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# Beat Special Purpose Arrangement 1416

# Annual Report and Accounts

## Year ended 31 December 2022

## Contents

# Directors and administration

## Managing Agent

Asta Managing Agency Ltd

## Directors

P A Jardine (Chairman)*
R P Barke
C V Barley
E M Catchpole*
K A Green*
C N Griffiths
L Harfitt
A J Hubbard*
D B Jones
L J M McMaster
S D Redmond*
K Shah*

*Non-Executive Directors

## Signing Director

C V Barley

## Managing Agent's Registered Office

5th Floor
20 Gracechurch Street
London
EC3V 0BG

## Managing Agent's Registered Number

1918744

## Active Underwriter

A J T Milligan

## Registered Auditor

Ernst & Young LLP

## Signing Actuary

Qian Wu Ernst & Young LLP

## Managing Agent's report

The Special Purpose Arrangement’s (“SPA”) Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the period ended 31 December 2022.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008").

### Results

The total recognised result for calendar year 2022 is a Loss of $0.413m (2021 Loss of $0.285m).

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

### Principal activity and review of the business

The SPA was established in October 2021 to underwrite a variable quota share of certain classes of business from Syndicate 4242 (“Host Syndicate”) for risks incepting from 1 October 2021.

The 2022 underwriting year was the first full year of active member participation and, the SPA has a fixed 20% Quota share across all classes of business underwritten by the Host Syndicate.

The portfolio comprises US Binders, Directors and Officers, Specialty treaty reinsurance, Cyber and Tech E&O, Invoice factoring insurance, Global D&F, Errors and Omissions - US and Alternative Risk Binders underwritten by the Host Syndicate. The parameters for such cession being determined in accordance with the targeted delivery of the SPA’s business plan.

The Cession for each class of business for the 2022 underwriting year was 20%

Quota share percentage is stated as a percentage of underwriting facilities and open market policies (as the case may be) incepting during the year.

## Managing Agent's report (continued)

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

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Global D&F | 10,126 | 0 |
| Specialty Treaty Reinsurance | 16,813 | 0 |
| Cyber and Tech E&O | 2,406 | 0 |
| Alternative Risks Binders | 16,221 | 1,325 |
| E&O | 9,681 | 3 |
| Invoice factoring insurance | 1 | 0 |
| Directors & Officers | 3,621 | 1,672 |
| US Binders | 8,927 | 0 |
| | 67,796 | 3,000 |

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

| | 2022 | 2021 | Change |
|---|---|---|---|
| | $'000 | $'000 | |
| Gross written premiums | 67,796 | 3,000 | 2159.9% |
| Loss for the financial year | (413) | (285) | 44.8% |
| Net Loss Ratio | 56% | 57% | -1.5% |
| Net Combined Ratio | 101% | 183% | -82.3% |

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

The return on capacity for the 2021 and 2022 years of accounts at 31 December 2022 are shown below, together with forecasts for the remaining open year of accounts.

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Capacity | 67,500 | 13,500 |
| Loss | (413) | (285) |
| Return on Insurance Capacity (unaudited) | -0.6% | -2.1% |

## Outward reinsurance arrangements

The SPA benefits from 20% of the Host Syndicate's Reinsurance programme. The SPA pays for its share of the Common Account Reinsurance purchase by the Host Syndicate.

## Managing Agent's report (continued)

## Principal risks and uncertainties

The SPA sets risk appetite annually, which is approved by the Agency as part of the SPA's business planning and Solvency Capital Requirement ('SCR') process. The Agency Risk and Solvency Committee meets at least quarterly to oversee the risk management framework. The Syndicate Board, a sub-committee of the Agency Board, reviews the risk profile as reflected in the risk register, and monitors performance against risk appetite using a series of key risk indicators. The principal risk and uncertainties facing the SPA are as follows:

### Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the Asta Actuarial team and the Reserving Committee.

### Credit risk

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

### Market risk

Market risk exposure impacting the SPA relates to fluctuations in interest rates or exchange rates and inflation. The SPA is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board. Through the course of 2022 we have seen large foreign currency fluctuations and the value of the Great British pound (GBP) fall to record lows against the United States Dollar (USD). Other major currencies such as CAD and AUD have also materially strengthened against the pound.

A multitude of factors including Brexit, the covid 19 pandemic and the Russian invasion of Ukraine has seen inflation increase to its' highest level since 1982. Inflation is now expected to remain elevated for longer than previously forecast on higher commodity costs and broader price pressures and these expectations can pose difficulties in the insurance market. Uncertainty surrounding how long existing inflation issues will last could threaten the long-term stability of the insurance industry's reserve levels and underwriting profitability. Inflation has been at the forefront of Lloyd's additional reporting from quarter 2 onwards and reserves have been analysed and uplifted where appropriate. Expense budgets for both 2022 and 2023 have been adjusted to reflect the current and forecast inflationary environment.

