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Syndicate 2012

Annual Report and Accounts
For the year ended 31 December 2020

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Report of the Managing Agent

The Directors of Arch Managing Agency Limited ("AMAL"), "(the Managing Agent") present their annual report and financial statements of managed Syndicate 2012 (the "Syndicate") for the year ended 31 December 2020.

The Syndicate is a wholly aligned Syndicate, with underwriting capacity being provided by sole participant Arch Syndicate Investments Ltd.

Prior to 31 August 2020 the Syndicate was managed by Arch Underwriting at Lloyd's Ltd ("AUAL"), a registered Lloyd's Managing Agent. The change to AMAL was part of a consolidation of entities across Arch Insurance post the acquisition of Barbican Group Holdings Limited, including its Syndicates, to ensure one managing agent services all Syndicate relationships going forward. All board members of AUAL are also directors of AMAL.

Principal Activities

Syndicate 2012 currently underwrites Casualty, Directors and Officers Liability, Marine, Onshore and Offshore Energy, Professional Lines, Property, Personal Accident and Private Medical Insurance, Reinsurance, Terrorism, Fire & Other Damage, Third Party Liability and Aviation. The business is classified into underwriting units comprising: Accident and Health, Marine, Fire & Other Damage to Property, Third Party Liability, Energy Non Marine and Aviation.

Ownership

The ultimate parent company of Arch Syndicate Investments Ltd is Arch Capital Group Ltd ("ACGL"), a Bermuda-based company with $15.8bn (2019: $13.2bn) of shareholder capital as at 31 December 2020. ACGL provides insurance, reinsurance and mortgage insurance on a worldwide basis through its operations in Bermuda, the United States of America, Europe, Canada, and Australia. ACGL is listed on the Nasdaq Stock Market.

Directors

The Directors of the Managing Agent who held office during the year were as follows:

S. Bashford*	Chief Underwriting Officer	
N. Denniston*	Independent Non-Executive Director and Chairman	
J. Kittinger*	Chief Financial Officer	
P. Leoni*	Chief Underwriting Officer	
P. Martin*	Non-Executive	*(resigned 12.01.2021)*
J. Mentz*	Group Non-Executive Director	
P. Storey*	Non-Executive	
H. Sturgess*	President and Chief Executive Officer	
M. Hammer-Dahinden	Group Non-Executive Director	*(appointed 30.04.2020)*
A. Flanagan	Group Non-Executive Director	*(appointed 01.01.2021)*
D. Booth	Director	*(resigned 30.04.2020)*
W. Canagaretna	Director	*(resigned 08.01.2021)*
H. Colthurst	Non-Executive	*(resigned 30.04.2020*
A. Elliott	Director	*(resigned 30.04.2020)*
J. Heap	Non-Executive	*(resigned 30.04.2020)*
R. Johnson	Director	*(resigned 30.04.2020)*
R. Keers	Director	*(resigned 30.04.2020)*
L. Tucker	Director	*(resigned 30.04.2020)*
Z. Nattress	Secretary	*(resigned 19.06.2020)*

* Directors also served on the Board of AUAL, the Syndicate's managing agent for the period 1 January 2020 to 31 August 2020.

The Directors are covered by third party indemnity insurance policies.

Report of the Managing Agent *(continued)*

Review of the Business

Our insurance underwriting strategy is to operate in Speciality lines of business in which underwriting expertise can make a meaningful difference to operating results. Our insurance business focuses on talent-intensive rather than labour-intensive business and seeks to operate profitably across all product lines. Syndicate 2012 underwrites at Lloyd's in the wholesale insurance market and through selective delegated underwriting authorities for regional markets. To achieve our objectives our insurance operating principles are to:

- Capitalise on profitable underwriting opportunities;
- Centralise responsibility for underwriting;
- Maintain underwriting discipline throughout the market cycle;
- Focus on providing superior claims management; and
- Utilise broker and managing general agent distribution platforms.

Our underwriting philosophy is to generate an underwriting profit through prudent risk selection and appropriate pricing across the underwriting cycle. To achieve this, we encourage adherence to uniform underwriting standards across each product line focusing on: risk selection; desired attachment point; limits and retention management; due diligence, including financial condition, claims history, management and exposure; underwriting authority and approval limits; and collaborative decision-making.

The rating environment improved significantly during 2020, with firmer pricing for many lines of business including Directors & Officers, Marine Hull and Onshore Energy and Aviation War. Reflecting the strengthened rating environment, the Syndicate's underwriting strategy for 2020 was therefore more offensive, actively seeking out new business and also maximising the opportunities for growth. Notwithstanding the competitive environment, the Managing Agent has sought to maintain its underwriting discipline and execute its philosophy on superior risk selection.

During 2020 the COVID-19 pandemic continued to develop. As a result, the Syndicate incurred £4.8m of gross losses, whilst the net exposure was limited to £4.1m.

The focus for 2020 has been the continued growth of Syndicate 2012 through expansion of profitable lines of business. Disciplined growth and development of business will continue to be supported by the Board of the Managing Agency.

Following the change in the Syndicate's managing agency, ownership of AUAL's two direct undertakings, both incorporated in Australia, was transferred to AMAL. Arch Underwriting at Lloyd's (Australia) Pty Ltd and Arch Underwriting Agency (Australia) Pty Ltd are licensed to trade as Lloyd's service companies with authority to bind risks on behalf of Syndicate 2012.

