprise solely of VAT receivable from HMRC \$82k, (2019 \$278k).

## 13. Creditors arising out of direct operations

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Due to intermediaries within one year	711	369
	<u>711</u>	<u>369</u>

## 14. Creditors arising out of reinsurance operations

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Reinsurance accepted within one year	8,776	15,526
Reinsurance ceded within one year	4,576	44,588
	<u>13,352</u>	<u>60,114</u>

## 15. Cash and cash equivalents

	2020	2019
	\$'000	\$'000
Cash at bank and in hand	4,530	3,034
Shares and other variable yield securities and units in unit trusts	29,535	19,743
Exclude Syndicate Loan to Central Fund	(569)	(548)
	<hr/> 28,966	<hr/> 19,195
	<hr/> 33,496	<hr/> 22,229

Shares and other variable yield securities and units in unit trusts are investments in nature but are treated as Cash and cash equivalents for cash flow purposes, so therefore are included in both Financial investments and Cash and cash equivalents.

## 16. Related parties

Asta provides services and support to Syndicate 1980 in its capacity as Managing Agent. During the year, Managing Agency fees of \$nil (2019: \$946k) were charged to the Syndicate. Asta also recharged \$2,262k (2019: \$2,402k) worth of service charges in the year and as at 31 December 2020 an amount of \$nil (2019: \$617k) was owed to Asta in respect of this service. As at 31 December 2020, the Syndicate was due a refund from Asta of \$35k.

From time to time, Syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Bylaw provisions. All transactions are entered on an arm's length basis.

Syndicate 1980's coverholder is Pioneer Underwriters, whose ultimate parent is K2 Insurance Services LLC. The syndicate has paid \$nil (2019: \$32,639k) MGA commissions to Pioneer Underwriting.

Liberty provides 100% of the Syndicates insurance capacity. Syndicate 4472 operate the 2014-2017 LPT arrangement, the balance owed to 4472 in respect of Q4 2020 settlements was \$7,684k (2019: \$9,496k).

## 17. Disclosure of interests

### Managing Agent's interest

During 2020 Asta was the Managing Agent for ten Syndicates, three Special Purpose Arrangements and one Syndicate in a Box. Syndicate 1729, 1897, 1980, 2288, 2525, 2689, 2786, 3268, 4242 and 5886 as well as Special Purpose Arrangements 1892, 6123 and 6131 and Syndicate in a Box 4747 were managed on behalf of third party capital providers.

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

On 1 July 2020, Asta took on management of Syndicate in a Box 4747.

## Disclosure of interests continued

On 1 January 2021, Asta novated Syndicate 1897 to Riverstone Managing Agency.

On 4 February 2021 Asta took on management of Syndicate 1609.

The Agency also provides administrative services to Syndicates and Special Purpose Arrangements and undertakes a number of ancillary roles for clients.

The financial statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

## 18. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where 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 members' FAL to meet liquidity requirements or to settle losses.

## 19. Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

## 20. Risk management

### a) Governance framework

The Syndicate's risk and financial management framework aims to protect the Syndicate's members capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, while maximising the returns to its members. The directors recognise the critical importance of having efficient and effective risk management systems in place.

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

The Run-off Committee approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements.

## **Risk management continued**

The Run-off Committee places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate's risk appetite.

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

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

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

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Pioneer Syndicate 1980 is not disclosed in these financial statements.

#### **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.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% of the member's SCR 'to ultimate'.

#### **Provision of capital by members**

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the Statement of Financial Position on page 17, represent resources available to meet members' and Lloyd's capital requirements.



## **Risk management continued**

### **c) Insurance risk**

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

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risks mitigation programme. The Syndicate's reinsurance program is predominantly covered by a whole account, non-proportional losses occurring during policy which covers the calendar year. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

Sub committees of the Run-off Committee oversee the management of reserving risk. The use of standardised and internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the Syndicate's risk appetite as decided by the Run-off Committee.

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event.

