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MPS Special Purpose Arrangement 1892

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

N Lightbown (resigned 31/12/2021)
M Burns (appointed 01/01/2022)

Registered Auditors

PricewaterhouseCoopers LLP

Managing Agent's report

The Special Purpose Arrangement's (SPA) Managing Agent (The Agency) 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 result for the calendar year is a profit of £7,448,457 (2020: £2,716,579).

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

Principal activity and review of the business

The SPA was established on 01 July 2019 to underwrite an 80% quota share of the Medical Malpractice class of business of Syndicate 2786.

All policies reinsured by the SPA are underwritten by Syndicate 2786.

Total authorised underwriting capacity for the SPA for 2021 was £14.7m (in 2020: £17.1m). Underwriting capacity is a measure of maximum gross premiums, net of acquisition costs that the SPA is eligible to write; The SPA wrote £13.1m (in 2020: £13.7m) in such premiums.

The SPA's gross written premium income for the calendar year was as follows;

	2021	2020
	£'000	£'000
Medical malpractice	14,822	14,727
	14,822	14,727

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

	2021 £'000	2020 £'000
Gross written premiums	14,822	14,727
Profit for the financial year	7,449	2,717
Combined ratio*	49.9%	81.2%

**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 2021 year of account at 31 December 2021 is shown below.

	2021 YOA Open	2020 YOA Open	2019 YOA Closed
Capacity (£'000)	14,730	17,100	8,500
Forecast return / Result (£'000)	2,497	4,874	2,883
Forecast return / return on capacity (%)	17.0%	28.5%	33.9%

Principal risks and uncertainties

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

Insurance risk

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

Credit risk

The key aspect of credit risk is reinsurance counterparty risk which is the risk of default by one or more of the SPA's reinsurers and intermediaries. The Syndicate Board's policy is that the SPA will only reinsure with approved reinsurers, supported by collateralisation, where required. The SPA currently has no reinsurance and therefore has no risk of a reinsurer defaulting.

Market risk

Market risk exposure impacting the SPA relates to fluctuations in interest rates or exchange rates. The SPA is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board. Cash and cash equivalents are held on the SPA's behalf by the Host Syndicate in accordance with the funds withheld arrangement.

Liquidity risk

The Host Syndicate pays insurance claims and other liabilities (including expenses) on the SPA's behalf in accordance with the funds withheld arrangement. Cash calls can be made by the Host Syndicate on the SPA under certain circumstances.

Operational risk

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

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

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

Group / strategic risk

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

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

Future developments

Following three years writing business as an SPA, MPS were granted approval to transition 1892 into a full Syndicate for the 2022 YoA. The business mix will be unchanged with the same business being underwritten directly into the Syndicate instead of as reinsurance from Syndicate 2786. The business will run through 2022 with two open SPA YoA and one live syndicate YoA.

The Syndicate capacity for the 2022 year of account is £20.5m (SPA 2021 year of account £14.7m).

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.

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.

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 Agency 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 Agency 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 Agency 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 Agency 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 Agency deliver from both a regulatory and client standpoint with no adverse outcomes through remote working.

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.

Managing Agent's report continued

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
N Lightbown*	Resigned 31 December 2021
M Burns*	Appointed 01 January 2022

**Active Underwriter*

Disclosure of information to the auditors

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

Independent Auditors

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

SPA Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by SPA members before 29 April 2022.

On behalf of the Board

N J Burdett
Company Secretary
02 March 2022

Statement of Managing Agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare financial statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial statements are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the financial statements, the Managing Agent is required to:

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

The Managing Agent is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the member of Syndicate 1892

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1892's syndicate annual accounts:

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

We have audited the syndicate annual accounts included within the Syndicate Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2021; the income statement, the statement of cash flows, and the statement of changes in member's balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 6, we have provided no non-audit services to the syndicate in the period under audit.