## Managing Agent's report (continued)

Through the course of 2022 we have seen large foreign currency fluctuations and the value of the Great British pound (GBP) fall to record lows against the United States Dollar (USD). Other major currencies such as CAD and AUD have also materially strengthened against the pound.

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

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

## Liquidity risk

This is the risk that the SPA will not be able to meet its liabilities as they fall due, owing to a shortfall in cash or can only meet obligations at excessive cost. The Host Syndicate pays insurance claims and other liabilities (including expenses) on the SPA's behalf in accordance with the funds withheld arrangement. Cash calls can be made by the Host Syndicate on the SPA under certain circumstances. To mitigate this risk the Syndicate Board and Investment Committee reviews cash flow projections regularly and ensures that, where needed, the Host Syndicate has liquidity facilities in place or has utilised the option of a cash call from Capital providers.

The Host Syndicate has in place a working capital facility with Barclays.

### Operational risk

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

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

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

# Managing Agent's report (continued)

## Group / strategic risk

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

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

## Future developments

The SPA will continue to transact the current classes of general direct insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The capacity for the 2023 year of account is $78.6m (2022 year of account $67.5m).

### Environmental, Social and Governance (ESG)

During 2022, Asta has agreed its ESG policy, which defines the principles of ESG, the Managing Agency's approach and key initiatives to implement the policy. Asta has also further supported syndicates in the definition of their own ESG strategies, in line with Lloyd's requirements. The Asta syndicate ESG framework is aligned to Lloyd's ESG guidance from October 2021, and to Asta's climate change work detailed below.

SPA Syndicate 1416 has also defined an ESG strategy which defines its overall strategy statement, principles and specific approach to Underwriting and Investments

### Climate change

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

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

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

## Managing Agent's report (continued)

Asta continue to monitor and consider regulatory guidance as it is released on managing the financial risks of climate change (eg. the PRA's Dear CEO letter in October 2022 giving feedback on their thematic review of the market's response to the 2019 Supervisory Statement).

### Coronavirus

The company has now fully transitioned to a hybrid working practice that allows staff to work both at home and within the office environment. The Managing Agency has been able to deliver from both a regulatory and client standpoint with no adverse outcomes through remote working. Through 2022 Covid has become very much business as usual and exceptional measures have been phased out.

The SPA has no Covid related exposure.

## Russian Invasion of Ukraine

During February 2022, Russia instigated military action in Ukraine. This event was assessed by the Directors as an event that will increase risk and uncertainty globally in the foreseeable future and that view is unaltered.

The SPA takes a 20% share of the Host Syndicate's gross and net exposures for the 2022 YOA. For 2021 the SPA did not begin until 2021Q4 and only wrote a limited number of policies.

The SPA has reviewed its' portfolio and has identified that there are potentially 17 policies that have direct exposure to the conflict. To date we have had no claim notification and, the current ultimate loss forecast is $0.3m. The SPA has also been impacted by secondary factors of the conflict namely the rise in social and economic inflation which impacts operational cost on a day-to-day basis and the increased cost of future claims

## Directors and Officers

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

| | |
|---|---|
| N Burdett** | Resigned 13 July 2022 |
| M D Mohn | Resigned 13 July 2022 |
| L J M McMaster | Appointed 12 September 2022 |
| J M Tighe | Resigned 23 November 2022 |
| D J G Hunt | Resigned 1 December 2022 |
| E M Catchpole | Appointed 1 January 2023 |
| D B Jones | Appointed 23 February 2023 |
| S P A Norton | Resigned 23 February 2023 |

Company Secretary**

## Disclosure of information to the auditor

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

## Auditor

The Managing Agent intends to reappoint Ernst & Young LLP as the SPA's auditors.

### Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by SPA members before 28 April 2023.

On behalf of the Board

C V Barley
Director
27 February 2023

## Statement of Managing Agent's responsibilities

The directors of the Managing Agent are responsible for preparing the SPA's annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the Managing Agency to prepare their SPA's annual accounts for each financial year. Under that law they have elected to prepare the annual accounts in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the Agency must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the SPA and of the profit or loss of the SPA for that period. In preparing these annual accounts, the directors of the managing agent are 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 annual accounts; and
- Assess the SPA's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the Managing Agency are responsible for keeping adequate accounting records that are sufficient to show and explain the SPA's transactions and disclose with reasonable accuracy at any time the financial position of the SPA and enable them to ensure that the SPA annual accounts comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of SPA annual accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the Managing Agency are responsible for the maintenance and integrity of the SPA and financial information included on the website. Legislation in the UK governing the preparation and dissemination of SPA's annual accounts may differ from legislation in other jurisdictions.