Report of the Managing Agent *(continued)*

Review of the Business *(continued)*

The Syndicate recorded an underwriting profit before investment income of £12.8m (2019: profit £15.0m), mainly driven by the favourable prior year releases and total comprehensive profit of £13.1m (2019: profit £22.3m) driven by a non-technical loss of £2.8m (2019: profit £6.9m). The components are described below:

Key Performance Information and Metrics

	2020	2019
	£m	£m
Gross premiums written	293.9	223.9
Net premiums written	210.9	157.4
Earned premiums, net of reinsurance	182.9	160.2
Claims incurred, net of reinsurance	(97.8)	(85.2)
Net underwriting expense	(72.4)	(59.9)
Allocated investment income	3.1	0.4
Balance on technical account for general business	15.8	15.5
Investment return and foreign exchange	(2.8)	6.9
Total profit for the year	13.0	22.4
Claims ratio	53.47%	53.18%
Expense ratio	39.58%	37.39%
Combined ratio	93.06%	90.57%

Premiums written

Gross written premiums of £293.9m are 31.3% higher than 2019. During 2020 the Syndicate continued its strategy of capitalising on profitable underwriting opportunities and benefited from improved rate environment. The Syndicate did not open any new lines of business in 2020 but saw growth across various established lines of business. The largest growth was observed in the Property line of business, with £15.0m year-on-year growth, followed by Terrorism (£9.5m growth), Fine Art & Specie (£7.9m growth), Directors & officers (£7.3m growth), Marine Hull (£7.3m growth), and Marine War (£5.6m growth).

The premium growth has been driven by rate change, increased line size, specific new binder or underwriting initiatives. We have seen positive rate changes across all lines of business, the largest are Directors and Officers (34.7%), Hull (27.2%), Onshore Energy (22.9%) and Aviation War (21.2%).

Claims incurred

During 2020 the COVID-19 pandemic continued to develop, contributing to an increase of claims incurred. Whilst the net exposure of the Syndicate was limited to £4.1m, the gross exposure led to £4.8m of losses incurred. Management have also reviewed the Syndicate’s overall provision in light of the outcome of the FCA’s Business Interruption Test Case. The reserves are considered to remain an accurate reflection of the Syndicate’s exposure with no material additional provisions arising from the outcome of the test case.

The release of favourable prior year development reduced the overall increase in the losses and loss adjustment expenses to £12.6m, leading to total losses and loss adjustment expenses of £97.8m (2019: £85.2) with the loss ratio increasing from 53.2% in 2019 to 53.5% in 2020.

Operating Expenses

Net operating expenses, which include acquisition costs and other operating expenses, increased by £12.5m to £72.4m (2019: £59.9m). Whilst the admin expense saw an increase of £2.0m in 2020, the

Report of the Managing Agent *(continued)*

Review of the Business *(continued)*

majority of the increase was driven by an increase in acquisition cost, leading to an increase in the overall expense ratio of 2.2% to 39.6% (2019: 37.4%).

Non-Technical Result

Whilst a profit of £15.9m (2019: £15.4m) was achieved on the technical account in the financial year, the total profit for the year due to the Syndicate is reduced by a £2.8m loss (2019: £6.9m gain) on the non-technical account, driven mainly by a £5.0m loss on foreign exchange (2019: £3.4m gain).

Part VII Transfer

On 30 December 2020, The Syndicate transferred its EEA non-life insurance policies written between 2008 and 2020 to Lloyd's Insurance Company S.A. ("Lloyd's Brussels") pursuant to Part VII of the Financial Services and Market Act 2000. The value of net liabilities transferred was £60.0m. The Syndicate transferred cash of the same amount to Lloyd's Brussels. Lloyd's Brussels subsequently reinsured the same liabilities back to the Syndicate on the same day. The reinsurance premium received was of the same amount of £60.0m. There was no gain or loss arising on either transaction and as a result there has been no Profit and Loss Impact recognised in the Accounts.

The Member of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of £60.0m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of £60.0m and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's profit and loss account and no net impact on the balance sheet. This is the appropriate treatment that best reflects the connection between economic substance of both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transactions.

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

The transaction has no impact on equity.

Corporate and Social Responsibility

The Board recognises the importance of managing the impact of the Syndicate's activities, and takes care to maintain ethical standards and integrity in the conduct of our business.

Arch Capital Group Ltd ("ACGL") maintains a Code of Business Conduct, which describes our ethical principles and includes policies designed to assist in preventing violations of the Code and to allow the Syndicate to respond appropriately to any actual or potential violations. To help set the standards of behaviour expected from all staff, the Syndicate provides a training course on the Code intended to help guide employees in the way that they conduct business.

The Syndicate is committed to providing equal opportunities to potential and actual employees in all aspects of employment. Our employment policies are not unfairly discriminatory on any grounds relating to selection, training, career development or any other employment matters.

Our success depends upon having highly capable people who fit well with the Syndicate's culture of performance, accountability, teamwork and ethical conduct. Staff are encouraged to continue professional education and each employee is encouraged to execute a personal development plan with their managers.

