Accounts disclaimer

The disclaimer on the following page is to be included at the front of each set of pdf accounts submitted to Lloyd's.

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Annual Report and Financial Statements
Arch Syndicate 6132
31 December 2021

Contents

DIRECTORS AND ADMINISTRATION

Managing Agent
Arch Managing Agency Limited

Directors

S Bashford	
N Denniston	
K Felisky	(Appointed 9 June 2021)
M Hammer-Dahinden	
J Kittinger	
P Leoni	
J Mentz	
P Storey	
H Sturgess	
W Canageretna	(Resigned 8 January 2021)
P Martin	(Resigned 12 January 2021)
A Flanagan	(Resigned 31 December 2021)

Managing Agent's Registered Office
60 Great Tower Street
London
EC3R 5AZ

Managing Agent's Registered Number
06948515

Company Secretary
P Ralph

Syndicate Active Underwriter
S Williams

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY

The Directors of the Managing Agent ("the Agency") present their Annual Accounts and Financial Statements for the year ended 31 December 2021 for Syndicate 6132 ("the Syndicate") which is a Special Purpose Arrangement ("SPA"\) with Syndicate 1955.

These Financial Statements are 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.

Managing Agent

The Managing Agent of the Syndicate since its inception on 1 January 2018 is Arch Managing Agency Limited, whose registered office is situated at 60 Great Tower Street, London, EC3R 5AZ and whose registered number is 06948515.

Principal Activities

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business in the Lloyd's Market via a quota share contract with Syndicate 1955, which writes across Marine, Aviation and Transport, Energy, Property, Financial lines, Accident & Health and Casualty.

Key Performance Indicators

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

	2021	**2020**
	£000	£000
Gross premiums written	52,015	40,225
Gross premiums earned	49,757	41,311
Net premiums earned	35,617	28,153
Net claims incurred	(23,525)	(21,944)
Investment return	(81)	744
Operating expenses	(12,905)	(11,009)
Realised and unrealised movements on foreign exchange	274	(74)
Loss for the year	(620)	(4,130)
Net Claims ratio	66.0%	77.9%
Net Expense ratio	36.2%	39.1%
Net Combined ratio	102.2%	117.0%

Review of the Business

The Syndicate was established to provide a dedicated vehicle for an external investor to participate on Syndicate 1955 via quota share reinsurance. Syndicate 1955 underwrites at Lloyd's in the wholesale insurance and reinsurance market and through selective delegated underwriting authorities as well as utilising underwriting expertise to lead market consortia arrangements.

For the 2021 Year of Account, the Syndicate took a 15.1% (2020 Year of Account: 15.5%) whole account quota share reinsurance of Syndicate 1955, with no additional (2020: 5%) share taken on Financial Institutions and Cyber Classes. Total planned premium income capacity was £52.1m (2020: £44.3m).

The Syndicate wrote £52.0m of gross premium during 2021 (2020: £40.2m).

As at the 31 December 2020, the 2018 underwriting year was reinsured to close ("RITC") externally resulting in the Syndicate having only transactions relating to 2019 to 2021 underwriting years during the 2021 financial year. The 2021 year of account is the final underwriting year for the Syndicate, and the Syndicate is now entering run off. When the 2021 year is closed this will be RITC into Syndicate 1955.

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Business Environment

The 2021 year experienced much improved market conditions across many lines of business in both insurance and reinsurance lines. This change is on the back of some challenging market conditions in previous years. As the year progressed certain lines of business experienced significant rate change most notably in Commercial D&O, Healthcare and Cyber. In addition to the positive rating environment there was a general improvement in policy terms and conditions.

Investment Returns

The Syndicate is cashless and does not hold any investments. However, it takes a share of Syndicate 1955's investment income. Investment yields were up overall in 2021 to 1.6% (2020: 1.7%). The 2021 investment return of £0.1m is above prior year (2020: £0.7m) due to higher unrealised gains.

Principal Risks and Uncertainties

The Board of the Agency ("Agency Board") sets risk appetite annually as part of the Syndicate's business planning and individual capital assessment process. The Agency has developed a risk and control framework which is built on an Enterprise Risk Management Model that aims to integrate existing risk programmes into a more holistic, embedded risk and capital management framework. This is reviewed annually as part of the Syndicate Business Forecast ("SBF") and Solvency Capital Requirement ("SCR") process.

The future prospects of the UK economy are uncertain as a result of the UK’s decision to leave the European Union. Anticipated legal and operational changes emanating from that decision have generated an elevated level of risk for Lloyd’s and the London Market. The Syndicate will utilise Lloyd’s Brussels as appropriate.

The principal risks and uncertainties faced by the Syndicate and Agency were as follows:

Insurance Risk
Insurance risk includes the risks that a policy will be written for inadequate premium, provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), and that estimates of claims subsequently prove to be insufficient (reserving risk). The Agency Board manages insurance risk by agreeing its appetite for these risks annually and managing this primarily through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Agency Board then monitors performance against the business plan regularly throughout the year. Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through quarterly review by both Syndicate 1955's actuary and the Agency Board and annually by an independent firm of actuaries.

Credit Risk
The key aspects of credit risk are the risk of default by one or more of the Syndicate’s reinsurers and by Syndicate 1955 in respect of the reinsurance it cedes to the Syndicate on a funds withheld basis. The Agency Board’s policy is that Syndicate 1955 generally reinsures with businesses rated A- or higher by one or more rating agencies. Syndicate 1955 only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided. Furthermore, the cash flows from Syndicate 1955 are expected to occur following the closure of the Years of Account at 36 months.

Currency Risk
The key aspect of currency risk is the risk of losses on 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 Agency Board, which may instruct surplus currencies to be sold to reduce any deficit on other currencies.

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Principal Risks and Uncertainties (continued)

Liquidity Risk
This is the risk that the Syndicate will not be able to meet liabilities as they fall due, owing to a shortfall in cash in Syndicate 1955, which cedes a proportion of its insurance liabilities to the Syndicate. To mitigate this risk, the Agency Board reviews Syndicate 1955’s cash flow projections regularly and ensures it holds liquid investments in its portfolios.