## Independent auditor's report to the members of Special Purpose Arrangement 1416

### Opinion

We have audited the syndicate annual accounts of syndicate *1416* ('the syndicate') for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### Conclusions relating to going concern

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

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

## Independent auditor's report to the members of Special Purpose Arrangement 1416 (continued)

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

**Other information**

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are responsible for the other information contained within the annual report.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the syndicate annual accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

## Independent auditor's report to the members of Special Purpose Arrangement 1416 (continued)

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

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

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities *set out on page 9*, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

### Auditor's responsibilities for the audit of the syndicate annual accounts

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

## Independent auditor's report to the members of Special Purpose Arrangement 1416 (continued)

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

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

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

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd's in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance. We also performed procedures to understand the culture of compliance and governance including the obtainment and review of the code of conduct, employee handbook and whistleblowing policy. Furthermore in order to assess the internal views of risks and their likelihoods, we have reviewed the risk register and risk event summary for the syndicate.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.

- For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.

- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

## Independent auditor's report to the members of Special Purpose Arrangement 1416 (continued)

- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, on the valuation of IBNR reserves and misstatement due to fraud and error including management override of controls, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the syndicate annual accounts were free from fraud or error.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

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

*Signature*

*Robert Bruce (Senior statutory auditor)*

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

*London*

*27 February 2023*

# Statement of profit or loss

## Technical account - General business

### For the year ended 31 December 2022

| | Notes | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|---|
| Gross premiums written | 3 | 67,796 | 3,000 |
| Outwards reinsurance premiums | | (9,594) | (50) |
| Net written premiums | | 58,202 | 2,950 |
| | | | |
| Change in the provision for unearned premiums | | | |
| Gross amount | | (30,557) | (2,669) |
| Reinsurers' share | | 3,313 | 42 |
| | 4 | (27,244) | (2,627) |
| **Earned premiums, net of reinsurance** | | 30,958 | 323 |
| | | | |
| **Allocated investment return transferred from the non-technical account** | | 38 | 0 |
| | | | |
| Claims Paid | | | |
| Gross amount | | (1,920) | (28) |
| Reinsurers' share | | 0 | 0 |
| | | (1,920) | (28) |
| Changes in the provision for claims outstanding | | | |
| Gross amount | | (19,255) | (157) |
| Reinsurers' share | | 3,887 | 0 |
| | 4 | (15,368) | (157) |
| **Claims incurred, net of reinsurance** | | (17,288) | (185) |
| **Net operating expenses** | 5 | (13,879) | (406) |
| **Balance on technical account - general business** | | (171) | (268) |

All the amounts above are in respect of continuing operations.

The notes on pages 21 to 40 form part of these financial statements.

## Statement of profit of loss continued

## Non-technical account

**For the year ended 31 December 2022**

| | Notes | 2022 | 2021 |
|---|---|---|---|
| | | $'000 | $'000 |
| **Balance on technical account - general business** | | (171) | (268) |
| Investment Income | | 75 | 0 |
| Unrealised gains on investments | | 37 | 0 |
| Unrealised losses on investments | | (79) | (0) |
| Gains on the realisation of investments | | 11 | 0 |
| Losses on the realisation of investments | | (2) | 0 |
| Investment management charges | | (4) | 0 |
| Allocated Investment return | 9 | (38) | 0 |
| Exchange gains and losses | | (242) | (17) |
| **Loss for the financial year** | | (413) | (285) |

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

All the amounts above are in respect of continuing operations. The notes on pages 21 to 40 form part of these financial statements.

## Statement of changes in members' balances

**For the year ended 31 December 2022**

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| **Members' balances brought forward at 1 January** | (285) | 0 |
| Loss  for the financial year | (413) | (285) |
| Cash calls in period | 0 | 0 |
| Distributions in period | 0 | 0 |
| Members' agent fees | 0 | 0 |
| Non-standard personal expenses | 0 | 0 |
| Distribution profit (per RX04) | 0 | 0 |
| Distribution loss (per RX04) | 0 | 0 |
| **Members' balances carried forward at 31 December** | (698) | (285) |

Members participate on Syndicates by reference to years of account (YOA) and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

The notes on pages 21 to 40 form part of these financial statements.

## Statement of financial position

**As at 31 December 2022**

| | Notes | 2022 $'000 | 2021 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| *Investments* | | | |
| Other financial investments | | 0 | 0 |
| | | | |
| *Reinsurers' share of technical provisions* | | | |
| Provision for unearned premiums | 4 | 3,355 | 42 |
| Claims outstanding | 4 | 3,887 | 0 |
| | | 7,242 | 42 |
| *Debtors* | | | |
| Debtors arising out of direct insurance operations | | 0 | 0 |
| Debtors arising out of reinsurance operations | 10 | 36,428 | 1,846 |
| Other debtors | | 0 | 0 |
| | | 36,428 | 1,846 |
| *Cash and other assets* | | | |
| Cash at bank and in hand | | 0 | 0 |
| Other assets | | 0 | 0 |
| | | 0 | 0 |
| *Prepayments and accrued income* | | | |
| Accrued income | | 0 | 0 |
| Deferred acquisition costs | | 9,289 | 730 |
| Other prepayments and accrued interest | | 194 | 81 |
| | | 9,483 | 811 |
| | | | |
| *Total Assets* | | 53,153 | 2,699 |

The notes on pages 21 to 40 form part of these financial statements.