Report of the Managing Agent *(continued)*

Risk management strategy and risk appetite

The Syndicate has a set of risk appetite statements that are appropriate for its individual business model and strategy. Risk appetite statements setting out clear descriptions detailing appropriate levels of risk are in place for each material area of risk. Each of these statements is supported by a set of key risk indicators for detailed monitoring which are regularly reviewed and escalated where appropriate through the governance structure to the Board. Key risk indicators are set at levels that ensure sufficient remedial actions are put in place to ensure the Syndicate responds early to emerging threats. Risk appetites are reviewed, at a minimum, annually by the Board to ensure that the Syndicate retains full coverage over its risks.

The table below sets out our strategic risk objectives and shows, at a high level, examples of corresponding appetite statements:

Strategic risk objective	***Risk appetite statement***
Maintain capital adequacy	Maintain sufficient capital to a defined target
Deliver stable earnings	Profitability over a defined period
Stable and efficient access to funding and liquidity	Cash outflows met under stress
Maintain stakeholder confidence	No appetite for material reputational, legal or regulatory risks

The aim of the risk framework is to provide a robust, proportionate, proactive and forward-looking process for risk management across the Syndicate. A central component of this framework is the Syndicate's policies and minimum standards, which inform the business as to how it is required to conduct its activities and risk management processes to remain within risk appetite. The Syndicate employs a number of risk tools to manage and monitor risk. The output of our risk management activities is thoroughly tested and reported upon both internally and externally.

The policies and minimum standards cover all key risks to which the Syndicate is exposed. Each policy is supported by minimum standards which set out the minimum level of risk management and other corporate and personal behaviours.

The Syndicate incorporates the identification, assessment, management, control, reporting and mitigation of risk as part of our daily operations. We believe the strengths of our risk framework are:

- Strong culture and risk leadership underpinned by training of our people;
- Engagement with the business;
- Embedded risk management processes, linking risk and capital;
- Quantitative approach to risk analysis through use of a robust economic capital model;
- Qualitative risk assessment and management information; and
- Influencing decision-making and shaping behaviours, via the provision of accurate, timely and relevant risk advice and challenge.

The Syndicate's risk management, internal audit, and compliance processes are coordinated to ensure that their respective activities are effective and complementary.

With the Managing Agency change taking effect on 31 August 2020, Syndicate 2012 now shares a Managing Agent with Syndicate 1955. Syndicate 2012's underwriting risks are governed by the Managing Agency and whilst most lines of business fit uniquely either into Syndicate 2012's or Syndicate 1955's book of business, a Conflicts Committee was established to oversee any potential conflicts where there is an overlap of business written.

Covid-19 Pandemic

On 11 March 2020, the World Health Organisation declared COVID-19 to be a pandemic as the number of countries with infections started to grow. Shortly afterwards, Arch implemented the Group Pandemic

Report of the Managing Agent *(continued)*

Risk management strategy and risk appetite *(continued)*

Plan in line with our Business Continuity Plans. All Arch offices were closed worldwide with our employees working from home. The entire workforce was quickly up and running with remote working functionality.

During the initial lockdown period, the Risk function performed a review in conjunction with the business areas and sought to determine whether, and to what extent, business risks had changed due to the pandemic impacting the business. The review also considered whether the effectiveness of any controls could be compromised as a result of staff working from home. On the whole, it was found that although there was increased commercial risk to the business with potentially less business written due to homeworking conditions, operational risk had not materially increased and the overall business was able to function broadly as before the pandemic.

Arch’s chief concern throughout has remained the safety of our employees and their families at this unprecedented time and continues to ensure both the wellbeing of staff and the ongoing operational requirements of the business are met. The Risk function continues to monitor the impact on the business.

There however remains significant uncertainty around the implications of the pandemic, with negative economic impact anticipated, as well as the risk of further “waves” of infections within countries and communities.

Report of the Managing Agent *(continued)*

Principal risks and uncertainties

The Syndicate writes products that are subject to a number of uncertainties and risks. It is a key role of the risk function to ensure that these risks have been identified, measured and considered throughout the business.

