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Beat Syndicate 4242

Syndicate Annual Report and Accounts

31 December 2021

Contents

Directors and administration

Managing Agent

Asta Managing Agency Ltd

Directors

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

Non Executive Directors*

Company Secretary

N J Burdett

Managing Agent's Registered Office

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

Managing Agent's Registered Number

1918744

Active Underwriter

A J T Milligan

Bankers

Citibank N.A.
Barclays Bank PLC
RBC Dexia

Investment Managers

New England Asset Management (NEAM)

Registered Auditors

Ernst & Young LLP

Signing Actuary

Alex Lee, Ernst & Young LLP

Active Underwriter's report

The total recognised result for the calendar year is a loss of $51.9m (2020: loss of $89.4m) with a net combined ratio of 125.7% (2020: 160.5%). The 2021 calendar year result aggregates the performance during the year of all open years of account (2017, 2019, 2020 and 2021) and movements from prior closed years. ICAT Managers (LLC) – an underwriter of catastrophe-exposed insurance in the US was a key part of the underwriting portfolio in previous years, making up 44% of the portfolio for 2020 and the significant majority of the 2019 and prior years. The Syndicate no longer writes this business for the 2021 year of account, however ICAT business from prior underwriting years has had a significant impact on the 2021 calendar year results.

Beat Capital Partners Ltd (Beat), a long-term venture capital business focused on the insurance industry, became the corporate sponsor of the Syndicate during 2018 through a transaction to acquire Paraline UK (Group) Ltd, a company that held certain capital and operational rights in respect to the Syndicate. This prompted the name change to Beat Syndicate 4242 and, since the end of the 2019 underwriting year, the Syndicate has been on a transformational path to reduce property catastrophe insurance exposures through steadily reducing the proportion of the portfolio written by ICAT Managers and enter specialty insurance and reinsurance lines via new portfolios underwritten by subsidiary companies of Beat. The first of these portfolios included cyber insurance and specialty treaty reinsurance covering exposures both within the U.S. and international markets. Subsequent additions in 2020 were the US E&O, Global D&F, and an Alternative Risks binding authority specialist with a predominantly North American footprint. In 2021, the Syndicate has continued to add to its mix of business through D&O and niche US Binders.

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

	2021 $'000	2020 $'000
US property insurance in catastrophe exposed regions	(1,526)	115,540
Global D&F	35,630	7,342
Specialty Treaty Reinsurance	131,689	89,703
Cyber and Tech E&O	13,829	13,555
Alternative Risks Binders	61,229	12,015
E&O	36,600	23,395
Invoice factoring insurance	13	(272)
Directors & Officers	12,267	-
US Binders	21,952	-
	311,683	261,278

In 2021, the Syndicate's natural catastrophe exposure was through the run-off of the ICAT portfolio, Global D&F, US Binders and the specialty treaty reinsurance business. The results reflect two significant catastrophe events in Winterstorm Uri and Hurricane Ida. The Syndicate purchased comprehensive outwards reinsurance programmes to protect the portfolios against the catastrophe activity and both events are now into the reinsurance programmes.

By contrast, Covid-19 has not been a major drag on the Syndicate's performance. Direct claims from the pandemic have been few, centred on a modest amount of contingency exposure, while the infancy of the Syndicate's newer accounts meant they were able to underwrite their way around the environment applying exclusions or avoiding areas where heightened exposures are perceived. This has continued to be the Syndicate's experience throughout 2021.

Active Underwriter’s report continued

The Syndicate’s financial results include the acceptance and cession of business for Special Purpose Arrangement 6123 (“SPA 6123” or “the SPA"). The SPA was formed in May 2015 to offer further opportunity for capital deployment by the Syndicate’s capital providers in support of business underwritten for the Syndicate solely by ICAT Managers. The SPA effectively grosses up the financial statements of the Syndicate, without impacting the Syndicate’s net result. Following Beat becoming corporate sponsors, the SPA went into run-off at the end of the 2019 YOA so there is no gross-up of written premium but the results do contain losses and commissions attributable to the SPA arising from prior YOA’s in addition to apportioned general and administrative expenses. The SPA has its own allocated expenses and outwards reinsurance program as outlined in the SPA 6123 Annual Report.

Another Special Purpose Arrangement 1416 (“SPA 1416” or “the SPA”) was setup during the year in October 2021 to deploy additional new capital in support of certain classes of business incepting from 1 October 2021. The SPA has its own allocated expenses and benefits from the same reinsurance program as the Syndicate as outlined in the SPA 1416 Annual Report.

Future outlook

The plan for 2022 is to underwrite $420.5m of premium income (£304.7m at the planning foreign exchange rate of £1:$1.38), in modest increase on the prior year. In doing this, the portfolio will continue to orientate away from the catastrophe exposures, that have driven its historic results including catastrophe exposed specialty treaty reinsurance and move further into broader specialty insurance and reinsurance lines at a time when premium rates and client demand make this an attractive prospect.