Group Risk
Group risk is the possibility that the operation of one part of the Arch Group adversely affects another. The Group is defined as Arch Capital Group Limited (“ACGL”) and all owned subsidiaries.
Group risk includes: negative publicity; inadequate communication within the organisation; undue influence from fellow subsidiaries, holding companies or stakeholders; financial pressures to make funds available to the Group; and financial restraint leading to shortcomings in core activities such as reinsurance purchasing.
The Agency’s strategy is to minimise any Group risk by ensuring that there are clear lines of authority and communication between related parties, that intra-Group reinsurance is placed on arm’s length terms and that any intra-Group agreements are formed objectively and clearly understood and observed by all parties.

Operational Risk
This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Agency Board seeks to manage this risk through the use of policies, procedures, management controls, risk-based compliance monitoring, and a structured programme of testing processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated.

Regulatory Risk
The Agency is required to comply, inter alia, with the requirements of the Financial Conduct Authority (“FCA”), Prudential Regulation Authority (“PRA”), the Society of Lloyd’s (Lloyd’s) and certain EU regulations. Lloyd’s requirements include those imposed on the Lloyd’s market by overseas regulators, particularly in respect of US Situs business. Regulatory risk is the risk of regulatory intervention owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency Board has appointed the Agency Compliance Officer, who monitors regulatory developments, assesses the impact on the Agency’s policies and processes and reports to the Agency Board.

Market Risk
Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the Syndicate.

The strategy of the Agency is to invest surplus funds in low risk securities in line with the agreed investment guidelines. These are conservative and reflect the Agency’s position that investment management is not a core activity. The investment strategy is such that the underlying portfolio of assets is spread across a number of government and corporate bonds with fixed and variable rates of interest.

For further information on the principal risks and uncertainties, see Note 12 in the Notes to the Financial Statements.

Outlook and Future Developments

The Syndicate continues to participate via a quota share reinsurance of Syndicate 1955 for the 2021 Year of Account. The Syndicate's Lloyd's stamp capacity for the 2021 Year of Account is £52.1m (2020: £44.3m) which consists of a cession of 15.1% (2020: 15.5%) on the total 2021 Whole Account result of Syndicate 1955 and no additional cession on Financial Institutions and Cyber classes (2020: 5.0% additional cession on Financial Institutions and Cyber classes).

The Syndicate will not be taking a cession on the 2022 Year of Account of Syndicate 1955. From 2022, the sole 100% participant of the SPA will be directly providing capital to Syndicate 1955 consistent with other third party capital providers on that entity.

With no future cessions being taken, the Syndicate will be expected to RITC when the 2021 underwriting year closes.

To the Agency’s knowledge, there are no other post reporting date events that have occurred which would have a material impact on these annual accounts.

REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

Climate Change

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

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

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

Independent Auditors

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

Disclosure of Information to the Auditors

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

By order of the Agency Board

Pasquale Leoni
Director
Arch Managing Agency Limited
3 March 2022

MANAGING AGENT'S RESPONSIBILITIES STATEMENT

The Agency is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate Annual Accounts; and
- prepare the Syndicate Annual Accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Agency is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the 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 prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 6132

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 6132's syndicate annual accounts:

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

We have audited the syndicate annual accounts included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement, the Statement of Cash Flows, and the Statement of Changes in Member's Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 5, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2021 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The

Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed included:

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

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

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

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

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

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

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Technical Account – General Business

	Notes	2021	2020
		£000	£000
Gross premiums written	2	52,015	40,225
Outward reinsurance premiums		(13,940)	(11,283)
Net premiums written		**38,075**	**28,942**
Change in the provision for unearned premiums:			
- Gross amount		(2,258)	1,086
- Reinsurers' share		(200)	(1,875)
Change in the net provision for unearned premiums	7	**(2,458)**	**(789)**
Earned premiums, net of reinsurance		**35,617**	**28,153**
Allocated investment return transferred from non- technical account	3	(81)	744
Total Income		**35,536**	**28,897**
Claims paid			
- Gross amount		(11,885)	(13,853)
- Reinsurers' share		5,580	4,144
Net claims paid		**(6,305)**	**(9,709)**
Change in the claims outstanding			
- Gross amount		(21,315)	(20,288)
- Reinsurers' share		4,095	8,053
Change in the net claims outstanding	8	**(17,220)**	**(12,235)**
Claims incurred, net of reinsurance		**(23,525)**	**(21,944)**
Net operating expenses	4	**(12,905)**	**(11,009)**
Balance on the technical account for general business		**(894)**	**(4,056)**

Non-Technical Account – General Business

	Notes	2021	2020
		£000	£000
Balance on the general business technical account		(894)	(4,056)
Investment Income	3	181	383
Unrealised (loss)/gain on investments	3	(242)	340
Realised (loss)/gain on investments	3	(17)	25
Investment expenses and charges	3	(3)	(4)
Allocated investment return transferred to general business technical account		81	(744)
Foreign Exchange gains/(loss)		274	(74)
Loss for the year		**(620)**	**(4,130)**

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

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

Assets

	Notes	2021	2020
		£000	£000
Reinsurers' share of technical provisions			
Provision for unearned premiums	7	3,911	4,283
Claims outstanding	8	23,802	26,071
		27,713	30,354
Debtors			
Debtors arising out of reinsurance operations	9	53,517	36,722
Deferred acquisition cost	10	3,406	3,535
Total assets		**84,636**	**70,611**

Liabilities

	Notes	2021	2020
Capital and reserves			
Member's balances		(3,571)	(7,334)
Technical provisions			
Provision for unearned premiums	7	20,724	19,222
Claims outstanding	8	65,471	58,723
		86,195	77,945
Creditors			
Creditors arising out of reinsurance operations	11	2,012	-
Total liabilities		**84,636**	**70,611**

The Annual Accounts on pages 11 to 35 were approved by the Board of Arch Managing Agency Limited on 28th February 2022 and were signed on its behalf by