Principal risks	Impact	Strategy, management and mitigation
Strategic risk The economic climate could put at risk our ability to meet our strategic objectives in the areas of distribution, pricing, claims, costs, and international diversification ultimately causing the Syndicate not to meet its business plan.	The value of the Syndicate decreases, resulting in a lack of ACGL Group confidence.	The Syndicate's strategic ambitions include management of strategic risk in accordance with the ACGL Group premium and profitability plans and targets. We do this through: • Constant monitoring and management of agreed strategic targets; • Monitoring of cost savings to ensure they remain on track; and • Monitoring and reporting of capital levels.
Underwriting and pricing risk We are subject to the risk that inappropriate business could be written (or not specifically excluded) and inappropriate prices charged. This includes catastrophe risk arising from losses due to unpredictable natural and man-made events affecting multiple covered risks.	Adverse loss experience impacting current year and future year business performance.	The Syndicate's insurance risk strategy is to maintain an acceptable level of underwriting exposure within preferred business lines, across a diverse range of distribution channels, products and geographies. We do this through: • Underwriting guidelines for all business transacted, restricting the types and classes of business that may be accepted; • Exception reports and underwriting monitoring tools; • Internal quality assurance programmes; • Pricing policies by product line; • Monthly monitoring and reporting of natural and man-made catastrophe risk against appetite; • Analysis of comprehensive data to refine pricing; • Purchase of reinsurance to limit exposures; and • Analysis of all property portfolios to determine expected maximum losses.
Reserving risk Due to the uncertain nature and timing of the risks to which we are exposed, we cannot precisely determine the amounts that we will ultimately pay to meet the liabilities covered by the insurance policies written.	Adverse development in prior year reserves resulting in significant deviations in earnings.	The Syndicate's Reserve risk strategy is to book reserves being adequate compared to the independent actuaries' estimate. Technical reserves are estimated by: • A range of actuarial and statistical techniques, with projections of ultimate claims cost involving assumptions across a range of variables, including estimates of trends in claims frequency and average claim amounts based on facts and circumstances at a given point in time; • Making assumptions on other variable factors, including the legal, social, economic and regulatory environments. Other factors considered include business mix, consumer behaviour, market trends, underwriting assumptions, risk pricing models, inflation in medical care costs, future earnings inflation and other relevant forms of inflation, the performance and operation of reinsurance assets and future investment returns; and • Stress and scenario testing.

Report of the Managing Agent *(continued)*

Principal risks and uncertainties *(continued)*

Principal risks	Impact	Strategy, management and mitigation
Ceded reinsurance risk The risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated.	Adverse impact on the financial results.	The Syndicate's reinsurance programmes are determined from the underwriting team business plans and seek to protect Syndicate capital from an adverse volume or volatility of claims on both per risk and per event basis. • The Syndicate aims to establish appropriate retention levels, limits of protection with clear policy wordings that are consistent with keeping within the Board's risk tolerance and achieving the target rates of return; • Provide stable, sustainable core capacity for each product line with non-core reinsurance purchased when market conditions allow; • ACGL security guidelines are in place to ensure that we deal with a panel of trusted reinsurers; and • The Syndicate also benefits from an internal quota share with Arch Reinsurance Ltd., the level of which is set at 15.0%.
Operational risk The risks of direct or indirect losses resulting from inadequate or failed internal processes, fraudulent claims or from systems and people, or from external events including changes in the competitor, regulatory or legislative environments.	Adverse events with potential financial, reputational, legal and customer impacts.	The Syndicate recognises that certain operational risks are unavoidable and seeks to limit exposure to operational risks through ensuring that an effective infrastructure, robust systems and controls and appropriately experienced and qualified individuals are in place throughout the organisation. • We have enhanced many of our operational processes. This includes enhancing our Risk Management framework to integrate risk, business and capital strategies; • We maintain a robust internal control environment; • We maintain a robust risk capture, management and reporting system; and • We recognise the value of our human resources and have appropriate HR policies to develop and retain our staff; • Following the lockdown measures during the development of the COVID-19 pandemic, our staff have successfully transitioned to a 100% working from home environment. Where required, risk and controls have been adapted to reflect the digital nature of our work and the IT team have established a robust infrastructure to ensure efficiency levels are maintained.
Investment risk *Market risk* – the risk of adverse financial impact due to changes in fair values of future cash flows of instruments held in the investment portfolio as a result of changes in interest rates, credit spread and foreign exchange rates. *Credit risk* – the risk of exposure if another party fails to perform its financial obligations, including failing to perform them in a timely manner. *Liquidity risk* – the risk of maintaining insufficient financial resources to meet business obligations as and when they fall due.	Adverse movements due to asset value reduction, mismatch in assets and liabilities, and default of third parties. Inability to meet cash flows under stress.	The Syndicate's investment strategy is to protect the value of capital, focusing on assets that we consider are capable of producing a consistent and recurring flow of income over time. The Syndicate's liquidity management ensures that a minimum percentage of consolidated investments are held in liquid, short term money market securities, to ensure that there are sufficient liquid funds available to meet obligations to policyholders and other creditors as they fall due. Our investment portfolio is managed and controlled through: • The Investment Committee receives advice from Arch Investment Managers as well as external Investment Advisers; • Investment strategy and guidelines are proposed to the Board by the Investment Committee and monitored by the Investment Committee; • Diverse holding of types of assets including geographies, sectors and credit ratings; and • Stress testing and scenario analysis.