The Syndicate’s results in 2021 have again been dominated by the impact of US hurricanes, reflecting it’s history. The long process to turn the syndicate from a high-volatility, US Cat writer with very few staff and only one source of business into a multiline carrier with a large, dedicated staff that seeks consistent, lower volatlity returns across multiple business channels has been a significant effort. We now expect the actions taken to reposition the Syndicate’s risk and return profile exclusively under Beat-associated business lines along with a market environment that is delivering universal rating increases to its portfolio, provides confidence in the Syndicate’s future trajectory

A J T Milligan
Active Underwriter
3 March 2022

Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2021.

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

Results

The total recognised result for the calendar year is a loss of $51.9m (2020: loss of $89.4m).

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

Principal activities and review of the business

The Syndicate transacts general insurance and reinsurance business in the United Kingdom (U.K.) within the Lloyd's market under the oversight of the Managing Agent. It underwrites portfolios of insurance and reinsurance through binding authority agreements with managing general agents, Lloyd's consortia agreements and from 2019, through service level agreements with subsidiary companies of Beat Capital Partners Limited ("Beat").

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

	2021 $'000	**2020 $'000**	**Change**
Gross Written Premiums	311,683	261,728	19.3%
Loss for the financial year	(51,949)	(89,400)	-41.9%
Net loss ratio*	80.9%	110.7%	-29.8%
Combined ratio (financial basis)*	125.7%	160.5%	-34.7%

**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.*

Managing Agent's report continued

The forecast return on capacity for the 2017, 2019, 2020 and 2021 years of accounts at 31 December 2021 are shown below. The decision has been taken not to close the 2017 year of account as of this date given a specific uncertainty relating to a reinsurance asset balance.

Underwriting capacity is a measure of the maximum gross premiums, net of acquisition costs that the Syndicate is eligible to write.

The following amounts are shown net of SPA 6123 and SPA 1416. All years are converted at a consistent rate of exchange.

	2021 Open	**2020 Open**	**2019 Closed**	**2017 Open**
	$'000	$'000	$'000	$'000
Capacity	303,750	222,750	222,750	135,000
Forecast / Result (Unaudited)	14,080	(80,020)	(40,659)	(85,746)
Return on insurance capacity	4.6%	(35.9%)	(18.3%)	(63.5%)

Principal risks and uncertainties

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

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The 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 Syndicate's reinsurers and intermediaries. The Syndicate Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation where required. The Managing Agent's Reinsurance Security Committee sets approval and usage criteria, monitors reinsurer ratings and is required to approve and oversee the application of the reinsurer approval policy.

Market risk

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

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

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

Liquidity risk

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

The Syndicate has a line of credit in place with Barclays bank and has made cash calls on Capital Providers of the 2017, 2018, 2019 and 2020 years of account.

Operational risk

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

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

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

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 Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

Future developments

The Syndicate 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 2022 year of account is $311m (2021 year of account $279m). The increase is due to foreign exchange.

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

Environmental, Social and Governance (ESG)

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

The syndicate has adopted a specific ESG risk appetite around its investment portfolio, in order to inform future investment decisions.

Climate change

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

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

Managing Agent's report continued

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

Coronavirus

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

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

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

The reserve held at the end of 2020 in relation to Covid has proven to be materially robust with minimal movements. The reserve held at the end of 2021 in relation to Covid has remained the same at $7.4m.

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

Working arrangements across the Managing Agent and the Syndicate have been adjusted in line with government restrictions and guidance. While working remotely has proved challenging at times the overall experience has been successful. Staff have embraced new technology and maintained active communication with each other and clients. The IT infrastructure has dealt well with the changes and we have seen minimal downtime. The Managing Agent and Syndicate have continued to meet the business and regulatory requirements. The Managing Agent plans to maintain the current form of operations for the foreseeable future with no adverse effects anticipated.

Directors

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

S D Redmond	Appointed 20 April 2021

Managing Agent’s report continued

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 Syndicate auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Managing Agent and the Syndicate's Auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

The Managing Agent intends to reappoint Ernst & Young LLP as the Syndicate’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 Syndicate members before April 2022.

N J Burdett
Company Secretary
3 March 2022

Statement of Managing Agent's responsibilities

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicate’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 (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent 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 Syndicate and of the profit or loss of the Syndicate 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 syndicate’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 agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate’s transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the Syndicate annual accounts comply with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. They are 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, 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 agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate’s website. Legislation in the UK governing the preparation and dissemination of Syndicate annual accounts may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Syndicate 4242

Opinion

We have audited the syndicate annual accounts of syndicate 4242 ('the syndicate') for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Emphasis of matter – dispute over reinsurance recoveries

We draw attention to note 19(d)(i) which describes a contractual dispute with a reinsurer which has resulted in the managing agent deciding to not close the 2017 run-off year of account.

The ultimate outcome of the dispute is subject to significant uncertainty and may differ materially from the estimate provided in these accounts.