Jason Kittinger
Chief Financial Officer
3 March 2022

STATEMENT OF CHANGES IN MEMBERS' BALANCES

For the year ended 31 December 2021

	Notes	2021	2020
		£000	£000
At 1 January		**(7,334)**	**(3,204)**
Loss for the year		(620)	(4,130)
RITC to external party		4,383	-
At 31 December		**(3,571)**	**(7,334)**

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021	2020
		£000	£000
Cash flows used in operating activities			
Loss for the year		(620)	(4,130)
Adjustments for			
Movement in general insurance unearned premiums and outstanding claims	7, 8	8,250	17,470
Movement in reinsurers' share of unearned premiums and outstanding claims	7, 8	2,641	(5,327)
Movements in other assets/liabilities		(14,735)	(7,269)
Investment return	3	81	(744)
Net cash from operating activities		**(4,383)**	**-**
Cash flows from financing activities			
Profit distribution		4,383	-
Net cash generated from financing activities		**4,383**	**-**
Net change in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year		-	-

The Syndicate, being an SPA, does not hold cash.

NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

a. Statement of Compliance

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards and the "Insurance Accounts Directive" (Lloyd's Syndicate Accounts) Regulations 2008 as well as in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. The financial statements are prepared on a going concern basis under the historical cost convention except for certain financial instruments which are measured at fair value. The Syndicate writes a quota share of Syndicate 1955, which has adequate capital to continue underwriting for the forthcoming 12 months.

b. Basis of Preparation

The financial statements for the year ended 31 December 2021 were approved for issue by the Agency Board on 28th February 2022.The financial statements are prepared in Sterling which is the presentation and functional currency of the Syndicate and rounded to the nearest £000.

Amounts ceded from Syndicate 1955 to the Syndicate are taken gross of external reinsurance, and are recognised as reinsurance balances in Syndicate 1955, then are in turn recognised as gross balances in the Syndicate. The Syndicate's share of the Syndicate 1955's external outward reinsurance is recognised as reinsurance balances in the Syndicate. The Syndicate also takes a share of investment income and expenses, which are ceded out of Syndicate 1955 and recognised in the equivalent accounts in the Syndicate. Syndicate 6132 is a quota share reinsurer of Syndicate 1955.

Syndicate 1955 purchases whole account reinsurance to cover both Syndicate 1955 and associated special purpose arrangements (SPA's) as the underlying business follows. As the Syndicate is an SPA, it does not hold monetary assets on its statement of financial position. In effect it is a cashless syndicate. All funds are maintained in a withheld account and will be distributed once the Year of Account closes.

c. Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the key sources of estimation uncertainty:

Insurance Contract Technical Provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR).

It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the most likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

c. Judgements and Key Sources of Estimation Uncertainty (continued)

Insurance Contract Technical Provisions (continued)

A number of judgements and assumptions are used in assessing salvage and subrogation recoveries. Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the earnings methodology on an insurance contract requires amortisation of unearned premium on a basis other than time apportionment. Further details are given in note 12.

Estimates of Future Premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgmental and could result in misstatements of revenue being receivable in the Financial Statements.

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

d. Financial Instruments

The Syndicate's financial instruments are initially recorded at cost and are carried at each reporting date at amortised cost.

De-recognition of Financial Assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass through’ arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate’s continuing involvement in the asset. This applies to the funds withheld in respect of the cession from Syndicate 1955 to the Syndicate. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

e. Investment Return

Syndicate 1955's investments are recognised at fair value through the profit and loss. Although the Syndicate does not itself hold any investments, it takes a share of Syndicate 1955's investment income.
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. Interest income is recognised on an accruals basis based on the effective interest rate.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the Statement of Financial Position date and their valuation at the previous Statement of Financial Position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.
An allocation of actual investment return supporting the general insurance technical provisions is made from the non-technical account to the technical account. Investment return related to non- insurance business is attributed to the non-technical account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

f. Insurance Contracts

Product Classification

Insurance contracts are those contracts when the Syndicate (the insurer) has accepted significant insurance risk from another party (the insured) by agreeing to compensate the insured if a specified uncertain future event (the insured event) adversely affects the insured. As a general guideline, the Agency determines whether the Syndicate has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

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 to such premiums receivable 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. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of commission.

Gross written premiums include an estimate for pipeline premiums (i.e. premiums due but not yet received or notified to the Syndicate by intermediaries) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that current year experience will be consistent with prior year experience.

Under some policies, Gross written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the insured. Gross 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 Syndicate has written a quota share contract with Syndicate 1955. The contract operates on a “funds withheld basis” whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the Years of Account at 36 months. As such, the balance of amounts ceded by Syndicate 1955 to the Syndicate is recognised as an asset on the Statement of Financial Position.

Reinsurance Premiums

Reinsurance premiums written 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.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the insured.

Reinsurance premiums under a Risks Attaching During (“RAD”) contract are earned typically over two years based on inception and expiry dates. Year of Account allocation is based on the inception and expiry dates that the contract relates to. This results in a triangular earnings pattern, where earnings increase towards the middle of the policy period then decrease until the policy expires.

Reinsurance premiums under a Losses Occurring During (“LOD”) contract are earned on a straight-line basis over the period of the reinsurance contract based on inception and expiry dates. Losses that occur during the length of the contract could relate to the current, prior or following Year of Account, therefore an allocation to Year of Account is applied to this type of policy. The allocation is based on historical class level monthly earnings for the underlying gross policies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Fees and Commission Income

Insureds are charged for policy administration services, investment management services, policy surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services to be provided in future periods, then they are deferred and recognised over those future periods.

Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums, provisions for unexpired risks and deferred acquisition costs.

Claims Outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims and therefore, the ultimate cost of these claims cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

These methods generally involve projecting from past claims development experience 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 reinsurers' share of provisions for claims is based on the 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, the claims experience for the year and the current security rating of the reinsurers involved. A number of statistical methods are used to assist in making these estimates.