## Statement of financial position continued

**As at 31 December 2022**

| | Notes | 2022 $'000 | 2021 $'000 |
|---|---|---|---|
| **MEMBERS' BALANCE AND LIABILITIES** | | | |
| *Capital and reserves* | | | |
| Members' balances | | (699) | (285) |
| *Liabilities* | | | |
| *Technical provisions* | | | |
| Provision for unearned premiums | 4 | 32,853 | 2,677 |
| Claims outstanding | 4 | 19,378 | 157 |
| | | 52,231 | 2,834 |
| *Creditors* | | | |
| Creditors arising out of direct insurance operations | | 0 | 0 |
| Creditors arising out of direct reinsurance operations | 11 | 900 | 57 |
| Other creditors | | 0 | 0 |
| | | 900 | 57 |
| *Accruals and deferred income* | | 721 | 92 |
| *Total Liabilities* | | 53,852 | 2,984 |
| *Total members' balances and liabilities* | | 53,153 | 2,699 |

The notes on pages 21 to 40 form part of these annual accounts.

The financial statements were approved by board of directors on 27 February 2023 and were signed on its behalf by:

R P Barke
Director
27 February 2023

# Statement of cash flows

## For the year ended 31 December 2022

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| **Cash flows from Operating Activities** | | |
| Loss on ordinary activities | (413) | (285) |
| Increase in gross technical provisions | 49,397 | 2,834 |
| Increase in reinsurers' share of gross technical provisions | (7,200) | (42) |
| Increase in debtors | (34,582) | (1,847) |
| Increase in creditors | 843 | 59 |
| Movement in other asset/liabilities | (8,045) | (719) |
| Changes to market value and currency | | |
| Investment Return | (38) | 0 |
| Other | | |
| Net cash inflow from operating activities | (38) | 0 |
| **Cash flows from Investing activities** | | |
| Purchases of other financial investments | 0 | 0 |
| Sale of other financial investments | 0 | 0 |
| Investment income received | 38 | 0 |
| Increase/decrease in overseas deposits | | |
| Changes to market value and currency | 0 | 0 |
| Other | 0 | |
| Net cash inflow/outflow from investing activities | 38 | 0 |
| **Cash flows from Financing activities** | | |
| Payments of profit to members' personal reserve fund | 0 | 0 |
| Cash calls | 0 | 0 |
| Other | 0 | 0 |
| Member's agents fee advances and other non-standard personal expenses | | |
| Net cash outflow from financing activities | 0 | 0 |
| **Net increase/decrease in cash and cash equivalents** | 0 | 0 |
| **Cash and cash equivalents at beginning of year** | | |
| Changes to market value and currency | | |
| **Cash and cash equivalents at end of year** | 0 | 0 |

# Notes to the financial statements

For the year ended 31 December 2022

## 1. Basis of preparation

### Statement of compliance

The SPA comprises a group of members of the Society of Lloyd’s that underwrites insurance business in the London Market. The address of the SPA’s Managing Agent is stated on page 1.

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

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The SPA’s functional currency is USD. The financial statements are prepared in USD which is the reporting and presentational currency of the SPA and rounded to the nearest $'000.

## 2. Accounting Policies

### Use of estimates

The preparation of accounts in conformity with UK GAAP requires that the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accounts, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include:

(i) provision for claims outstanding (refer to claims incurred accounting policy);

(ii) expected policy cancellations;

(iii) accruals for contingent commissions under reinsurance contracts; and

(iv) estimates of future premium for binder and quota share contracts (refer to gross premiums accounting policy).

#### Insurance contracts

Insurance contracts are contracts where the SPA (as a reinsurer) accepts significant insurance risk (risk arising from both underwriting risk and timing risk), from a reinsured by agreeing to compensate them if a specified uncertain future event (the reinsured event) adversely affects them. The SPA determines whether it has significant insurance risk by comparing the amount and timing of premiums, commissions, and claim settlement expenses paid with the amount and timing of such cash flows if the reinsured event did not occur. Insurance contracts can also transfer financial risk.

## Accounting policies continued

Once the SPA classifies a contract as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk decreases significantly during this period, unless all rights and obligations extinguish or expire.

### Gross premiums written

Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Written premium estimates are sourced from the underwriting system and the relevant earning pattern applied to them. Different recognition is applied to loss occurring during and risk attaching during policies, in line with the incidence of risk of the policy. These can be summarised as the following respectively:

- Loss occurring during- written upfront and earned over the coverage period.
- Risk attaching during- written over the term of the policy and earned over the coverage period.

At a portfolio level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period. As each class of business develops written premium estimates are updated in line with signed receipts.