Our opinion is not modified in respect of this matter.

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.

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 10, 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 (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 (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 claims outstanding and estimated premium income, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the syndicate annual accounts were free from fraud or error.

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

Use of our report

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

Robert Bruce (Senior statutory auditor)

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

London

3 March 2022

Statement of profit or loss

Technical account - General business

For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Gross premiums written	3	311,683	261,278
Outwards reinsurance premiums		(79,994)	(96,962)
Net written premiums		231,689	164,316
Change in the provision for unearned premiums			
Gross amount		(38,960)	(747)
Reinsurers' share		10,050	(13,126)
	4	(28,910)	(13,873)
Earned premiums, net of reinsurance		202,779	150,443
Allocated investment return transferred from the non-technical account		173	475
Claims Paid			
Gross amount		(245,518)	(183,570)
Reinsurers' share		132,797	94,350
		(112,721)	(89,220)
Changes in the provision for claims outstanding			
Gross amount		15,982	(199,616)
Reinsurers' share		(67,360)	122,305
	4	(51,378)	(77,311)
Claims incurred, net of reinsurance		(164,099)	(166,531)
Net operating expenses	5	(90,891)	(74,907)
Balance on technical account - general business		(52,038)	(90,520)

All the amounts above are in respect of continuing operations.

The notes on pages 22 to 50 form part of these financial statements.

Statement of profit or loss continued

Non-technical account

For the year ended 31 December 2021

	Notes	2021 $'000	2020 $'000
Balance on technical account - general business		(52,038)	(90,520)
Investment Income		205	281
Unrealised gains on investments		2	8
Unrealised losses on investments		(10)	(5)
Gains on the realisation of investments		2	215
Losses on the realisation of investments		(16)	(3)
Investment management charges		(10)	(21)
Allocated Investment return	9	(173)	(475)
Exchange gains		89	1,120
Loss for the financial year		(51,949)	(89,400)

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. This is similarly the case for the comparative year.

All the amounts above are in respect of continuing operations.

The notes on pages 22 to 50 form part of these financial statements.

Statement of changes in members' balances

For the year ended 31 December 2021

	2021 $'000	2020 $'000
Members' balances brought forward at 1 January	(116,645)	(27,598)
Loss for the financial year	(51,949)	(89,400)
Cash calls in period	124,049	-
Cash requests made post accounting date	9,000	-
Members' agent fees	284	(415)
Non-standard personal expenses	(354)	768
Distribution loss	1,034	-
Members' balances carried forward at 31 December	(34,581)	(116,645)

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 22 to 50 form part of these financial statements.

Statement of financial position

As at 31 December 2021

	Notes	2021 $'000	2020 $'000
ASSETS			
Investments			
Other financial investments	10	73,534	36,936
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	23,824	13,775
Claims outstanding	4	224,097	292,878
		247,921	306,653
Debtors			
Debtors arising out of direct insurance operations	11	111,191	41,917
Debtors arising out of reinsurance operations	12	63,603	50,404
Other debtors		294	394
		175,088	92,715
Cash and other assets			
Cash at bank and in hand		33,570	25,682
Other assets		0	0
		33,570	25,682
Prepayments and accrued income			
Accrued income		0	6,713
Deferred acquisition costs		34,153	25,977
Other prepayments and accrued interest		7,858	432
		42,011	33,122
Total Assets		572,124	495,108

The notes on pages 22 to 50 form part of these financial statements.

Statement of financial position continued

As at 31 December 2021

	Notes	2021 $'000	2020 $'000
MEMBERS' BALANCE AND LIABILITIES			
Capital and reserves			
Members' balances		(34,581)	(116,645)
Liabilities			
Technical provisions			
Provision for unearned premiums	4	132,700	94,399
Claims outstanding	4	415,378	431,275
		548,078	525,674
Creditors			
Creditors arising out of direct insurance operations	13	320	497
Creditors arising out of direct reinsurance operations	14	48,308	59,269
Other creditors		4,637	23,229
		53,265	82,995
Accruals and deferred income		5,362	3,084
Total Liabilities		606,705	611,753
Total Members' balances and Liabilities		572,124	495,108

The notes on pages 22 to 50 form part of these financial statements.

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

R P Barke
Director
3 March 2022

Statement of cash flows

For the year ended 31 December 2021

	2021 $'000	2020 $'000
Cash flows from operating activities		
(Loss) on ordinary activities	(51,949)	(89,400)
Increase in gross technical provisions	22,404	200,825
Decrease/(increase) in reinsurers' share of gross technical provisions	58,731	(109,076)
(Increase) in debtors	(82,302)	(37,958)
(Decrease)/increase in creditors	(29,729)	37,239
Movement in other assets/liabilities	(9,964)	(8,884)
Other	9	-
Investment return	(173)	(475)
Net cash (outflow) from operating activities	(92,973)	(7,729)
Cash flows from investing activities		
Purchase of other financial investments	(132,859)	(191,070)
Sale of other financial investments	99,555	217,742
Investment income received	173	475
Changes to market value and currency	59	-
Other	(72)	-
Net cash (outflow/inflow) from investing activities	(33,144)	27,147
Cash flows from financing activities		
Payments of profit to members' personal reserve fund	1,051	-
Cash calls	124,053	-
Members' agents fee advances and other non-standard personal expenses	-	353
Other	8,901	-
Net cash inflow from financing activities	134,005	353
Net increase in cash and cash equivalents	7,888	19,771
Cash and cash equivalents at beginning of year	25,682	5,911
Cash and cash equivalents at end of year	33,570	25,682