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

The 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, the 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 Annual Accounts 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. 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 provision for unearned premiums is calculated on a monthly pro rata basis with. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

f. Insurance Contracts (continued)

Technical Provisions (continued)

Unexpired Risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs, and premiums receivable.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together.

At 31 December 2021 and 31 December 2020 the Syndicate did not have an unexpired risks provision.

Deferred Acquisition Costs

The Syndicate is a SPA and therefore has no cash, and no brokerage changes hands under the quota share contract. Acquisition costs and deferred acquisition costs are ceded from Syndicate 1955 as per the contract. Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

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

The reinsurers’ share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Commissions receivable on outwards reinsurance contracts are deferred and amortised on the same basis as the related reinsurance premium is earned.

Reinsurance Assets

The Syndicate cedes insurance risk in the normal course of business for all of its lines of business. Reinsurance assets represent balances due from reinsurance companies and other Lloyd’s Syndicates. 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 in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, should an indication of impairment arise 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.

Ceded reinsurance arrangements do not relieve the Syndicate from its insurance obligations to its insureds.

Insurance Receivables

Insurance receivables relate to the cession from Syndicate 1955 on a funds withheld basis and are recognised when due and are measured at amortised cost. The carrying value of insurance receivables is reviewed for impairment should events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Income Statement.

Insurance receivables are derecognised when the de-recognition criteria for financial assets have been met.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1. Significant Accounting Policies (continued)

g. Provisions

Provisions are recognised when the Syndicate has a present obligation as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

h. Foreign Currencies

The Syndicate's functional currency and presentational currency is Sterling.
Transactions in US dollars, Canadian dollars, Euros, Australian dollars and Japanese Yen are initially recorded in the functional currency at the average rates of exchange for the period where for practical purposes it is not possible to use the actual rate at the date of transaction. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are translated at the rate of exchange at the Statement of Financial Position date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences arising on the retranslation of opening Statement of Financial Position items at the closing Statement of Financial Position rate and the retranslation of the Income Statement for the year from the average rate to the closing Statement of Financial Position rate are recorded in the non-technical account.

i. Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings.

No provision has been made for any overseas tax payable by members of the Syndicate on underwriting results.

j. Profit Commission

Profit commission is payable to the Agency at a rate of 17.5% on the 2021 Year of Account on the cumulative profit (2020 Year of Account: 17.5%). This is charged to the Syndicate as incurred but does not become payable until after the appropriate Year of Account closes, normally at 36 months. In the event that a Year of Account is loss making, a deficit clause permits losses to be carried forward against future Year of Account profits (up to two years) in order to reduce future Year of Account profit commission payments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2. Segmental Analysis

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

2021	Gross premiums written	Gross Premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net technical provisions
	£000	£000	£000	£000	£000	£000	£000
Reinsurance	52,015	49,757	(33,200)	(12,905)	(4,465)	(813)	58,482

2020	Gross premiums written	Gross Premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total	Net technical provisions
	£000	£000	£000	£000	£000	£000	£000
Reinsurance	40,225	41,311	(34,141)	(11,009)	(961)	(4,800)	47,591

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participations receivable.

3. Investment return

Syndicate 6132's investments are recognised at fair value through the profit and loss. Although the Syndicate holds no cash or investments, it takes a share of Syndicate 1955's investment income.

	2021 £000	**2020** £000
Investment income		
Income from investments, cash and other deposits	181	383
(Losses)/Gain on realisation of investments	(17)	25
Unrealised (losses)/gain in investments at fair value through profit or loss	(242)	340
Investment management expenses, including interest	(3)	(4)
Net investment return	(81)	744

4. Net Operating Expenses

	2021	**2020**
	£000	£000
Acquisition costs	8,317	7,121
Standard personal expenses	153	719
Change in deferred acquisition costs (note 10)	(126)	872
Administrative expenses	4,561	2,297
Net operating expenses	12,905	11,009

5. Auditors Remuneration

The auditors' remuneration excluding fees incurred as part of the whole account quota share arrangement with Syndicate 1955 were as follows:

	2021	**2020**
	£000	£000
Audit of the Syndicate Annual Accounts	21	23
Audit related services	35	24
Other Services	-	-
	56	47

Auditors' remuneration is included as part of the administrative expenses in Note 4 to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. Staff Costs and Directors Remuneration

a. Staff Costs

All staff in the Arch Group are employed by Arch Europe Insurance Services Limited ("AEIS") and Arch Underwriting Europe Limited ("AUEL"), both Arch group companies.

The cost of these staff is mainly borne by Syndicate 1955 and a portion of the cost is ceded to the Syndicate as per the quota share contract with Syndicate 1955, per note 1.

b. Directors Remuneration

The Syndicate was not recharged any expenses relating to the remuneration of the Directors of the Agency (2020: £nil).

7. Provisions for Unearned Premiums

2021	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2021	19,222	(4,283)	14,939
Premiums written in the year	52,015	(13,940)	38,075
Premiums earned in the year	(49,757)	14,141	(35,617)
Foreign exchange	216	(180)	36
RITC of closed years	(972)	351	(621)
At 31 December 2021	20,724	(3,911)	16,812

2020	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2020	20,654	(6,233)	14,421
Premiums written in the year	40,225	(11,283)	28,942
Premiums earned in the year	(41,311)	13,158	(28,153)
Foreign exchange	(346)	75	(271)
At 31 December 2020	19,222	(4,283)	14,939

8. Claims outstanding

2021	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2021	58,723	(26,071)	32,652
Claims incurred in the current accident year	32,437	(9,453)	22,984
Claims incurred in the prior accident years	764	(223)	541
Claims paid during the year	(11,885)	5,580	(6,305)
Foreign exchange	(165)	(9)	(174)
RITC of closed years	(14,403)	6,374	(8,029)
At 31 December 2021	65,471	(23,802)	41,669

2020	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2020	39,821	(18,794)	21,027
Claims incurred in the current accident year	31,221	(10,395)	20,826
Claims incurred in the prior accident years	2,920	(1,802)	1,118
Claims paid during the year	(13,853)	4,144	(9,709)
Foreign exchange	(1,386)	776	(610)
At 31 December 2020	58,723	(26,071)	32,652

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. Debtors arising out of reinsurance operations

The Syndicate's debtors arising out of reinsurance operations and other debtors are initially recorded at cost and are carried at each reporting date at amortised cost.