Report of the Managing Agent *(continued)*

Principal risks and uncertainties *(continued)*

Principal risks	Impact	Strategy, management and mitigation
Counterparty credit risk We partner with many suppliers and the failure of any of these to perform their financial obligations or perform them in a timely manner could result in a financial loss. The principal area of counterparty risk is our use of inter-company quota share reinsurance as a capital management tool.	Loss due to default of banks, reinsurers, brokers or other third parties.	The Syndicate's strategy is to avoid risk of large losses from counterparty failures through prudent counterparty selection and review of credit exposures. • Credit limits are set for all significant counterparties, including reinsurers; • Requirement for minimum credit ratings for reinsurers; • Broker credit exposures are monitored by the business; and • The credit risk arising out of the inter-company quota share is managed through use of a trust fund arrangement.
Regulatory risk Changes in law and regulations are not identified, understood, or are inappropriately and incorrectly interpreted, or adopted, or business practices are not efficiently modified. Further, there is a risk that current legal or regulatory requirements are not complied with.	Customer impact, financial loss and regulatory censure. Regulatory sanction, legal action or revenue loss.	The Syndicate's Regulatory risk strategy is to comply with all laws and regulations. • We have a constructive and open relationship with our regulators; and • We continue to monitor all regulatory changes, including those arising out of Brexit, as and when they are required by our regulators.
Conduct risk The risk of failing to deliver the appropriate treatment for our customers throughout all stages of the customer journey and that our people fail to behave with integrity.	Potential customer detriment, financial loss and regulatory censure and sanction.	The Syndicate's conduct risk strategy is to ensure good customer outcomes. • Our organisational culture prioritises a consistent approach towards customers and the interests of customers are at the heart of how we operate; and • We have developed a robust customer conduct risk management framework to minimise our exposure to conduct risk.
Group and reputational risk We are dependent on the strength of our Group, our reputation with customers and distributors in the sale of products and services. We have entered into various strategic partnerships that are important to the marketing, sale and distribution of our products.	Loss of Group value negatively impacts our ability to retain and write new business.	The Syndicate derives benefits from being part of the ACGL Group and use of the Lloyd's Franchise. Group risk is primarily managed at the executive level, through building strong relationships with all parties. The Syndicate's reputational risk strategy is to protect our brand and reputation. We do this through: • Regularly reviewing our brand and reputational risk exposure by various governance committees; and • Seeking to offer a superior service to customers and to treat customers fairly in line with Financial Conduct Authority ("FCA") principles.
Risks arising out of the COVID-19 Pandemic On 11 March 2020, the World Health Organisation declared a pandemic in relation to the outbreak of the COVID-19 virus. In particular, the following areas are exposed to increased risk as a result of the pandemic: • Loss exposure and reserve adequacy; • Valuation of the investment portfolio; • Recoverability of debtor balances; and • Operational Risk.	The Company's capital may be negatively impacted.	We have evaluated / addressed these risks as follows: • Continuous review of COVID loss development and impact of the FCA court case; • Performance and valuation review of the investment portfolio, particularly focused on any potential security defaults ; • Consideration of any impact on recoverability of debt; • Successful implementation of WFH environment and ability to bind business during the pandemic.

Report of the Managing Agent *(continued)*

Outlook and Future Developments

The Syndicate has had a successful financial year, with total profits of £13.1m (2019: profit £22.3m). The Syndicate grew in existing lines of business in 2020 due to increased rates and new business initiatives.

Looking to 2021, we look to capitalise on the increase in rates observed across the market with the aim of improving the combined ratio to achieve a greater return on capital to the Member of Syndicate 2012.

The Syndicate business forecast includes "Warranty and Affinity", a new line of business which has been approved by Lloyd's to write £48.5m during the 2021 underwriting year. This new line of business, together with continued growth in existing lines of business are expected to contribute to the Syndicate's targeted growth in 2021. Whilst growth continues to be a focus, the Syndicate's governance and underwriting controls continue to place strong emphasis on risk selection and price adequacy, contributing to overall underwriting discipline with the aim of placing profitable business.

Climate Change

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

The Syndicate, as part of the wider ACGL group, is governed by the ESG Steering Committee, which is chaired by Marcy Rathman, who has responsibility for coordinating and managing the oversight of ACGL's growing ESG program. The Directors of the Managing Agency review the output of the ESG Steering Committee, and where deemed appropriate incorporate its recommendation in their management of the Syndicate.

In addition, the directors have made an assessment of the specific risk of climate change to the Syndicate and have identified potential risks to relating to underwriting and investment risks, each of which has been set out in further detail below.

Underwriting risks

The Syndicate has a well-established exposure management framework, used to measure and manage catastrophe loss probability. The exposed policies are modelled by country and peril to estimate loss probabilities from natural catastrophe events, such as cyclones, windstorms, earthquakes, floods, bushfires and other hazards.

The whole portfolio is reassessed on a quarterly basis and the assessment includes modelling of historic events and probabilistic extremes of events across relevant geographic regions. Climate change signals, such as warming of sea surface temperatures are incorporated into the parameterisation of the model used.

The Syndicate's models are tested for sensitivity and stress tested against the Syndicate's historic claims experience. The key metric used is the 1 in 250 year stress test performed on a gross and net basis, which are tracked quarterly.

A number of scenarios have been considered based on the PRA's 2020 General Insurance Stress Test climate change specifications, which show that there could be a long-term impact to modelled losses relating to US Windstorm exposures, although it is anticipated that we would remain within current risk appetites.

The Managing Agency, on behalf of the Syndicate, is looking at all aspects of the potential new underwriting environment that may emerge with the advent of various aspects of climate change. Both first and third party underwriters are working to continually assess the impact of various climate change scenarios on the existing and future portfolio, including but not limited to changing weather pattern and changing sea levels and their impact on risk selection and aggregation; to novel litigation against various

Report of the Managing Agent *(continued)*

Outlook and Future Developments *(continued)*

companies or their directors and officers for their alleged fault in enabling such change, which may impact risk selection and policy structure; to the opportunities generated by a changing economy. Arch is a writer of renewable energy business, of companies developing and manufacturing electric vehicles and insurers of various projects and research which both enable and profit from a new economy; this develops as the opportunity itself develops and has in itself challenges around pricing and policy form, in which we invest our own intellectual property.