The notes on pages 22 to 50 form part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2021

1. Basis of preparation

Statement of compliance

The Syndicate comprises a group of members of the Society of Lloyd’s that underwrites insurance business in the London Market. The address of the Syndicate’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 financial statements are prepared in US Dollars, which is the functional and presentational currency of the Syndicate and rounded to the nearest $'000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

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 contracts (refer to gross premiums accounting policy)

(v) recoverability of reinsurance assets.

Insurance contracts

Insurance contracts are contracts where the Syndicate (as an insurer or reinsurer) accepts significant insurance risk (risk arising from both underwriting risk and timing risk), from a policyholder or reinsured by agreeing to compensate them if a specified uncertain future event (the insured or reinsured event) adversely affects them. The Syndicate 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 insured event did not occur. Insurance contracts can also transfer financial risk.

Accounting policies continued

Once the Syndicate 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

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.

Reinsurance premiums

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

Claims incurred

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

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

Claims handling expenses mostly consist of fees that the Syndicate pays to an associated third party claims administrator for the handling of claims on its behalf. In exchange for these services, the Syndicate pays a base fee equal to a percentage of gross premiums written. The paid fee gives the Syndicate access to the claims administrator's staff for the administration of claims; it also entitles the Syndicate to a predetermined number of new claim file allowances. To the extent that actual claim volume exceeds the accumulated claim file allowances under the base fee, the claims administrator charges an additional fee for each additional claim. Claims handling expenses also include salary costs associated with Beat employees in the claims team.

Accounting policies continued

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

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

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

Provisions for unearned premiums

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

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

Unexpired risks

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

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

No unexpired risk provision was recorded at 31 December 2021 (2020: Nil).

Acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio.

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.

Accounting policies continued

Reinsurance assets

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

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

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year, the current security rating of the reinsurance companies involved and any disputed balances. In the case of disputed reinsurances a provision is set based on a prudent estimate of the collectable amount following independent professional advice on the issues surrounding the dispute.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised.

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

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 1.35 to translate Sterling balances into U.S. Dollars at 31 December 2021 (1.37 at 31 December 2020).

Accounting policies continued

Financial assets and liabilities

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

Classification

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

Recognition

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

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

Measurement

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

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

Identification and measurement of impairment

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial

Accounting policies continued

assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

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

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).

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.

Cash and cash equivalents

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

Fair value measurement of investments

The Syndicate measures its investments at fair value through profit or loss using valuation techniques that maximise the use of observable market data and minimise the use of unobservable market data. The Syndicate determines fair value based on assumptions that market participants would use in pricing an investment in the principal or most advantageous market. When considering market participant assumptions in its fair value measurements, the Syndicate uses the fair value hierarchy below to classify its investments.

Accounting policies continued

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Offsetting

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

(i) each 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 set off is enforceable at law.

Taxation

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

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings.

Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% of profit on the 2017 and 2018 year of account, and 5% of profit for the 2019 and 2020 years of account, and is subject to the operation of a two year deficit clause.

Pension costs

Pension contributions are charged to the Syndicate and included within net operating expenses.

Syndicate operating expenses

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

Going concern

These financial statements have been prepared on a going concern basis, as the Syndicate 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:

2021	Gross written premiums	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Accident & Health	1,602	835	(298)	(250)	(46)	241
Motor (Third Party Liability)	14,408	7,869	(3,483)	(2,500)	(345)	1,541
Motor (other Classes)	7,225	4,771	(2,139)	(1,516)	(214)	902
Transport	5,241	3,844	(1,852)	(1,221)	(194)	577
Energy Non Marine	1,489	1,204	(704)	(395)	(81)	24
Fire and other damage to property	63,323	71,951	(74,674)	(27,490)	774	(29,439)
Third-party liability	66,039	48,698	(32,766)	(14,481)	(1,410)	41
Pecuniary loss	10,424	5,208	(2,197)	(1,673)	(182)	1,156
Reinsurance Acceptances	141,932	128,343	(111,423)	(41,365)	(2,809)	(27,254)
	311,683	272,723	(229,536)	(90,891)	(4,507)	(52,211)

2020	Gross written premiums	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Accident & Health	14	1	-	(1)	(1)	(1)
Motor (Third Party Liability)	2,437	1,140	(663)	(485)	(118)	(126)
Motor (Other Classes)	1,482	750	(1,166)	(333)	343	(406)
Transport	2167	963	(121)	(442)	(354)	46
Energy Non Marine	392	31	-	(28)	(13)	(10)
Fire and other damage to property	113,885	139,702	(292,738)	(38,792)	107,656	(84,172)
Third-party liability	38,823	25,427	(22,664)	(8,940)	1,897	(4,280)
Pecuniary loss	723	297	(260)	(138)	(130)	(231)
Reinsurance Acceptances	101,355	92,220	(65,574)	(25,748)	(2,713)	(1,815)
	261,278	260,531	(383,186)	(74,907)	(106,567)	(90,995)

All premiums were concluded in the UK.