Independent auditors' report continued

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

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

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

Independent auditors' report continued

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.
Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to claims outstanding and estimated premium income. Audit procedures performed by the engagement team included:

- Discussions with management involved in the Risk and Compliance functions, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Inspecting the meeting minutes of the Syndicate Board and Reserve Committee meetings;
- Inspecting key correspondence with the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's in relation to compliance with laws and regulations;

Independent auditors' report continued

- Identifying and testing journal entries, including any journal entries posted with unusual words, backdated journals, unusual amounts and journals posted by unexpected users;
- Testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of claims outstanding and the estimation of estimated premium income; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Deepti Vohra (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
2 March 2022

Income statement

Technical account - General business

For the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Gross premiums written	3	14,822	14,727
Outward reinsurance premiums		-	-
Net written premiums		14,822	14,727
Change in the provision for unearned premiums			
Gross amount		51	(289)
Reinsurers' share		-	-
	4	51	(289)
Earned premiums, net of reinsurance		14,873	14,438
Allocated investment return transferred from the non-technical account		-	-
Claims paid			
Gross amount		(4,181)	(604)
Reinsurers' share		-	-
		(4,181)	(604)
Changes in the provision for claims outstanding			
Gross amount		288	(8,844)
Reinsurers' share		-	-
	4	288	(8,844)
Claims incurred, net of reinsurance		(3,893)	(9,448)
Net operating expenses	5	(3,531)	(2,273)
Balance on technical account – general business		7,449	2,717

All the amounts above are in respect of continuing operations.

The notes on pages 18 to 36 form part of these financial statements.

Income statement continued

Non-technical account - General business

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Balance on technical account – general business	7,449	2,717
Allocated investment return transferred to the general business technical account	-	-
Profit for the financial year	7,449	2,717

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

All the amounts above are in respect of continuing operations.

The notes on pages 18 to 36 form part of these financial statements.

Statement of changes in member's balance

For the year ended 31 December 2021

	2021	2020
	£'000	**£'000**
Member's balance brought forward at 1 January	2,781	64
Profit for the financial year	7,449	2,717
Member's balance carried forward at 31 December	10,230	2,781

The notes on pages 18 to 36 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		-	-
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	-	-
Claims outstanding	4	-	-
		-	-
Debtors			
Debtors arising out of reinsurance operations	8	32,816	20,783
Other debtors		-	15
		32,816	20,798
Cash and other assets			
Cash at bank and in hand		-	-
Other assets		-	-
		-	-
Prepayments and accrued income			
Prepayments		-	72
Deferred acquisition costs	4	95	57
		95	129
Total assets		32,911	20,927

The notes on pages 18 to 36 form part of these financial statements.

Statement of financial position continued

As at 31 December 2021

	Notes	2021 £'000	2020 £'000
Member's balance and liabilities			
Capital and reserves			
Member's balance		10,230	2,781
Liabilities			
Technical provisions			
Provision for unearned premiums	4	274	325
Claims outstanding	4	15,136	15,424
		15,410	15,749
Creditors			
Creditors arising out of reinsurance operations	9	6,305	2,061
Other creditors		829	225
		7,134	2,286
Accruals and deferred income		137	111
Total liabilities		22,681	18,146
Total members' balances and liabilities		32,911	20,927

The notes on pages 18 to 36 form part of these financial statements.

The financial statements on pages 12 to 36 were approved by board of directors on 24 February 2022 and were signed on its behalf by:

R P Barke
Director
02 March 2022

Statement of cash flows

For the year ended 31 December 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit for the financial year	7,449	2,717
(Decrease) / Increase in gross technical provisions	(339)	9,133
(Increase) in debtors	(12,018)	(12,537)
Increase in creditors	4,848	982
Movement in other asset/liabilities	60	(295)
Changes to market value and currency	-	-
Investment Return	-	-
Net cash inflow from operating activities	-	-
Net increase in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	-	-
Changes to market value and currency	-	-
Cash and cash equivalents at end of year	-	-

Notes to the financial statements

For the year ended 31 December 2021

1. Basis of preparation

Statement of compliance

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

The financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial instruments which are measured at fair value. The financial statements are prepared in GBP which is the functional and presentational currency of the SPA and rounded to the nearest £'000.