Investment risk

The Syndicate has an investment portfolio worth £274.1 million consisting mainly of shares, debt securities, fixed-income securities and other variable-yield securities. Investments are managed by Arch Investment Management Limited, a member of the wider ACGL Group.

The investment committee, which has been delegated oversight of the Syndicate's investment portfolio by the Board of Directors is aware of the importance of stewardship and sustainability alongside integrating ESG into the overall governance structure, which involves the inclusion of Environmental, Social and Governance factors into wider investment analysis. At the ACGL level, ESG scores are incorporated into the overall portfolio analysis on a regular basis, the outcome of which is made available to the local investment committee.

Arch is fully cognisant of the emerging importance of climate change as a fundamental societal issue and is actively investigating opportunities in underwriting, investments and its operational organisation and supply chains to act responsibly and to support the trend towards a sustainable transition to the post-Carbon society.

In line with the PRA's expectations in SS3/19 and PS11/19, an initial plan has been put in place considering governance, risk management, scenario analysis and disclosure.

Donations
The Syndicate made no political or charitable contributions during the year (2019: £nil).

Financial Risk Management

The Syndicate's mission is to generate positive contribution to the growth in the Tangible Book Value of our ultimate parent company. We do this by maximising our return on equity within a defined 'risk appetite'. It is essential that we understand the risks the Syndicate is exposed to, namely strategic risk, insurance risk, operational risk, market risk, credit risk, liquidity risk, counterparty risk, regulatory risk, conduct risk, reputation risk and capital risk. Note 4 expands on these risks, including the Syndicate's management of these risks.

Independent Auditors

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

Approved by the Board and signed on behalf of the Board by:

Pasquale Leoni
Director
Arch Managing Agency Limited
4 March 2021

Statement of Managing Agent Responsibilities

The Directors are responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law and regulations, including Financial Reporting Standard 102 "*The Financial Reporting Standard Applicable in the UK and Republic of Ireland*" ("FRS 102"), and Financial Reporting Standard 103 "*Insurance Contracts*" ("FRS 103").

In accordance with *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008*, managing agents are required to prepare Syndicate annual accounts for each financial year which give a true and fair view of the state of affairs of the Syndicate and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards, including FRSs 102 and 103 have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- Prepare the annual accounts on the basis that the Syndicate will continue to write future business, unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent confirms it has complied with the above requirements in preparing the annual accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. 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.

Statement of Disclosure of Information to Auditors

Each of the persons who are Directors of the Managing Agent at the date of approval of this report confirms that:

- So far as the Director is aware, there is no information relevant to the audit of the Syndicate's annual accounts for the year ended 31 December 2020 of which the auditors are unaware; and

- Each Director has taken all the steps that they ought to have taken in their duty as a Director of the Managing Agent in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Independent Auditors' Report to the Member of Syndicate 2012

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2012's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 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 Annual Report and Accounts (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2020; the Profit and Loss Account: Technical Account – General Business, the Profit and Loss Account: Non-Technical Account, the Statement of Comprehensive Income, the Statement of Changes in Member's Balance, and the Statement of Cash Flows for the year then ended; and the Notes to the Financial Statements 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 and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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.

Independent Auditors' Report to the Member of Syndicate 2012 *(continued)*

Reporting on other information

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

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

With respect to the Report of the Managing Agent, 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.

Report of the Managing Agent

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Managing Agent for the year ended 31 December 2020 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 Report of the Managing Agent.

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 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.

Independent Auditors' Report to the Member of Syndicate 2012 *(continued)*

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 management's judgements employed in the estimation of claims outstanding, with a predominant focus on the provision for IBNR, and the estimation of gross premiums written, and the posting of inappropriate journals. Audit procedures performed included:

- discussions with the Audit Committee, management and internal audit, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- evaluation and testing of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- reviewing, and challenging where appropriate, the assumptions and judgements made by management in their significant accounting estimates, in particular in relation to the estimation of claims outstanding, with a focus on the provision for IBNR, and the estimation of gross premiums written;
- identifying and testing journal entries based on selected fraud risk criteria, in particular journal entries with unusual account combinations or posted by unexpected users;
- evaluating the business rationale for any significant transactions identified outside the normal course of business; and
- designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Kirstie Hanley (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
4 March 2021

Profit and Loss Account: Technical Account – General Business

For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Earned premium, net of reinsurance			
Gross premiums written	6	293,918	223,899
Outward reinsurance premiums		(82,996)	(66,468)
Net premiums written		210,922	157,431
Change in the gross provision for unearned premiums		(40,326)	(1,983)
Change in the provision for unearned premiums, reinsurers' share		12,343	4,724
Earned premiums, net of reinsurance		182,939	160,172
Allocated investment return transferred from the non-technical account		3,113	432
Total technical income		**186,052**	**160,604**
Claims incurred, net of reinsurance			
Claims paid			
-gross amount		(95,549)	(100,268)
-reinsurers' share		20,115	26,107
	14	(75,434)	(74,161)
Change in the provision for claims			
-gross amount		(45,205)	(9,527)
-reinsurers' share		22,832	(1,559)
		(22,373)	(11,086)
Claims incurred, net of reinsurance	14	(97,807)	(85,247)
Net operating expenses	7	(72,362)	(59,934)
Total technical charges		**(170,169)**	**(145,181)**
Balance on the technical account for general business		**15,883**	**15,423**

All Operations are continuing.