4. Technical provisions

2021	Gross provisions $'000	Reinsurance assets $'000	Net $'000
Claims outstanding			
Balance at 1 January	431,275	(292,878)	138,397
Change in claims outstanding	(15,982)	67,360	51,378
RITC accepted from SPA 6123	-	1,421	1,540
Effect of movement in exchange rates	85	-	(34)
Balance at 31 December	**415,378**	**(224,097)**	**191,281**
Unearned premiums			
Balance at 1 January	94,399	(13,775)	80,624
Change in unearned premiums	38,960	(10,050)	28,910
Effect of movement in exchange rates	(659)	1	(658)
Balance at 31 December	**132,700**	**(23,824)**	**108,876**

2020	Gross provisions $'000	Reinsurance assets $'000	Net $'000
Claims outstanding			
Balance at 1 January	231,524	(170,684)	60,840
Change in claims outstanding	199,616	(122,305)	77,311
RITC accepted from SPA 6123	-	112	112
Effect of movement in exchange rates	135	(1)	134
Balance at 31 December	**431,275**	**(292,878)**	**138,397**
Unearned premiums			
Balance at 1 January	93,325	(26,893)	66,432
Change in unearned premiums	747	13,126	13,873
Effect of movement in exchange rates	327	(8)	319
Balance at 31 December	**94,399**	**(13,775)**	**80,624**

5. Net operating expenses

	2021	2020
	$’000	$’000
Acquisition costs	(80,963)	(69,660)
Change in deferred acquisition costs	9,835	828
Administration expenses	(23,537)	(15,498)
Reinsurance commissions and profit participation	3,774	9,423
Total	(90,891)	(74,907)

6. Staff costs

	2021	2020
	$’000	$’000
Wages and salaries	(6,464)	(4,522)
Social security costs and other pension costs	-	-
	(6,464)	(4,522)

Staff are employed by a service company, and their salary costs per the table above are recharged to the Syndicate with a mark-up. Staff costs are included as part of the administrative expenses in note 5 to the financial statements.

7. Auditor’s remuneration

	2021	2020
	$’000	$’000
Fees payable to the Syndicate’s auditor for the audit or these financial statements	(175)	(96)
Other services pursuant to Regulations and Lloyd’s Byelaws	(263)	(790)
Other services relating to actuarial review	(86)	(60)
	(524)	(946)

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 Syndicate.

No other compensation was payable to key management personnel.

The Active Underwriter received the following aggregate remuneration, charged as a Syndicate expense:

	2021 $'000	2020 $'000
Active Underwriter's emoluments	(457)	(404)
	(457)	(404)

9. Investment return

	2021	2020
	$'000	$'000
Income from other financial investments	205	281
Gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	2	215
Total investment income	207	496
Losses on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	(16)	(3)
Investment expenses and charges	(10)	(21)
	(26)	(24)
Unrealised gains and losses on investments		
- Financial instruments at fair value through profit and loss	(8)	3
Total investment return	173	475

Average amount of funds available for investing during the year:

	2021	2020
	$'000	$'000
Average funds available for investment	72,909	57,712
Investment returns	173	475
Investment yield	0.2%	0.8%

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

10. Financial investments

	2021	
	Carrying value	Purchase price
	$'000	$'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	29,330	29,330
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	37,434	37,443
Deposits with credit institutions (overseas deposits)	6,770	6,770
	73,534	73,543

	2020	
	Carrying value	Purchase price
	$'000	$'000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	12,755	12,755
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	20,765	20,761
Deposits with credit institutions (overseas deposits)	3,416	3,416
	36,936	36,932

Amounts included within shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These are treated as cash instruments with the carrying value and purchase price being the same. Also included is the Syndicate loan to the Lloyd's Central Fund.