2. Accounting policies

Critical Accounting Estimates and Judgements

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

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

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

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

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

Accounting policies continued

Special Purpose Arrangement

The SPA assumes premium solely through its quota share contract with its host, Syndicate 2786. Premium is ceded from the host, and assumed by the SPA, gross of the SPA's share of the host's acquisition costs.

Funds Withheld

The quota share with the host operates on a funds withheld basis and in the normal course of business the profit and loss under the contract is settled with the host when the SPA year of account closes after three years. The quota share does allow for early cash calls by the host under certain circumstances.

The relevant asset and liabilities are shown within the SPA's financial statements as due when the host expects to receive or pay the balances, notwithstanding the fact that any cash settlement of these balances from the SPA's perspective may only occur when the quota share contract with the host is settled, on closure of the SPA's relevant year of account.

Premium receivable from the host, is disclosed gross of Claims outstanding. Claims outstanding are the SPA's share of the claims outstanding recognised within the host and the maturity disclosures in note 14 reflects the maturity profile of the underlying outstandings, notwithstanding the fact that any cash settlement of these balances, from the SPA's perspective, may only occur when the quota share contract with the host is settled, on closure of the SPA's relevant year of account.

There is a funds withheld agreement between Syndicate 2786 and MPS. Paid claims relating to the Medical Protection Society class of business will be treated as paid when settled by MPS, however no cash will transact until the year of account is closed (after 36 months).

Significant accounting policies

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

Gross premiums

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

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

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

Accounting policies continued

Claims incurred

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

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

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

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

The directors consider that the provisions for gross claims 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.

Unexpired risks

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

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

At the 31 December 2021 the SPA had no unexpired risk provision (2020: nil).

Accounting policies continued

Deferred acquisition costs

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

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.

Insurance receivables

All insurance receivables are due from the host Syndicate 2786 at the end of 36 months of trading on the funds withheld basis.

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, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

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

Insurance payables

All insurance payables are due to the host, Syndicate 2786, at the end of 36 months of trading on the funds withheld basis.

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, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Accounting policies continued

Foreign currencies

The SPA's functional currency and presentational currency is GBP.

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

Exchange differences are recorded in the non-technical account.

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

	2021 Year End	**2020 Year End**
HKD	10.56	10.60
ZAR	21.61	20.08
SGD	1.83	1.81

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 SPA investment income is recoverable by Managing Agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

Profit commission

Profit commission is charged by the managing agent at a rate of 7.5% of profit subject to the operation of a two year deficit clause. Such commission is recognised when the year of account becomes profitable but does not become payable until after the appropriate year of account closes normally at 36 months.

Pension costs

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

SPA operating expenses

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

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
Reinsurance:						
Medical Malpractice	14,822	14,873	(3,893)	(3,531)	-	7,449
Total	14,822	14,873	(3,893)	(3,531)	-	7,449

2020	Gross written premiums	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurance:						
Medical Malpractice	14,727	14,438	(9,448)	(2,273)	-	2,717
Total	14,727	14,438	(9,448)	(2,273)	-	2,717

Premiums were concluded in the UK (100%).

4. Technical provisions

	2021 Gross provisions £'000	Reinsurance assets £'000	Net £'000
Claims outstanding			
Balance at 1 January	15,424	-	15,424
Change in claims outstanding	(288)	-	(288)
Effect of movements in exchange rates	-	-	-
Balance at 31 December	**15,136**	-	15,136
Claims notified	6,660	-	6,660
Claims incurred but not reported	8,476	-	8,476
Balance at 31 December	15,136	-	15,136
Unearned premiums			
Balance at 1 January	325	-	325
Change in unearned premiums	(51)	-	(51)
Effect of movements in exchange rates	-	-	-
Balance at 31 December	**274**	-	274
Deferred acquisition costs			
Balance at 1 January	57	-	57
Change in deferred acquisition costs	38	-	38
Effect of movements in exchange rates	-	-	-
Balance at 31 December	95	-	95