### Outward reinsurance premiums

Outward reinsurance premiums consist of premiums on outward reinsurance contracts with other insurers and reinsurers bound during the year to reduce the SPA's exposure to losses in line with the Host Syndicate's risk appetite. Reinsurance transactions do not relieve the SPA of its primary obligations to its policyholders.

### Provisions for unearned premiums

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

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

### Provision for unexpired risks

At the balance sheet date, the SPA performs a liability adequacy test on the insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows. If this test shows that the liabilities is inadequate, any deficiency is recognised as an expense to the profit or loss account initially by recognising an additional liability for claims provisions or recognising a provision for unexpired risks.

The directors assess the provision for unexpired risks by class of business. No provision for unexpired risks was recorded in 2022.

## Accounting policies continued

### Claims incurred, Net of reinsurance

Gross claims incurred consist of the estimated cost of settling all claims occurring before the balance sheet date, whether reported or not, including related claims handling expenses. The SPA does not discount claims outstanding. The SPA anticipates subrogation recoveries when it sets provisions for reported claims. The SPA accounts for reinsurance recoveries when it incurs the related losses. The directors assess the provision for claims outstanding on a case basis based on the estimated cost of all claims notified but not settled at the balance sheet date.

The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods and includes adjustments for catastrophes and other significant events, changes in historical trends, economic and social conditions, judicial decisions, and legislation, as necessary.

In evaluating the provision, the directors use the findings of the SPA's actuaries, which include an associated third party claims administrator's loss estimates where relevant. The claims administrator, together with loss modelling staff, base the selected estimate of losses using various methods. Such methods include expected claim count and average cost per claim, incurred loss development, stochastic event scenario modelling from different software vendors, market share analysis, and other information, including independent third party evaluations. For less developed classes of business, the SPA's actuaries apply Initial Expected Loss Ratios (IELRs) for each class of business, which is segmented by homogeneous regions and policy types. The SPA's actuaries develop these IELRs against catastrophe models, market data, and past claims on similar classes of business.

The provision for claims outstanding is subject to significant variability. While the directors believe that the recorded provision for gross claims and reinsurance recoveries is adequate, establishing this liability is a judgmental and inherently uncertain process. Therefore, it is possible that actual losses may not conform to the assumptions that the directors used in determining the amount of this provision. Accordingly, the ultimate provision may be significantly greater or less than the outstanding amount held at the balance sheet date. The SPA recognises adjustments to the provision for claims outstanding in the profit and loss account when known. The nature of short tail claims, such as the property insurance that the reinsured syndicate provides, where policyholders typically notify the reinsured syndicate of their claims within an average of 30 days and the reinsured syndicate typically settles these claims within a short time period which is normally less uncertain after a few years than long tail risks, such as some liability lines of business, where it may be several years before policyholders advise their insurance carriers of their claims and the carriers settle them.

The directors base the reinsurers' share of the provision for claims outstanding on the provisions for reported claims and IBNR, net of estimated irrecoverable amounts from potential reinsurer insolvencies based on the type of balance and security ratings of the involved reinsurers. The directors use statistical methods to help them make these estimates.

### Acquisition costs, net of reinsurance

Acquisition costs consist of ceding commissions on inward reinsurance acceptances. The SPA defers acquisition costs to the extent that they are attributable to unearned premiums at the balance sheet date and expenses them as it earns the underlying insurance contract premiums. The SPA includes acquisition costs in net operating expenses.

## Accounting policies continued

### Net operating expense

The SPA recognises operating expenses when incurred. Operating expenses include acquisition costs and the change in deferred acquisition costs, administrative expenses, and reinsurance commissions and profit participation. Administrative expenses consist of:

(i) operating costs,

(ii) Managing Agent fees,

(iii) Lloyd's membership costs, and

(iv) auditor fees.

Administrative expenses also include profit commissions charged by the Managing Agent. Profit commissions equal a percentage of each underwriting year's profits subject to a two-calendar-year deficit carry-forward provision. The SPA charges commissions to expense when incurred. The SPA recognises brokerage sharing when brokers place the reinsurance coverage.

Reinsurance commissions and profit participation consist of contingent profit commissions from reinsurers. The SPA accrues for contingent profit commissions based on the contract formulas. The SPA's contingent profit commission calculations include a provision for IBNR.

### Offsetting

The SPA sets off and presents its financial assets and liabilities net where:

(i) both it and another party owes the other determinable amounts,

(ii) it has the right to set off the amount owed with the amount owed by the other party,

(iii) it intends to set off, and

(iv) the right of setoff is enforceable at law.