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

Financial investments continued

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

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2021				
Shares and other variable yield securities and units in unit trusts	24,873	-	4,457	29,330
Debt securities and other fixed income securities	16,919	20,515	-	37,434
Deposits with credit institutions (overseas deposits)	962	5,808	-	6,770
Total	42,754	26,323	4,457	73,534

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2020				
Shares and other variable yield securities and units in unit trusts	2,815	5,418	4,523	12,756
Debt securities and other fixed income securities	17,893	2,871	-	20,764
Deposits with credit institutions (overseas deposits)	1,656	1,760	-	3,416
Total	22,364	10,049	4,523	36,936

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

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

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

11. Debtors arising out of direct insurance operations

	2021	2020
	$'000	$'000
Due from intermediaries (within one year)	111,191	41,917
	111,191	41,917

12. Debtors arising out of reinsurance operations

	2021	2020
	$'000	$'000
Due from ceding insurers (within one year)	12,339	25,511
Due under reinsurance contracts ceded (within one year)	50,910	24,893
Due from intermediaries (after one year)	354	-
	63,603	50,404

13. Creditors arising out of reinsurance operations

	2021	2020
	$'000	$'000
Direct Business - intermediaries (within one year)	320	52,143
Reinsurance ceded (after one year)	48,308	7,126
	48,628	59,269

14. Other creditors

	2021	2020
	$'000	$'000
Amounts owed to credit institutions	-	20,000
Other creditors including taxation	4,637	3,229
	4,637	23,229

15. Related parties

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

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

This table below details amounts expensed to Asta.

	2021	2020
	$’000	**$’000**
Managing Agent fees on insurance capacity	(2,329)	(1,687)
Service fees	(3,655)	(4,023)
Recharges	(269)	
Profit commissions	-	-
Total expenses	(6,253)	(5,708)
Balance payable (including expenses accrued but not yet due) to the Managing Agent at 31 December	(1,473)	(1,140)

The Managing Agent is owned by Asta Capital Ltd, a company incorporated in the U.K. and registered in England and Wales. Paraline International Ltd, a wholly owned subsidiary of Paraline Group Ltd (Paraline Group), owns 27.8% (2020: 27.8%) of Asta Capital Ltd.

Paraline Group, a company registered in Bermuda, facilitates 7.3% 2020 underiting year, 9.1% for the 2019 underwriting year, 14.6% for 2018 and 13.9% for 2017) of the Syndicate’s insurance capacity through its owned corporate member. Paraline Reinsurance Ltd (Paraline Re), an indirectly owned Bermudian reinsurance company of Paraline Group supports the Paraline corporate member’s participation on the Syndicate. An affiliate of Paraline Group, Elliott CCM Ltd, provided another 1.5% for the 2019 underwriting year, 1.2% for 2018 and 1.8% for 2017 underwriting year of capacity.

Paraline Group is a joint shareholder of Beat Capital Partners Ltd (Beat). Within the Beat group is the corporate member Beat CCM 9 Ltd which also participates on the Syndicate. And Asta Capital Ltd owns Asta Corporate Member (2) Ltd, again participating on the Syndicate. Unrelated foreign reinsurers fully support these two corporate members’ participation.

Related parties continued

The table below details the Syndicate capacity provided by related party members by underwriting year.

	2017	2019	2020	2021
Paraline CCM Ltd	13.93%	9.06%	7.34%	-
Hannover Re AG (via Asta Corporate Member (2) Ltd)	6.41%	-	-	-
Elliott CCM Ltd	1.77%	1.52%	-	-
Sompo Japan Nipponkoa (via Beat CCM 9 Ltd)	11.50%	-	-	-
Beat Management	-	0.75%	5.75%	5.07%

Several of the members feature in the Syndicate's catastrophe reinsurance programme, along with other 3rd party reinsurers – these arrangements are conducted at arm's length.

Pursuant to an inter-syndicate loan deed between the Syndicate and SPA 6123, the Syndicate may advance up to $10.0m to SPA 6123; such advances accrue interest at an annual rate equal to the greater of:

(a) the Six Month U.S. Treasury Bill rate at the date of the advance, or

(b) the Syndicate's average investment yield earned during the period of the advance.

At 31 December 2021, the Syndicate held a loan payable balance to SPA 6123 of $2.1m (2020 loan payable: $7.1m).

On 1 October 2021, the Syndicate entered into a quota share arrangement where 36% of Alternative Risk Binders, 20% of US Binders and 30% of Directors and Officers gross written premium was ceded from the Syndicate to SPA 1416 for all business placed during the period of October to December 2021.

16. Disclosure of interests

Managing Agent's interest

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

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

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

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

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

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

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

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

Disclosure of interests continued

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.

17. Funds at Lloyd's

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

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

18. Off-balance sheet items

At 31 December 2021, the Syndicate had utilised $60m (2020: $40m) of a letter of credit facility from Barclays Bank PLC (Barclays). This was used to support US trust fund requirements. The total facility provided by Barclays for 2020 was $80m, and was renegotiated for 2021 with a total facility of $100m.

19. Risk management

a) Governance framework

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

Asta maintains a risk management function for the Syndicate with clear terms of reference from the Syndicate 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 Syndicate who perform the underwriting activities. Lastly, the Syndicate policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the Syndicate.

The Syndicate 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 Syndicate goals, and specify reporting requirements. The Syndicate Board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate'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 Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of 4242 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a 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 Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.
The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on a non-proportional basis. Non-proportional reinsurance is excess-of-loss reinsurance designed to mitigate the 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 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.