	2021	2020
	£000	£000
Debtors arising out of reinsurance operations – due within one year	15,389	4,344
Debtors arising out of reinsurance operations – due after one year	38,128	32,378
	53,517	36,722

10. Deferred Acquisition Costs

	2021	2020
	£000	£000
At 1 January	3,535	4,461
Change in deferred acquisition costs (note 4)	126	(872)
Foreign exchange	(11)	(54)
RITC of closed years	(244)	-
At 31 December	3,406	3,535

11. Creditors arising out of reinsurance operations

The Syndicate's creditors arising out of reinsurance operations and other creditors are initially recorded at cost and are carried at each reporting date at amortised cost.

	2021	2020
	£000	£000
Creditors arising out of reinsurance operations – due within one year	2,012	-
Creditors arising out of reinsurance operations – due after one year	-	-
	2,012	-

12. Risk Management

a. Governance Framework

The primary objective of the Agency's risk and financial management framework is to protect the members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place.

The Agency has established a risk management function with clear terms of reference from the Agency Board, its committees and the associated executive management committee. The Agency has adopted the terms of reference of the Group's Risk Management function and approves the annual plans of that function to support its risk management framework. The risk management framework is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Agency Board to the Managing Director and executive management committees. Lastly, a policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for Syndicate's operations has been put in place.

The Agency Board approves risk management policies relevant to the Syndicate and meets regularly to approve any commercial, regulatory and organisational requirements of such policies and their implementation. 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 corporate goals, and specify reporting requirements. Significant emphasis is placed on the assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

b. Capital Management Objectives, Policies and Approach

In line with the Lloyd's capital framework, Lloyd's capital setting process and provision of capital by members, the Agency has established the following capital management objectives, policies and approach to managing the risks that affect the Syndicate's capital position:

- To maintain the required level of stability of the Syndicate thereby providing a degree of security to insureds,
- To allocate capital efficiently and support the development of business by ensuring that returns on capital employed meet the requirements of its capital providers and of its members,
- To retain financial flexibility by maintaining strong liquidity and access to a range of capital markets,
- align the profile of assets and liabilities taking account of risks inherent in the business,
- To maintain financial strength to support new business growth and to satisfy the requirements of the insureds, regulators and stakeholders.

The operations of the Agency, which manages the underwriting of the Syndicate, are subject to regulatory requirements within the jurisdictions in which it operates, in particular compliance with Financial Conduct Authority ("FCA") rules, Prudential Regulation Authority ("PRA") rules, Lloyd's standards and byelaws and relevant EU regulations and European Insurance and Occupational Pensions Authority ("EIOPA") guidelines.

Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of insurers to meet unforeseen liabilities as they arise.

The Syndicate has met all of these requirements throughout the financial year.

In reporting financial strength, capital and solvency are principally measured using the rules prescribed by the PRA as applicable to the Society of Lloyd's and Lloyd's managing agents. These regulatory capital tests are based upon required levels of solvency, capital and a series of prudent assumptions in respect of the type of business written.

The Agency's capital management policy is to hold sufficient capital to cover the statutory requirements based on the requirements of the PRA and Lloyd's, including any additional amounts required by the regulators.

c. Approach to Capital Management

The Agency seeks to optimise the structure and sources of capital to ensure that it consistently maximises capital resources.

The Agency's approach to managing Syndicate capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital levels on a regular basis and taking appropriate actions to manage the capital position of the Syndicate in the light of changes in economic conditions and risk characteristics. An important aspect of the Syndicate's overall capital management process is the setting of target risk adjusted rates of return, which are aligned to performance objectives and ensure that the Syndicate is focused on the creation of value for members.

The primary sources of capital used by the Syndicate are members' balances and bank letters of credit.

The capital requirements are routinely forecast on a periodic basis and assessed against both the forecast available capital and the expected internal rate of return, including risk and sensitivity analyses. The process is ultimately subject to approval by the Agency Board.

The Agency has developed a Lloyd's Internal Model ("LIM") framework on behalf of the Syndicate to identify risks and quantify their impact on economic capital. The LIM estimates how much capital is required to reduce the risk of insolvency to a remote degree of probability under Solvency II requirements. The LIM has also been considered in assessing the capital requirement.

The Syndicate has had no significant changes in its policies and processes to its capital structure during the past year.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

d. Capital Resources Requirement

The Syndicate is subject to capital requirements imposed by Lloyd's. Throughout the year the Syndicate has complied with the Lloyd's risk-based LIM methodology under Solvency II, which is used to calculate the Syndicate's capital requirement. Lloyd's capital setting uses a capital requirement set at Syndicate level as a starting point, but the requirement to meet Solvency II & Lloyd's capital requirements applies at member level only. Accordingly, the capital requirement of the Syndicate is not disclosed in these Financial Statements.

e. Solvency II Requirements

Under the Solvency II regime, there are two prescribed methods for assessing an insurer's regulatory capital requirements – using either a standard formula set by the regulator or an Internal Model specific to that insurer which is subject to regulatory approval.
The Syndicate operates within the Lloyd's market. The PRA has determined that the Society of Lloyd's is the relevant insurer for the Lloyd's market. The Society of Lloyd's has chosen to operate an Internal Model and this was approved by the PRA in December 2015. In consequence, all Lloyd's managing agents are required to operate an internal model for each managed Syndicate that is structured on Solvency II lines and which (when aggregated) ensures the integrity and effectiveness of the Society of Lloyd's Internal Model.
The Society of Lloyd's not only oversees the approval and monitoring of each Syndicate's internal model, but also imposes certain restrictive provisions to minimise the risk of non-compliance with regulatory capital requirements.