### Investment return

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

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Interest income on financial assets measured at amortised cost is recognised using the effective interest method. For the purpose of separately presenting investment income and unrealised gains and losses for financial assets at fair value through profit or loss, interest income is recognised as it accrues on the next coupon payment.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

## Accounting policies continued

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

### Insurance receivables

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

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

### Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

### Foreign currency translation

The directors measure foreign currency assets and liabilities at the closing exchange rate in effect at the balance sheet date, while they measure foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions. The directors used an exchange rate of 1.20 (31 December 2021 – 1.35) to translate Sterling balances into U.S. Dollars at 31 December 2022.

### Taxation

Schedule 19 of the Finance Act 1993 does not require the Managing Agent to deduct basic rate income tax from the SPA's trading income. Therefore, payments of profits made to members of the SPA or their members' agents are gross of tax. Trading income includes capital appreciation, which is also paid gross of tax. The SPA did not make any provision for U.S. federal income tax payable on its underwriting results. The SPA's members pay these taxes alongside the U.K. income taxes resulting from the SPA's trading income. The SPA includes any tax payments made on account of its members during the year in members' balances.

### Going concern

These financial statements have been prepared on a going concern basis, as the SPA will be continuing to underwrite business for the foreseeable future.

## 3. Segmental analysis

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

| 2022 | Gross written premiums $'000 | Gross premium earned $'000 | Gross claims incurred $'000 | Net operating expenses $'000 | Reinsurance balance $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Reinsurance accepted | 67,796 | 37,239 | (21,175) | (13,879) | (2,394) | (209) |

| 2021 | Gross written premiums $'000 | Gross premium earned $'000 | Gross claims incurred $'000 | Net operating expenses $'000 | Reinsurance balance $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Reinsurance accepted | 3,000 | 331 | (185) | (406) | (8) | (268) |

All premiums were concluded in the UK.

The SPA's reinsurance agreement with the reinsured operates on a funds withheld basis, with the reinsured holding the SPA's funds for each underwriting year in premium trust funds for three years; after which, the reinsured remits these funds to the SPA.

## 4. Technical provisions

| 2022 | Gross Provisions $'000 | Reinsurance Assets $'000 | Net $'000 |
|---|---|---|---|
| **Claims Outstanding:** | | | |
| Balance at 1 January | 157 | 0 | 157 |
| Claims incurred during the year | 19,255 | (3,887) | 15,368 |
| Effect of movement in exchange rates | (34) | 0 | (34) |
| **Balance at 31 December** | 19,378 | (3,887) | 15,491 |
| | | | |
| **Unearned premiums:** | | | |
| Balance at 1 January | 2,677 | (42) | 2,635 |
| Change in unearned premiums | 30,557 | (3,313) | 27,244 |
| Effect of movement in exchange rates | (381) | 0 | (381) |
| **Balance at 31 December** | 32,853 | (3,355) | 29,498 |
| | | | |
| **Deferred acquisition costs:** | | | |
| Balance at 1 January | 730 | 0 | 730 |
| Change in deferred acquisition costs | 9,047 | 0 | 9,047 |
| Effect of movement in exchange rates | (488) | 0 | (488) |
| **Balance at 31 December** | 9,289 | 0 | 9,289 |

| 2021 | Gross Provisions $'000 | Reinsurance Assets $'000 | Net $'000 |
|---|---|---|---|
| **Claims Outstanding:** | | | |
| Balance at 1 October | 0 | 0 | 0 |
| Claims incurred during the year | 157 | 0 | 157 |
| Effect of movement in exchange rates | 0 | 0 | 0 |
| **Balance at 31 December** | 157 | 0 | 157 |
| | | | |
| **Unearned premiums:** | | | |
| Balance at 1 October | 0 | 0 | 0 |
| Change in unearned premiums | 2,677 | (42) | 2,635 |
| Effect of movement in exchange rates | (659) | 1 | (658) |
| **Balance at 31 December** | 2,677 | (42) | 2,635 |
| | | | |
| **Deferred acquisition costs:** | | | |
| Balance at 1 October | 0 | 0 | 0 |
| Change in deferred acquisition costs | 730 | 0 | 730 |
| Effect of movement in exchange rates | (1,659) | 0 | (1,659) |
| **Balance at 31 December** | 730 | 0 | 730 |

## 5. Net Operating Expenses

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Acquisition Costs | (19,690) | (823) |
| Change in deferred acquisition costs | 9,047 | 728 |
| Administration expenses | (3,571) | (311) |
| Reinsurance commissions and profit participation | 335 | 0 |
| **Net operating expenses** | (13,879) | (406) |

## 6. Staff costs

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Wages and salaries | 0 | 0 |
| Social security costs and other pension costs | 0 | 0 |
| | 0 | 0 |

Staff costs are recharged to the SPA from various service companies, and as such, no breakdown is provided of these costs into their constituent elements. Staff costs are included as part of the administrative expenses in note 5 to the financial statements.

## 7. Auditor's remuneration

| | 2022 | 2021 |
|---|---|---|
| | $'000 | $'000 |
| Audit of the financial statements | (38) | (27) |
| Other services pursuant to Regs & Lloyd's Byelaws | (58) | (41) |
| Other services (Actuarial Review) | (16) | (17) |
| | (112) | (85) |

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

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

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

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

No other compensation was payable to key management personnel.