The Syndicate also has two associated Special Purpose Arrangements. These are SPA 6123, which reinsures the Syndicate via a 100% quota share agreement covering a defined portfolio of US exposed risks and SPA 1416, which reinsures the Syndicate on various fixed percentages by certain classes via a quota share agreement.

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 Syndicate's risk appetite as decided by the Syndicate Board.

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

Key assumptions

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

The table below show how a five percent increase or decrease in gross and net claim liabilities would affect the Syndicate's profit for the financial year and its members' balances.

2021	**Five Percent increase**	**Five Percent decrease**
	$'000	**$'000**
Gross claims liabilities	(20,769)	20,769
Net claims liabilities	(9,564)	9,564

2020	**Five Percent increase**	**Five Percent decrease**
	$'000	**$'000**
Gross claims liabilities	(21,564)	21,564
Net claims liabilities	(6,920)	6,920

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

Estimate of cumulative gross claims incurred

Underwriting Year	2015 & Prior	2016	2017	2018	2019	2020	2021
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At end of first underwriting year	39,624	25,710	125,844	196,190	52,382	205,369	112,841
One Year Later	74,300	70,487	316,595	247,927	214,030	310,094	
Two Years Later	76,248	98,862	327,506	246,029	207,954		
Three Years Later	72,239	98,901	337,564	249,006			
Four Years Later	75,938	103,652	349,613				
Five Years Later	76,295	104,195					
Six Years Later	76,189						
Seven Years Later	44,028						
Eight Years Later	31,218						
Nine Years Later	20,989						
Ten Years Later	0						
Less cumulative gross paid	(75,211)	(94,580)	(304,229)	(212,845)	(117,430)	(160,519)	(29,805)
Gross outstanding claims	1,081	9,615	45,384	36,161	90,525	149,575	83,037
Total gross outstandings claims (all years)							415,378

Underwriting Year	2015 & Prior	2016	2017	2018	2019	2020	2021
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At end of first underwriting year	37,791	22,227	64,312	71,965	38,634	101,273	81,777
One Year Later	68,289	44,936	110,055	101,130	101,196	175,454	
Two Years Later	67,314	45,600	111,221	98,845	102,853		
Three Years Later	63,328	47,727	105,889	100,096			
Four Years Later	65,896	46,128	109,865				
Five Years Later	66,106	45,206					
Six Years Later	66,097						
Seven Years Later	41,619						
Eight Years Later	30,135						
Nine Years Later	20,015						
Ten Years Later	0						
Less cumulative net paid	(65,822)	(43,724)	(102,481)	(94,694)	(65,838)	(88,777)	(28,831)
Net outstanding claims	374	1,482	7,384	5,402	37,016	86,677	52,946
Total net outstandings claims (all years)							191,281

The table below shows the prior accident year development in each calendar year converted at year to date average rates of exchange.

	2021	2020
	$'000	$'000
Accident & Health	(9)	-
Motor (Third Party Liability)	(57)	-
Motor (other Classes)	(36)	-
Transport	(33)	-
Energy Non Marine	11	-
Fire and other damage to property	4,200	(2,044)
Third-party liability	1,173	(26)
Pecuniary loss	(27)	-
Reinsurance Acceptances	(4,160)	1,773
Total net prior year release/(strengthening)	**1,062**	**(297)**

Risk management continued

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.

The Syndicate monitors its exposures through a combination of deterministic modelling as part of the Realistic Disaster Scenarios Framework and stochastic modelling as part of the Lloyd's catastrophe model reporting requirements. During 2021, the modelling considers the exposures in 2021 and 2022 YOA. The Syndicate's most material RDS, both gross and net, is the loss of a major complex. However, across the property scenarios the syndicate's exposures are reducing compared to 2021, with increases on other lines of business, in particular liability and the new cyber scenarios. This is consistent with the syndicate's strategy to diversify its underwriting exposures.

	Gross 2021 $'000	Net 2021 $'000
Loss of Major complex	89,700	26,400

Source: Syndicate Business Forecast at SBF rates of exchange

The Syndicate monitors its cash flows with respect to significant catastrophe events that happen in the calendar year.

d) Financial risk

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

1) Credit risk

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

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

- Investment guidelines are established setting out the quality of investments to be included within the 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 Syndicate Board.