The notes on pages 21 to 50 form part of these financial statements.

Profit and Loss Account: Non-Technical Account
For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Balance on the general business technical account		15,883	15,423
Investment income		2,429	3,820
Gains on the realisation of investments		1,549	1,682
Investment expenses and charges		(240)	(248)
Losses on the realisation of investments		(12)	(178)
Unrealised gain on investments		789	491
	8	**4,515**	**5,567**
Allocated investment return transferred to the general business technical account		(2,326)	(2,053)
Non-technical (loss) / profit on exchange		(4,997)	3,356
Total profit for the year		**13,075**	**22,293**

Statement of Comprehensive Income
For the year ended 31 December 2020

	2020 £000	2019 £000
Profit for the financial year	13,075	22,293
Other comprehensive income	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	**13,075**	**22,293**

All results are attributable to continuing operations.

There is no material difference between the profit for the financial year as stated above and the historical cost equivalents.

The notes on pages 21 to 50 form part of these financial statements.

Balance Sheet
As at 31 December 2020

	Notes	2020	2019
ASSETS		**£000**	**£000**
Financial Investments			
Shares and other variable-yield securities	*13*	64,030	42,203
Debt securities and other fixed-income securities	*13*	210,091	184,881
		274,121	**227,084**
Reinsurers' share of technical provisions			
Provision for unearned premiums	*14*	38,863	26,747
Claims outstanding		110,456	87,500
	14	**149,319**	**114,247**
Debtors			
Debtors arising out of direct insurance operations		84,036	52,591
Debtors arising out of direct reinsurance operations		6,555	4,896
Other debtors	*10*	7,522	9,599
		98,113	**67,086**
Other assets			
Cash at bank and in hand		13,269	15,922
Overseas deposits	*13*	58,846	60,158
Other assets	*11*	11,408	10,359
		83,523	**86,439**
Prepayments and accrued income			
Deferred acquisition costs		28,725	19,026
Other prepayments and accrued income		887	1,184
TOTAL ASSETS		**634,688**	**515,066**
LIABILITIES			
Capital and reserves			
Member's balance		116,515	103,440
Technical provisions			
Provision for unearned premiums	*14*	118,727	78,065
Claims outstanding		359,490	308,186
	14	**478,217**	**386,251**
Creditors			
Creditors arising out of reinsurance operations		25,201	16,848
Other creditors	*10*	4,883	1,999
		30,084	**18,847**
Accruals and deferred income	*12*	9,872	6,528
TOTAL LIABILITIES		**634,688**	**515,066**

The notes on pages 21 to 50 form part of these financial statements

The financial statements on pages 17 to 20 were approved by the Board of Arch Managing Agency Limited on 4 March 2021 and were signed on their behalf by:

Jason Kittinger
Finance Director
Arch Managing Agency Limited
4 March 2021

Statement of Changes in Member's Balance
For the year ended 31 December 2020

	2020 £000	2019 £000
Brought forward at 1 January 2020	103,440	80,188
Profit for the financial year	13,075	22,293
Capital Contribution	-	959
Member's balances carried forward at 31 December 2020	**116,515**	**103,440**

The notes on pages 21 to 50 are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2020

Reconciliation of operating profit to net cash inflow from operating activities	**2020** **£000**	**2019** **£000**
Operating profit / profit on ordinary activities	13,075	22,293
Increase in gross technical provisions	82,956	10,747
(Increase) in reinsurers' share of gross technical provisions	(32,407)	(2,942)
(Increase) / decrease in debtors	(39,803)	4,150
Increase / (decrease) in creditors	14,524	(9,517)
Increase in other assets / liabilities	4,348	9,571
Investment return	(4,515)	(5,566)
Change in market value and currency	(143)	1,950
Foreign exchange on cash and cash equivalents	320	(324)
Net cash Inflow from operating activities	**38,355**	**30,362**
Purchase of equity and debt instruments	(292,619)	(354,466)
Sale of equity and debt instruments	247,645	320,977
Investment income received	3,966	5,324
Net cash outflow from investing activities	**(41,008)**	**(28,165)**
Capital contribution	-	959
Cash flows from financial activities	**-**	**959**
Net (decrease) / increase in cash and cash equivalents	(2,653)	3,156
Cash at bank and in hand at beginning of year	15,922	12,766
Cash at bank and in hand at end of year	**13,269**	**15,922**

The notes on pages 21 to 50 form part of these financial statements.

Notes to the Financial Statements

1 General Information

The Syndicate transacts in the underwriting of general insurance business at Lloyd's with underwriting capacity being provided by Arch Syndicate Investments Ltd. The address of both of the Managing Agent's registered office is 60 Great Tower Street, London, EC3R 5AZ.

2 Statement of compliance

The financial statements of the Syndicate have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "*The Financial Reporting Standard applicable in the UK and Republic of Ireland*" ("FRS 102"), Financial Reporting Standard 103, "*Insurance Contracts*" (FRS 103), *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008* and the Companies Act 2006.