The Active Underwriter did not charge any remuneration to the SPA:

| | 2021<br>$'000 |
|---|---|
| Active Underwriter's emoluments | 0 |
| | 0 |

## 9. Investment return

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Bank Interest | 11 | 0 |
| Income from Investments | 38 | 0 |
| Accrued interest on Investments | (11) | 0 |
| Total Investment income | 38 | 0 |

The SPA operates on a funds withheld basis with its host, Syndicate 4242. As such, a portion of Syndicate 4242's investment return is allocated to the SPA to reflect the return on the funds withheld.

## 10. Debtors arising out of reinsurance operations

| **Debtors** | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Loss Funds | 291 | 0 |
| Due from ceding insurers (within one year) | 0 | 0 |
| Due from intermediaries (after one year) | 36,428 | 1,846 |
| | 36,719 | 1,846 |

## 11. Creditors arising out of reinsurance operations

| Creditors | 2022<br>$'000 | 2022<br>$'000 |
|---|---|---|
| Reinsurance ceded (within one year) | 1 | 0 |
| Reinsurance ceded (after one year) | 899 | 58 |
| | 900 | 58 |

## 12. Related parties

Asta Managing Agency Ltd (Asta) is the SPA's Managing Agent.

The ultimate parent company of Asta Managing Agency Ltd is Tennessee Topco Ltd following the acquisition of Asta Capital Ltd by the Davies Group Ltd on the 13th July 2022.

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

This table below details amounts expensed to Asta.

| | 2022<br>$'000 | 2021<br>$'000 |
|---|---|---|
| Managing Agent fees on insurance capacity | (507) | (101) |
| Service fees | (337) | 0 |
| Recharges (expenses) | (8) | 0 |
| Profit commissions | 0 | 0 |
| Total Expenses | (852) | (101) |
| Balance payable to the Managing Agent | (210) | 0 |

## 13. Disclosure of interests

### Managing Agent's interest

During 2022 Asta was the Managing Agent for twelve Syndicates, two Special Purpose Arrangements and six Syndicate in a Box. Syndicate 1609,1699,1729, 1892,1980,1988, 2288, 2525, 2689, 2786, 3268 and 4242 as well as Special Purpose Arrangements 1416 and 6131 and Syndicate in a Box 4747,1796,1902,2880,3456 and,5183 were managed on behalf of third party capital providers.

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

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

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

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

On 22 March 2022, Asta took on the management of Syndicate in a box 3456

On 13 May 2022, Asta migrated the management of 3268 to IQUW

On 10 June 2022, Asta took on the management of Syndicate in a box 5183

On 18 July 2022, Asta took on the management of Syndicate in a box 1796

On 1 October 2022, Asta migrated Syndicate 1729 and SPA 6131 to Dale Managing Agency

On 1 January 2023, Asta took on the management of Syndicate 1985

On 1 January 2023, Asta took on the management of Syndicate 1322

The agency also provides administrative services to Syndicates and Special Purpose Arrangements, also undertaking several ancillary roles for other clients.

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

## 14. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where SPA assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these annual accounts by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

## 15. Off-balance sheet items

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

## 16. Risk management

### a) Governance framework

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

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

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

## Risk management continued

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

#### Capital framework at Lloyd's

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

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

Although Lloyd's capital setting processes use a capital requirement set at SPA level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at SPA level. Accordingly the capital requirement in respect of SPA 1416 is not disclosed in these financial statements.

#### Lloyd's capital setting process

In order to meet Lloyd's requirements, each SPA is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The SPA must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate and SPA are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A Syndicate and SPA may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the SPA on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the SPA SCR 'to ultimate'. Where a member participates on more than one SPA or Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2022 was 35% of the member's SCR 'to ultimate'. The SPA is currently using Lloyd’s benchmark for capital setting.

#### Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 19, where positive, represent resources available to meet members' and Lloyd's capital requirements.

## Risk management continued

### c) Insurance risk

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

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

The Host Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on a non-proportional basis. Non-proportional reinsurance is excess-of-loss reinsurance designed to mitigate the Host Syndicate's net exposure to large losses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Host Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

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

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

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

### Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: 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.