Risk management continued

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

2021	$'000			
	Neither past due or impaired	Past due	Impaired	Total
Other financial investments	73,606	-	-	73,606
Reinsurers share of claims outstanding	224,097	-	-	224,097
Debtors arising out of direct insurance operations	111,191	-	-	111,191
Debtors arising out of reinsurance contracts ceded	41,073	9,837	-	50,910
Other debtors	78,751	-	-	78,751
Cash at bank and in hand	33,570	-	-	33,570
Total	562,288	9,837	-	572,125

2020	$'000			
	Neither past due or impaired	Past due	Impaired	Total
Other financial investments	36,936	-	-	36,936
Reinsurers share of claims outstanding	292,878	-	-	292,878
Debtors arising out of direct insurance operations	41,917	-	-	41,917
Debtors arising out of reinsurance contracts ceded	17,088	7,805	-	24,893
Other debtors	72,802	-	-	72,802
Cash at bank and in hand	25,682	-	-	25,682
Total	487,303	7,805	-	495,108

The 2017 underwriting year has a reinsurance asset under dispute. There is naturally an element of uncertainty over the collectability of the recovery pending resolution of the dispute. The recoverable amount recognised in the accounts is $21.6m. Management have applied, with the aid of experts, a 50% bad debt provision against this asset. And as such the net asset on the balance sheet is $10.8m.

Risk management continued

Due to the associated uncertainty over the timing of collectability pending resolution of the dispute, the Directors of the Managing Agent have decided to keep the 2017 underwriting year of account open for an additional year to allow time for this dispute to be fully assessed and closed. The year of account is now expected to close on 31 December 2022.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2021 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers on ceded contracts, have been excluded from the table as these are not rated.

				$'000		
2021	**AAA**	**AA**	**A**	**BBB or less**	**Not Rated**	**Total**
Other financial investments	64,385	2,505	5,882	834	-	73,606
Reinsurers share of claims outstanding	-	35,913	100,817	-	87,367	224,097
Debtors arising out of reinsurance contracts ceded	-	6,191	12,380	-	22,503	41,074
Cash at bank and in hand	-	-	33,570	-	-	33,570
Total	64,385	44,609	152,649	834	109,870	372,347

				$'000		
2020	**AAA**	**AA**	**A**	**BBB or less**	**Not Rated**	**Total**
Other financial investments	24,426	7,238	5,260	12	-	36,936
Reinsurers share of claims outstanding	-	46,936	131,760	-	114,182	292,878
Debtors arising out of reinsurance contracts ceded	-	3,027	6,053	-	15,813	24,893
Cash at bank and in hand	-	-	25,682	-	-	25,682
Total	24,426	57,201	168,755	12	129,995	380,389

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.

Risk management continued

2) Liquidity risk

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

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

			$'000			
2021	**No stated maturity**	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Claims outstanding	-	(221,179)	(132,910)	(34,846)	(26,443)	(415,378)
Creditors	-	(53,265)	-	-	-	(53,265)
Total	-	(274,444)	(132,910)	(34,846)	(26,443)	(468,643)

			$'000			
2020	**No stated maturity**	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Claims outstanding	-	(267,619)	(136,973)	(20,678)	(6,005)	(431,275)
Creditors	-	(75,341)	(7,654)	-	-	(82,995)
Total	-	(342,960)	(144,627)	(20,678)	(6,005)	(514,270)

Risk management continued

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 Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

a) Currency risk

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

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

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

			$’000		
2021	**USD**	**GBP**	**EUR**	**CAD**	**Total**
Total Assets	515,770	29,260	116	26,,979	572,125
Total Liabilities	(574,882)	(14,888)	(1,304)	(15,631)	(606,705)
Net Assets	(59,112)	14,372	(1,188)	11,348	(34,580)

			$’000		
2020	**USD**	**GBP**	**EUR**	**CAD**	**Total**
Total Assets	470,422	15,409	532	8,745	495,108
Total Liabilities	(604,070)	(1,316)	(523)	(5,844)	(611,753)
Net Assets	(133,648)	14,093	9	2,901	(116,645)

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. It is noted that the Syndicate does not currently have great exposure to foreign currency risk, as the majority of its business is conducted in US Dollars.

Risk management continued

Sensitivity to changes

The table below gives an indication of the impact on profit of a percentage change in the relative strength of US Dollars against the value of the Sterling, Euro and Canadian Dollar simultaneously. The analysis is based on the information as at 31st December 2021.

	Impact on profit and members' balance	
	2021	**2020**
	$'000	**$'000**
US Dollar weakens		
10% against other currencies	2,453	1,700
20% against other currencies	4,906	3,401
US Dollar strengthens		
10% against other currencies	(2,453)	(1,700)
20% against other currencies	(4,906)	(3,401)

b) Interest rate risk

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

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

The Syndicate has no significant concentration of interest rate risk.

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

	2021	**2020**
	$'000	**$'000**
Interest Rate Risk		
Impact of 50 basis point increase on result	(82)	(44)
Impact of 50 basis point decrease on result	67	20
Impact of 50 basis point increase on net assets	(82)	(44)
Impact of 50 basis point decrease on net assets	67	20

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

20. Post balance sheet events

The Syndicate will collect the 2019 year of account losses in US Dollars from members in 2022.

The Syndicate may collect the 2017 year of account losses in US Dollars from members in 2022, although as the year of account is remaining open, the final collection will most likely occur in 2023.

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

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

The Directors evaluated other events subsequent to the balance sheet date through to 3 March 2022, the date the Syndicate issued these annual accounts, and determined that no other items require disclosure.