The effective management of risk and capital is a key strategic priority. The Agency's risk management framework enhances the definition of the risk standards and risk tolerances which guide the day-to-day business decision making and processes and aim to ensure that risk appetite is not exceeded.
Economic capital is calculated for the Syndicate considering the complete spectrum of risks identified by the risk framework, ensuring that the capital requirement reflects the risk profile and enabling capital to be allocated and returns measured on a risk adjusted basis.
The Syndicate submitted its Quarterly Solvency Return (QSR) for 31 December 2021 to Lloyd's on 21 January 2021. The Annual Solvency Return (ASR) for 31 December 2021 is due to Lloyd's on 11 March 2021.

f. Insurance Risk

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Syndicate at the time of underwriting.

Some specific examples of insurance risk include variations in the severity or frequency of claims or the unexpected occurrence of multiple claims arising from a single cause. More generally, insurance risk includes the potential for claims overruns relative to pricing or reserving assumptions.

Insurance risk is a concern in a prudential context because inadequate systems and controls can create a threat to the Prudential Regulation Authority objectives of maintaining market confidence and consumer protection. Inadequately managed insurance risk may result in:

- The inability of the Syndicate to meet its contractual insurance liabilities as they fall due; and
- The inability of the Syndicate to treat its insureds consistently with the Syndicate's obligations.

The Syndicate's underwriting strategy is to write a diverse book of business with a focus on building a composite portfolio with a high level of diversification, thus creating a business with low volatility and a good opportunity for consistent profit across the underwriting cycle. The Syndicate's appetite is governed by market conditions and management undertakes a continuous assessment of its portfolio against this background.

The Syndicate's tolerance by class of business is covered within the business plan. The Syndicate operated within defined exception criteria as follows:

- Stamp capacity was £52.1m for the 2021 Year of Account (2020: £44.3m);
- Maximum realistic disaster scenario net exposure for the 2021 Year of Account of 14.4% of stamp capacity (2020 Year of Account: 16.0%); and
- Usual maximum gross line size for 2021 of £7.5m (2020: £7.1m).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

f. Insurance Risk (continued)

Claims

Open market claims are settled by the claims management team. The claims department has produced claims handling guidelines which incorporate Lloyd's minimum standards.
Claims development tables are shown on an underwriting year basis below.

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2021:

Underwriting Year	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate gross claims:	£000	£000	£000	£000
At end of underwriting year	19,420	17,353	21,125	21,125
One year later	34,641	27,302	-	27,302
Two years later	37,199	-	-	37,199
Current estimate of ultimate claims				85,626
Cumulative payments				(20,155)
Gross unearned claims reserve				-
Gross claims reserve				65,471

Net insurance ultimate contract outstanding claims provisions as at 31 December 2021:

	2019	**2020**	**2021**	**Total**
Estimate of ultimate net claims:	£000	£000	£000	£000
At end of underwriting year	9,714	10,674	13,938	13,938
One year later	21,313	19,172	-	19,172
Two years later	22,736	-	-	22,736
Current estimate of ultimate claims				55,846
Cumulative payments				(14,177)
Net unearned claims reserve				-
Net claims reserve				41,669

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

f. Insurance Risk (continued)

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 accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–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. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit for the year and member's balances.

31 December 2021	Change in Assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£000	£000	£000
Average claim cost	+10%	6,482	3,794	(3,794)
Average number of claims	+10%	6,482	4,064	(4,064)

31 December 2020	Change in Assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit for the year and members' balances
		£000	£000	£000
Average claim cost	+10%	5,814	2,940	(2,940)
Average number of claims	+10%	5,814	3,165	(3,165)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

f. Insurance Risk (continued)

The Syndicate has gross material exposure to COVID-19 and the Tennessee tornado in the 2020 Year of Account, the net exposure to these losses is also material. Last year, the Syndicate had material gross exposure to Typhoon Hagibis and Typhoon Faxai. During the year, the exposure to Typhoon Hagibis has deteriorated on a gross basis, but net exposure is not material.

This increases the uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing sensitivity analysis on the losses pertaining to these loss events, it was determined that a 10% increase on the gross reserves will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business. The Syndicate also has material exposure to COVID- 19 on the 2019 Year of Account. This will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business. The Syndicate does not have any material exposure to these losses on any of the older years of account.

The Agency uses both its own and commercially available proprietary risk management software to assess Syndicate 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.

The following table shows hypothetical claims arising for the largest realistic disaster scenariosbased on the Syndicate’s average risk exposures during 2021.

	Estimated net loss
	$m
US earthquake	4.3
US windstorm	7.5
Japan earthquake	1.9
Japan windstorm	0.7
Europe windstorm	0.7

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate’s average risk exposures during 2020.

	Estimated net loss
	$m
US earthquake	4.9
US windstorm	7.1
Japan earthquake	1.5
Japan windstorm	1.4
Europe windstorm	1.5

The Syndicate and Agency operate in accordance with approved outwards reinsurance procedures in place covering the purchase of reinsurance and the procedures for making recoveries. The Syndicate also operates in accordance with an approved Agency policy for the approval of reinsurers in order to minimise credit risk.

The Agency assesses the Syndicate’s need for reinsurance on a continuous basis, where the Syndicate takes a share of Syndicate 1955's reinsurance programme. The structure of the reinsurance programme is part of the annual planning process and broad estimates of reinsurance spend are made. The programme is subject to extension or modification as the year progresses. Procedures for purchasing approval and transactions processing are set out in a procedures manual.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

f. Insurance Risk (continued)

The table below sets out the concentration of outstanding claim liabilities by business segment:

31 December 2021	Gross liabilities	Reinsurance assets	Net liabilities
	£000	£000	£000
Energy - marine	2,286	(831)	1,455
Energy - non-marine	1,775	(645)	1,130
Marine, aviation and transport	18,175	(6,608)	11,567
Fire and other damage to property	16,534	(6,011)	10,523
Third party liability	18,475	(6,717)	11,758
Accident and health	8,139	(2,959)	5,180
Pecuniary loss	87	(31)	56
Total	65,471	(23,802)	41,669