### **Key assumptions**

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

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

### **Sensitivities**

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

## Risk management continued

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on net liabilities, profit and members' balances. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	2020	2019
	Loss/(Profit)	Loss/(Profit)
<b>Gross</b>	<b>\$'000</b>	<b>\$'000</b>
Five percent increase in claim liabilities	13,963	14,562
Five percent decrease in claim liabilities	(13,963)	(14,562)
<b>Net</b>		
Five percent increase in claim liabilities	8,025	9,043
Five percent decrease in claim liabilities	(8,025)	(9,043)

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

## Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

The Syndicate has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined by the balance sheet date.

<b>Underwriting year</b>	<b>2018</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Estimate of cumulative gross claims incurred:</b>		
At end of first underwriting year	308,236	53,783
One year later	443,758	118,755
Two years later	473,008	
Less cumulative gross paid	(282,102)	(30,399)
Liability for gross outstanding claims	190,906	88,356
<b>Total gross outstanding claims</b>		<b>279,262</b>

## Risk management continued

Underwriting year	2018	2019
	\$'000	\$'000
<b>Estimate of cumulative net claims incurred:</b>		
At end of first underwriting year	251,482	24,893
One year later	316,891	55,144
Two years later	331,378	
Less cumulative net paid	<u>(211,502)</u>	<u>(14,527)</u>
Liability for net outstanding claims	119,876	<u>40,617</u>
<b>Total net outstanding claims</b>		<u>160,493</u>

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

### d) Financial risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

### Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss by failing to discharge an obligation.

The following policies and procedures are in place to mitigate the exposure to credit risk:

- Investment guidelines are established setting out the quality of investments to be included within the Syndicates portfolio. The policy is monitored by the Run-off Committee.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Run-off Committee.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

## Risk management continued

2020	\$'000			
	Neither past due or impaired	Past due	Impaired	Total
Shares and other variable yield securities	29,535	-	-	29,535
Debt and fixed income securities	72,905	-	-	72,905
Reinsurers' share of claims outstanding	118,769	-	-	118,769
Debtors arising out of direct insurance operations	11,305	-	-	11,305
Debtors arising out of reinsurance operations	16,949	-	-	16,949
Cash at bank and in hand	4,530	-	-	4,530
Overseas deposits as investments	12,408	-	-	12,408
Other debtors	4,623	-	-	4,623
<b>Total</b>	<b>271,024</b>	<b>-</b>	<b>-</b>	<b>271,024</b>

2019	\$'000			
	Neither past due or impaired	Past due	Impaired	Total
Shares and other variable yield securities	19,743	-	-	19,743
Debt and fixed income securities	96,406	-	-	96,406
Reinsurers' share of claims outstanding	110,381	-	-	110,381
Debtors arising out of direct insurance operations	44,472	-	-	44,472
Debtors arising out of reinsurance operations	18,992	-	-	18,992
Cash at bank and in hand	3,034	-	-	3,034
Overseas deposits as investments	14,379	-	-	14,379
Other debtors	78,762	-	-	78,762
<b>Total</b>	<b>386,169</b>	<b>-</b>	<b>-</b>	<b>386,169</b>

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2020 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

## Risk management continued

2020	\$'000						Total
	AAA	AA	A	BBB	BBB or less	Not Rated	
Shares and other variable yield securities	-	-	29,535	-	-	-	29,535
Debt and fixed income securities	19,975	36,460	16,470	-	-	-	72,905
Reinsurers' share of claims outstanding	-	37,051	74,763	-	-	6,955	118,769
Debtors arising out of reinsurance operations	-	1,282	15,667	-	-	-	16,949
Cash at bank and in hand	-	-	4,530	-	-	-	4,530
Overseas deposits as investments	7,871	1,276	1,061	824	744	632	12,408
Total	27,846	76,069	142,026	824	744	7,587	255,096

2019	\$'000						Total
	AAA	AA	A	BBB	BBB or less	Not Rated	
Shares and other variable yield securities	-	-	19,743	-	-	-	19,743
Debt and fixed income securities	31,064	27,089	38,253	-	-	-	96,406
Reinsurers' share of claims outstanding	-	31,126	71,137	-	-	8,118	110,381
Debtors arising out of reinsurance operations	-	301	18,691	-	-	-	18,992
Cash at bank and in hand	-	-	3,034	-	-	-	3,034
Overseas deposits as investments	8,846	1,783	1,348	938	758	706	14,379
Total	39,910	60,299	152,206	938	758	8,824	262,935

### Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

## Risk management continued

### Liquidity risk

Liquidity risk is the risk that the Syndicate may not have enough cash to pay insurance claims and other liabilities. The Syndicate tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

2020	\$'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
Claims outstanding	-	89,449	104,025	48,581	37,207	279,262
Creditors	-	14,063	-	-	-	14,063
Total	-	103,512	104,025	48,581	37,207	293,325

2019	\$'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
Claims outstanding	-	86,370	111,939	51,947	40,978	291,234
Creditors	-	60,483	-	-	-	60,483
Total	-	146,853	111,939	51,947	40,978	351,717

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

#### a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is US Dollar and its exposure to foreign exchange risk arises primarily with respect to transactions in Sterling, Euro, Canadian, Australian dollars and Japanese Yen. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

## Risk management continued

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

2020	\$'000						Total
	GBP	USD	EUR	CAD	AUD	JPY	
Total Assets	32,662	216,533	3,933	10,469	6,812	615	271,024
Total Liabilities	(53,113)	(242,037)	(7,374)	(8,333)	(1,483)	(677)	(313,017)
Net Assets	(20,451)	(25,504)	(3,441)	2,136	5,329	(62)	(41,993)

  

2019	\$'000						Total
	GBP	USD	EUR	CAD	AUD	JPY	
Total Assets	42,892	322,279	3,733	16,861	(261)	665	386,169
Total Liabilities	(180,381)	(256,842)	(11,358)	(14,165)	3,948	(731)	(459,529)
Net Assets	(137,489)	65,437	(7,625)	2,696	3,687	(66)	(73,360)

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

### Sensitivity to changes

The table below gives an indication of the impact on profit of a percentage change in the relative strength of the US dollar against the value of Sterling and all other currencies simultaneously. The analysis is based on the information as at 31st December 2020.

	Impact on profit and member's balance	
	2020 \$'000	2019 \$'000
US Dollar weakens		
10% against other currencies	(1,649)	(13,880)
20% against other currencies	(3,298)	(27,759)
US Dollar strengthens		
10% against other currencies	1,649	13,880
20% against other currencies	3,298	27,759

#### b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

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

## Risk management continued

The table below shows an indication of the potential impact on the Syndicate's result and net assets if interest rates had been 50 basis points higher or lower in the year.

	<b>2020</b>	<b>2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest Rate Risk		
Impact of 50 basis point increase on result	(471)	(688)
Impact of 50 basis point decrease on result	246	696
Impact of 50 basis point increase on net assets	(471)	(688)
Impact of 50 basis point decrease on net assets	246	696

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

### 21. Part VII Transfer

On 30 December 2020, the Syndicate transferred its EEA non-life insurance policies written between 1993 and 2020 to Lloyd's Insurance Company S.A. ('Lloyd's Brussels') pursuant to Part VII of the Financial Services and Markets Act 2000. The value of the net liabilities transferred was \$3.95m. The Syndicate transferred cash of the same amount to Lloyd's Brussels. Lloyd's Brussels subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of \$3.95m. There was no gain or loss arising on either transaction.

Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Brussels have been included in the 'gross written premiums' line of the income statement. This is the appropriate treatment that best reflects the connection between economic substance of both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transaction.

On the balance sheet, certain policy-level balances impacted by the transfer that were previously reflected as amounts arising from direct insurance operations, have been reclassified to amounts arising from inwards reinsurance business.

The transaction has no impact on equity.

### 22. Post balance sheet events

On the 21st January 2021 commutation settlement offers in respect of the 2014 – 2017 whole account reinsurers were made by Liberty, the outcome of which will flow through the loss portfolio transfer present on the 2018 YOA. Discussions with reinsurers is ongoing and no legal agreement has yet been made. The commutation offer does not affect the in force reinsurance at the reporting date and hence these are considered non adjusting events

Subsequent to the balance sheet date, the 2018 underwriting year loss of \$78,708k has been called as a consequence of this year closing. Of the above, \$60,015k was received during 2020, due to an early cash call on members. The remaining \$18,692k will be collected during 2021.