	2020 Gross provisions £'000	Reinsurance assets £'000	Net £'000
Claims outstanding			
Balance at 1 January	6,580	-	6,580
Change in claims outstanding	8,844	-	8,844
Effect of movements in exchange rates	-	-	-
Balance at 31 December	15,424	-	15,424
Claims notified	6,422	-	6,422
Claims incurred but not reported	9,002	-	9,002
Balance at 31 December	15,424	-	15,424
Unearned premiums			
Balance at 1 January	36	-	36
Change in unearned premiums	289	-	289
Effect of movements in exchange rates	-	-	-
Balance at 31 December	325	-	325
Deferred acquisition costs			
Balance at 1 January	5	-	5
Change in deferred acquisition costs	52	-	52
Effect of movements in exchange rates	-	-	-
Balance at 31 December	57	-	57

5. Net operating expenses

	2021	2020
	£'000	£'000
Acquisition costs	(1,752)	(1,090)
Change in deferred acquisition costs	38	52
Administration expenses	(1,817)	(1,235)
Net operating expenses	(3,531)	(2,273)

Members' standard personal expenses amounting to £1,091,878 (in 2020: £633,553) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and Profit Commission.

Staff that support the SPA are employed by Everest Advisors UK Ltd and Asta Managing Agency Ltd. The associated costs are recharged to SPA 1892.

6. Auditors' remuneration

	2021	2020
	£'000	£'000
Audit of the financial statements	(48)	(46)
Other services pursuant to Regulations and Lloyd's Byelaws	(16)	(15)
Other services relating to actuarial review	(27)	(25)
	(91)	(86)

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

7. Emoluments of the directors of Asta Managing Agency Ltd

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

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

No other compensation was payable to key management personnel.

The emoluments of the Active Underwriter are borne by the host, Syndicate 2786.

8. Debtors arising out of reinsurance operations

	2021	2020
	£'000	£'000
Due from intermediaries (within one year)	7,121	14,080
Due from intermediaries (after one year)	25,695	6,703
	32,816	20,783

9. Creditors arising out of reinsurance operations

	2021	2020
	£'000	£'000
Reinsurance accepted Business - Intermediaries (within one year)	3,991	-
Reinsurance accepted Business - Intermediaries (after one year)	2,314	2,061
	6,305	2,061

10. Related parties

Asta provides services and support to SPA 1892 in its capacity as Managing Agent. During the year, managing agency fees of £125,389 (in 2020: £146,249) were charged to the SPA. Asta also recharged £555,182 (in 2020: £487,791) worth of service charges in the year and as at 31 December 2021 an amount of £68,979 (in 2020: £27,675) was owed to Asta in respect of this service.

SPA 1892 has recorded an accrual of £829,345 (2020: £225,416) for profit commission.

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.

SPA 1892 is comprised of an 80% quota share with Syndicate 2786.

MPS provides 100% of the SPAs insurance capacity.

The ultimate parent company of Asta Managing Agency Ltd is Asta Capital Ltd.

11. 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. Syndicates 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.

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

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

12. 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.

13. Off-balance sheet items

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

14. Risk management

a) Governance framework

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

Asta maintains a risk management function for the SPA with clear terms of reference from the 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 Ltd board to the SPA 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 SPA.

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 SPA 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 SPA’s risk appetite.

b) Capital management objectives, policies and approach

Capital framework at Lloyd’s

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

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

Risk management continued

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 1892 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 is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 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 15, represent resources available to meet members' and Lloyd's capital requirements.

c) Insurance risk

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

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 SPA's risk appetite as decided by the Syndicate board.

Risk management continued

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

As a further guide to the level of catastrophe exposure written by the SPA, the following table shows hypothetical claims arising out of the RDS on the Syndicates in-force exposure at 31 December 2021.

	Estimated Gross Loss	Estimated Net Loss
	£'000	**£'000**
Liability – Internal Scenario 1	(4,500)	(4,500)
Liability – Internal Scenario 2	(4,500)	(4,500)

The figures above are sought from the Syndicate Business Forecast (SBF) which is unaudited.