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

## Risk management continued

### Sensitivities

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

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

The table below shows how a five percent increase or decrease in gross and net claim liabilities would affect the SPA loss for the financial period and its members' balances.

| | **2022**<br>**$'000** | **2021**<br>**$'000** |
|---|---|---|
| **Gross:** | | |
| Five percent increase in claim liabilities | 969 | 8 |
| Five percent decrease in claim liabilities | (969) | (8) |
| **Net:** | | |
| Five percent increase in claim liabilities | 775 | 8 |
| Five percent decrease in claim liabilities | (775) | (8) |

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

## Risk management continued

### Claims development table

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

**Estimate of cumulative gross claims incurred:**

| Underwriting Year | 2021 | 2022 |
|---|---|---|
| | $'000 | $'000 |
| At end of first underwriting year | 176 | 17,543 |
| One Year Later | 3,559 | |
| Two Years Later | | |
| Three Years Later | | |
| Less cumulative gross paid | (404) | (1,320) |
| Gross outstanding claims | 3,155 | 16,223 |

**Estimate of cumulative net claims incurred:**

| Underwriting Year | 2021 | 2022 |
|---|---|---|
| | $'000 | $'000 |
| At end of first underwriting year | 176 | 13,669 |
| One Year Later | 3,546 | |
| Two Years Later | | |
| Three Years Later | | |
| Less cumulative net paid | (404) | (1,320) |
| Net outstanding claims | 3,142 | 12,349 |

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

## Risk management continued

### d) Financial risk

1) Credit Risk

The main credit risk for the SPA lies with the Host Syndicate. The Host Syndicate's primary credit risk is the risk of default by one or more of its reinsurers and their intermediaries.

The following policies and procedures are in place to mitigate the exposure to credit risk within the Host Syndicate

- Investment guidelines are established setting out the quality of investments to be included within the Host Syndicate's portfolio. The policy is monitored by the Investment Committee and/or Syndicate Board.

- Reinsurance is placed with counterparties that either have a good credit rating or are unrated collateralised reinsurers, and the concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub-committee of The Board.

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

| **2022** | **Neither past due or impaired** | **Past due** | **Impaired** | **Total** |
|---|---|---|---|---|
| Shares and other variable yield securities | 0 | 0 | 0 | 0 |
| Debt Securities | 0 | 0 | 0 | 0 |
| Loans with credit institutions | 0 | 0 | 0 | 0 |
| Overseas Deposits | 0 | 0 | 0 | 0 |
| Deposits with ceding undertakings | 0 | 0 | 0 | 0 |
| Reinsurers share if claims outstanding | 3,887 | 0 | 0 | 3,887 |
| Insurance debtors | 0 | 0 | 0 | 0 |
| Reinsurance debtors | 0 | 0 | 0 | 0 |
| Other Debtors | 49,266 | 0 | 0 | 49,266 |
| Cash and cash equivalents | 0 | 0 | 0 | 0 |
| **Total** | **53,153** | **0** | **0** | **53,153** |

## Risk management continued

The table below provides information regarding the credit risk exposure of the SPA at 31 December 2022 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

| **2022** | **AAA** | **AA** | **A** | **BBB** | **BBB or less** | **Not Rated** | **Total** |
|---|---|---|---|---|---|---|---|
| Shares and other variable yield securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Securities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans with credit institutions | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overseas Deposits | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits with ceding undertakings | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reinsurers share if claims outstanding | 0 | 0 | 3,887 | 0 | 0 | 0 | 3,887 |
| Reinsurance debtors | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **3,887** | **0** | **0** | **0** | **3,887** |

The terms of all reinsurance contracts with non-rated reinsurers state that sufficient collateral must be held in trust to cover the reinsurer’s share of liabilities.

2) Liquidity risk

The SPA operates on a funds withheld basis.

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

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

## Risk management continued

| 2022 | No stated maturity | 0-1 Year | 1-3 Years | 3-5 Years | 5 years+ | Total |
|---|---|---|---|---|---|---|
| Derivatives | 0 | 0 | 0 | 0 | 0 | 0 |
| Deposits received from reinsurers | 0 | 0 | 0 | 0 | 0 | 0 |
| Provisions for other risks and charges | 0 | 0 | 0 | 0 | 0 | 0 |
| Claims outstanding | 0 | 6,846 | 7,140 | 3,157 | 2,235 | 19,378 |
| Creditors | 0 | 1 | 899 | 0 | 0 | 900 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total credit risk** | **0** | **6,847** | **8,039** | **3,157** | **2,235** | **20,278** |

### 3) Market risk

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

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

#### a) Currency risk

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

## Risk management continued

### Sensitivity to changes

The SPA transacts in US Dollar, with expenses settled in sterling however, the impact on profit and members' balances from changes to the relative strength of other currencies against the US Dollar is immaterial.

b) Interest rate risk

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

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

The SPA has no significant concentration of interest rate risk.

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

| | **2022** | **2021** |
|---|---|---|
| | **$'000** | **$'000** |
| **Interest rate risk** | | |
| Impact of 50 basis point increase on result | 0 | 0 |
| Impact of 50 basis point decrease on result | 0 | 0 |
| Impact of 50 basis point increase on net assets | 0 | 0 |
| Impact of 50 basis point decrease on net assets | 0 | 0 |

## 17. Post balance sheet events

The Directors evaluated other events after the balance sheet date through to 28 February 2023, the date the SPA issued these annual accounts, and determined that no items require disclosure.