31 December 2020	Gross liabilities	Reinsurance assets	Net liabilities
	£000	£000	£000
Energy - marine	888	(431)	457
Energy - non-marine	3,758	(1,834)	1,924
Marine, aviation and transport	21,248	(9,252)	11,996
Fire and other damage to property	14,702	(10,288)	4,414
Third party liability	15,759	(3,814)	11,945
Accident and health	2,110	(339)	1,771
Pecuniary loss	258	(113)	145
Total	58,723	(26,071)	32,652

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

f. Insurance Risk (continued)

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 accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one–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.

g. Credit Risk

Credit risk arises where one party is exposed to a loss through another party failing to perform its financial obligations to the other party, including failure to perform in a timely manner. Examples of credit risk arising in insurance are from premium debtors, where cover under contracts of insurance may either commence before premiums become due or continue after their non- payment. It can also arise if a reinsurer fails to fulfil its financial obligation to pay where a valid claim has been made.

Credit risk is a concern in a prudential context because of the risk of erosion of capital due to persistent credit losses, so threatening its viability as a going concern and hampering the Syndicate's ability to meet its own obligations to its insureds.

The Agency has adopted a prudent investment policy. Exposure to investment counterparty risk has been minimised by appointing experienced third-party investment managers and operating to agreed investment guidelines which determine the investments to which the Syndicate is exposed.
Investment performance is overseen by the Investment Committee.

The overall responsibility for the oversight of intermediaries and reinsurers has been delegated to the Agency Board's Risk and Capital Committee. The Risk and Capital Committee reviews the credit ratings of reinsurers on a quarterly basis, approves the use of intermediaries and reinsurers and reviews any late settlement or reputational issues of the counterparties. The Finance and Compliance functions support the formation and renewal of intermediary relationships, to help ensure that inappropriate parties are not used by the Syndicate. The policy for approving reinsurers includes limits on counterparty exposure in order to limit the total credit risk the Syndicate may be exposed to in respect of any one reinsurer.

The credit risk policy covers the quota share contract with Syndicate 1955. The contract operates on a "funds withheld basis" whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the Years of Account at 36 months. These amounts are shown as "Debtors arising out of reinsurance operations" in the tables which follow.
A ratings table for the Syndicate's financial assets is given below.

At 31 December 2021	AA	A and below	Unrated	Total
	£000	£000	£000	£000
Reinsurers' share of claims outstanding	2,919	19,461	1,422	23,802
Debtors arising out of reinsurance operations	-	53,516	-	53,516
Total	2,919	72,977	1,422	77,318

At 31 December 2020	AA	A and below	Unrated	Total
	£000	£000	£000	£000
Reinsurers' share of claims outstanding	3,198	21,315	1,558	26,071
Debtors arising out of reinsurance operations	-	36,722	-	36,722
Total	3,198	58,037	1,558	62,793

The source for ratings is A.M. Best.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

g. Credit Risk (continued)

The ageing of the Syndicate's assets is disclosed below:

At 31 December 2021	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£000	£000	£000	£000	£000	£000
Reinsurers' share of claims outstanding	23,802	-	-	-	-	23,802
Debtors arising out of reinsurance operations	-	-	-	-	-	-
Due from intermediaries under reinsurance business	53,517	-	-	-	-	53,517
Total	77,319	-	-	-	-	77,319

At 31 December 2020	Neither past due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£000	£000	£000	£000	£000	£000
Reinsurers' share of claims outstanding	26,071	-	-	-	-	26,071
Debtors arising out of reinsurance operations	-	-	-	-	-	-
Due from intermediaries under reinsurance business	36,722	-	-	-	-	36,722
Total	62,793	-	-	-	-	62,793

h. Foreign Currency Risk

In order to minimise market risk arising from foreign exchange the Syndicate matches the currency of anticipated liabilities to its assets. Shortfalls of sterling to settle expenses are managed by the sale of surplus currencies as required.

Cash flow reports form part of monthly accounting. Cash flow forecasts are performed regularly to ensure currencies are matched and to minimise any foreign exchange risk.

The Syndicate maintains ledger balances in six main currencies: Sterling, Euros, US Dollars, Japanese Yen, Australian Dollars and Canadian Dollars. The most important non-sterling currency exposure relates to the US dollar. As well as the US Situs business, exposures arise from a number of classes of business transacted outside of the USA, mainly Property. Maintenance of currency ledgers enables the Agency to monitor foreign exchange risk.

The carrying value of total assets and liabilities by currency is as follows:

At 31 December 2021	GBP	USD	EUR	CAD	Other	Total
	£000	£000	£000	£000	£000	£000
Reinsurers' share of technical provisions	3,361	22,172	394	133	1,653	27,713
Reinsurance receivables	(3,018)	43,903	3,376	2,341	6,915	53,517
Other debtors	607	2,276	183	164	176	3,406
Total assets	950	68,351	3,953	2,638	8,744	84,636
Technical provisions	(6,980)	(64,217)	(3,543)	(1,763)	(9,692)	(86,195)
Reinsurance Payables	(158)	(1,453)	(81)	-	(320)	(2,012)
Total Liabilities	(7,138)	(65,670)	(3,624)	(1,763)	(10,012)	(88,207)
Members' balances	(6,188)	2,682	329	874	(1,268)	(3,571)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

h. Foreign Currency Risk (continued)

At 31 December 2020	GBP	USD	EUR	CAD	Other	Total
	£000	£000	£000	£000	£000	£000
Reinsurers' share of technical provisions	1,984	25,680	1,352	164	1,174	30,354
Reinsurance receivables	1,179	27,313	2,422	1,648	4,160	36,722
Other debtors	653	2,480	177	70	155	3,535
Total assets	3,816	55,473	3,951	1,882	5,489	70,611
Technical provisions	(6,474)	(54,878)	(3,951)	(1,083)	(11,559)	(77,945)
Total Liabilities	(6,474)	(54,878)	(3,951)	(1,083)	(11,559)	(77,945)
Members' balances	(2,658)	595	-	799	(6,070)	(7,334)

i. Sensitivity Analysis

Sensitivity analysis is carried out on the underwriting/investment portfolio in relation to key parameters such as: exchange rates, market rating cycles, coverage cycles and catastrophe model output. At 31 December 2021, the Syndicate used closing rates of exchange of £1: $1.35 and £1: €1.19 (At 31 December 2020: £1: $1.37 and £1: €1.12).