Key assumptions

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

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

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes 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 correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

Risk management continued

Gross	2021 £'000	2020 £'000
Five percent increase in claim liabilities	757	771
Five percent decrease in claim liabilities	(757)	(771)
Net		
Five percent increase in claim liabilities	757	771
Five percent decrease in claim liabilities	(757)	(771)

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

Claims development table

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

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

Underwriting year	**2019**	**2020**	**2021**
	£'000	**£'000**	**£'000**
Estimate of cumulative gross claims incurred:			
At end of first underwriting year	6,610	10,506	9,106
One year later	5,551	7,287	-
Two year later	3,557	-	-
Less cumulative gross paid	(3,544)	(1,096)	(174)
Liability for gross outstanding claims (2019 to 2021)	13	6,191	8,932
Total gross outstanding claims (all years)			15,136

Underwriting year	**2019**	**2020**	**2021**
	£'000	**£'000**	**£'000**
Estimate of cumulative net claims incurred:			
At end of first underwriting year	6,610	10,506	9,106
One year later	5,551	7,287	-
Two year later	3,557	-	-
Less cumulative net paid	(3,544)	(1,096)	(174)
Liability for net outstanding claims (2019 to 2021)	13	6,191	8,932
Total net outstanding claims (all years)			15,136

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.

d) Financial risk

The focus of financial risk management for the SPA 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 SPA has limited exposure to credit risk as it does not purchase reinsurance, and income is derived wholly through the quota share ceded by Syndicate 2786.

Syndicate 2786 has the following policies and procedures in place to mitigate the exposure to credit risk:

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

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

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross.

2021	**£'000**			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Reinsurers share of claims outstanding	-	-	-	-
Debtors arising out of direct insurance operations	-	-	-	-
Reinsurance Debtors	-	-	-	-
Other debtors	32,911	-	-	32,911
Total	32,911	-	-	32,911

Risk management continued

2020	£'000			
	Neither past due or impaired	Past due	Impaired	Total
Reinsurers share of claims outstanding	-	-	-	-
Debtors arising out of direct insurance operations	-	-	-	-
Reinsurance Debtors	-	-	-	-
Other debtors	20,927	-	-	20,927
Total	20,927	-	-	20,927

The table below provides information regarding the credit risk exposure of the SPA 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, have been excluded from the table as these are not rated.

2021				£'000			
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	-	-	-	-	-
Debt Securities	-	-	-	-	-	-	-
Overseas Deposits	-	-	-	-	-	-	-
Reinsurers share of claims outstanding	-	-	-	-	-	-	-
Reinsurance Debtors	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

2020				£'000			
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	-	-	-	-	-
Debt Securities	-	-	-	-	-	-	-
Overseas Deposits	-	-	-	-	-	-	-
Reinsurers share of claims outstanding	-	-	-	-	-	-	-
Reinsurance Debtors	-	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

Risk management continued

Maximum credit exposure

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

During the year, no credit exposure limits were exceeded.

2) Liquidity risk

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

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

2021			**£'000**			
	No stated maturity	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Creditors	-	4,224	2,910	-	-	7,134
Claims Outstanding	-	7,451	7,443	139	103	15,136
Total	-	11,675	10,353	139	103	22,270

2020			**£'000**			
	No stated maturity	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Creditors	-	-	2,286	-	-	2,286
Claims Outstanding	-	6,626	8,707	59	32	15,424
Total	-	6,626	10,993	59	32	17,710

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

a) Currency risk

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

The SPA's functional currency is GBP and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, US, Canadian and Australian dollars. The SPA 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:

2021				**£'000**			
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**OTH**	**Total**
Total Assets	32,911	-	-	-	-	-	32,911
Total Liabilities	(22,681)	-	-	-	-	-	(22,681)
Net Assets	10,230	-	-	-	-	-	10,230

2020				**£'000**			
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**OTH**	**Total**
Total Assets	20,927	-	-	-	-	-	20,927
Total Liabilities	(18,146)	-	-	-	-	-	(18,146)
Net Assets	2,781	-	-	-	-	-	2,781

15. Post balance sheet events

The host Syndicate will distribute £2.9m to members of the 2019 YoA.

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.