The Syndicate performs sensitivity analysis based on a 10% strengthening or weakening of Pound Sterling against the Euro and US Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities.

Increase/(decrease) on members' balances	2021	2020
	£000	£000
Strengthening of US dollar	298	66
Weakening of US dollar	(244)	(54)
Strengthening of Euro	-	-
Weakening of Euro	-	-

The Syndicate does not hold any investments but is indirectly exposed to interest rate risk arising on the share it takes of Syndicate 1955's investment income. Changes in interest yields, with all other variables constant, would result in changes in the value of the investments held by Syndicate 1955. This would affect reported profits and members' balances of the Syndicate as indicated in the stress test below.

	Impact on profit		Impact on members' balance	
	2021	**2020**	**2021**	**2020**
	£000	£000	£000	£000
Shift in yield (basis points)				
50 basis points decrease	491	382	491	382
50 basis points increase	(521)	(511)	(521)	(511)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

j. Liquidity Risk

Liquidity risk is the risk that a Syndicate, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

Future Cash Flows

At 31 December 2021	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	Total
	£000	£000	£000	£000	£000
Claims outstanding	20,387	17,586	11,448	16,052	65,473

At 31 December 2020	< 1 yr	1-3 yrs	3-5 yrs	> 5 yrs	Total
	£000	£000	£000	£000	£000
Claims outstanding	15,809	17,688	10,326	14,900	58,723

k. Operational Risk

Operational risk is the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is inclusive of all internal processes, manual and computerised, and all systems; internal and external fraud; and employee competence. Employee relations and culture are included in people risks.

An assessment of operational risk is important as it can affect the Syndicate's solvency, or lead to unfair treatment of consumers or lead to financial crime. The Agency considers all operational risk events that may affect these matters in establishing and maintaining its systems and controls.

The Agency's strategy is to implement and maintain a high level of operational processes and procedures. These are subject to ongoing review and update. This will help reduce and control operational risk more effectively and make any subsequent loss more manageable. The operational controls are designed to meet the requirements of relevant regulatory bodies and agreed best practice. All operational controls are monitored on a regular basis to ensure that
they remain fit for purpose.

l. Group Risk

Group risk is the risk that the operation of one part of the Arch Group adversely affects another. Group risk includes:

- Negative publicity;
- Inadequate communication within the organisation;
- Undue influence from fellow subsidiaries, holding companies or stakeholders;
- Financial pressures to make funds available to the Arch Group; and/or
- Financial restraint leading to shortcomings in core activities such as reinsurance purchase.

The Agency's overall strategy is to minimise any Group risk by ensuring there are clear lines of authority and communication between related parties, that intra-Group reinsurance is placed at arm's length and that any intra-Group agreements are formed objectively and clearly understood by all parties.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12. Risk Management (Continued)

m. Dependencies between Risk Categories

Under certain conditions, the outcome with respect to one risk category could influence the outcome of another. There are two such specific dependencies which the Agency has identified:

- A major loss event could lead to widespread failures within the reinsurance market. The loss would need to be very large since the reinsurance market, particularly that part of the market to which the Syndicate is exposed, has in the past shown itself to be robust enough to withstand losses such as World Trade Centre and major hurricane losses.
- There are a number of operational risks that have the potential to correlate with major natural catastrophe losses. For example, the consequences of inadequately monitoring liquidity are only likely to be suffered should there be a significant call on liquidity (likely to happen after a major loss event).

In terms of other loss types, an aggregation of casualty claims might coincide with a weak economy. Historically, although more commonly a weak economy has coincided with a period of lower interest rates, this relationship varies depending upon the cause of the weak economy and in some instances can be accompanied by higher interest rates. The timing of the claims experience is also far from clear; in some instances, recessionary claims emerge with clarity only with a sufficient time lag (even under claims-made cover) such that the economy is improving again and interest rates might be rising. Therefore, although there is an argument for some degree of positive correlation, it is not clear how significant this might be.

n. Risk Arising out of the COVID-19 Pandemic

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

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

13. Related Parties

a. Special Purpose Arrangements ("SPA") Cessions

Syndicate 1955 ceded reinsurance to the Syndicate on a funds withheld basis.
For the 2021 Year of Account, Syndicate 1955 ceded 15.1% (2020: 15.5%) of the Whole Account result, with no additional (2020: 5%) share taken on Financial Institutions and Cyber Classes. These cessions resulted in the Syndicate receiving £52.0m (2020: £40.2m) of reinsurance premium from Syndicate 1955 during the year and having a balance of £53.5m receivable from Syndicate 1955 on a funds withheld basis as at 31 December 2021 (2020: £36.7m).

b. Arch Companies

The Syndicate, along with Syndicate 1955 and Syndicate 2012 is managed by the Agency, whose parent company is Barbican Holdings (UK) Limited. The ultimate parent company is Arch Capital Group Limited, a Bermuda registered company which consolidates the Syndicate result. A Managing Agency fee of £0.5m (2020: £0.4m) was payable from the Syndicate to the Agency during the year.
The Directors consider the ultimate controlling party to be Arch Capital Group Limited.

14. Funds at Lloyd's

Every member of Lloyd's 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 Agency or the Syndicate, no amount has been shown in these Annual Accounts by way of such capital resources. However, the Agency is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15. Off-Statement of Financial Position items

The Syndicate has not been party to any arrangement, not reflected in its Statement of Financial Position, where material risks or benefits arise for the Syndicate.

16. Derivatives

The Syndicate has not purchased any forward foreign currency contracts to hedge currency exposure or entered into any other derivative contracts within the year.

17. Post Reporting Date Events

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