The Syndicate financial statements have been prepared in compliance with the provisions of *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations* relating to insurance groups.

3 Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

(b) Going Concern

The Directors of the Managing Agent have assessed the Syndicate's ability to continue as a going concern by considering, amongst other things, the Syndicate's reserve strength, available capital, future business plan 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.

(c) Foreign Currency

(i) Functional and presentation currency

The Syndicate's functional and reporting currency is pounds sterling.

These financial statements are presented in pounds sterling ("pounds" or "GBP"), which is the functional currency of the Syndicate, and are rounded to the nearest thousand unless otherwise stated.

(ii) Foreign currency

The results and financial positions of the non-functional currencies are retranslated into the functional currency as follows:

- monetary assets and liabilities are retranslated at the closing rate at the balance sheet date;
- income and expenses are retranslated at the average rate of exchange during the year; and
- all resulting exchange differences are recognised through the non-technical account.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies *(continued)*

(d) Insurance Contracts

(i) Classification

Contracts under which the Syndicate accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts.

(ii) Recognition and measurement

Revenue

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums incepted but not yet received or notified to the Syndicate, less an allowance for cancellations. Premiums written are shown gross of commission payable to intermediaries, and exclude taxes and duties levied on premiums.

The earned proportion of premiums is recognised as revenue. Premiums are earned from the date of inception of risk mostly on a time apportionment basis. In the opinion of the Directors of the managing agent the resulting earned portion is not materially different from one based on the pattern of incidence of risk. For lines of business where the earned proportion would be materially different a pattern based on incidence of risk is applied.

Outwards Reinsurance

Outward reinsurance premiums are accounted for in the same accounting year as the premiums for the related direct insurance or inwards reinsurance business. Reinsurance contracts that operate on a ‘losses occurring’ basis are accounted for in full over the year of coverage, whilst ‘risk attaching’ policies are expensed using the same earnings year as the underlying premiums on a daily pro rata basis.

Reinsurance commission income

Commissions on reinsurance premiums are earned in a manner consistent with the recognition of the costs of the reinsurance, generally on a pro-rata basis over the terms of the policies reinsured.

Unearned premium provision

Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date calculated on a time apportionment basis. In the opinion of the Directors of the managing agent the resulting provision is not materially different from one based on the pattern of incidence of risk. For lines of business where the earned proportion would be materially different a pattern based on incidence of risk is applied.

Claims

Claims incurred comprise notified claims and related expenses in the year together with changes in the estimates of what we ultimately expect to pay on claims based on facts and circumstances known at the balance sheet date. The insurance reserves include the Syndicate’s total cost of claims IBNR.

Claims outstanding comprise provisions for the Syndicate’s best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual reported claims and making allowance for claims incurred but not yet reported, the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made and are disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Notes to the Financial Statements (continued)

3 **Significant Accounting Policies** (continued)

(d) Insurance Contracts (continued)

The Syndicate's reserving policy is to use recognised actuarial techniques appropriate to the loss experience that exists. Where there is limited loss experience our choice of method has primarily been the expected loss method.

We select the initial expected loss and loss adjustment expense ratios based on information derived from our underwriters and actuaries during the initial pricing of the business, supplemented by industry data where appropriate. These ratios consider, amongst other things, rate changes and changes in terms and conditions that have been observed in the market.

For a given underwriting year, additional weight is given to the historic paid and incurred loss development methods in the reserving process, assuming that case reserving practices are consistently applied over time. This reserving process makes some key assumptions that historical paid and reported development patterns are stable.

For catastrophe-exposed business, our reserving process also includes the use of catastrophe models for known events, a heavy reliance on analysis of individual catastrophic events and management judgement. The development of property losses can be unstable, especially for policies characterised by high severity, low frequency losses.

Reinsurance recoveries in respect of estimated claims incurred but not reported are booked in line with the underlying programme, adjusted to reflect changes in the nature and extent of the Syndicate's reinsurance programme over time. An assessment is also made of the recoverability of reinsurance recoveries having regard to market data on the financial strength of each of the reinsurance companies. Reinsurance liabilities are primarily premiums payable for reinsurance.

Unexpired risk provision

Provision is made for unexpired risks arising from contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

(iii) Reinsurance assets and liabilities

The Syndicate cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Syndicate of its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the insured policies and in accordance with the relevant reinsurance contract. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the comprehensive income for the period.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies (continued)

(d) Insurance Contracts *(continued)*

(iv) Deferred acquisition costs

Acquisition costs which represent commission and other related underwriting expenses are deferred over the year in which the related premiums are earned. The deferred expenses relate to underwriter salaries, office costs, and marketing which are deferred based on a ratio between bound and quoted policies by line of business. To the extent that acquisition costs are deferred and considered irrecoverable against the related unearned premiums, they are written off to net operating expenses as incurred.

The deferred acquisition cost represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date. The acquisition costs are expensed from the date of inception of risk on mostly a time apportionment basis. For lines of business where using a time apportionment basis would lead to a materially different result to applying a pattern based on incident of risk, the risk-based earning pattern is applied.

(e) Financial Instruments

The Syndicate has accounted for financial instruments using Sections 11 and 12 of FRS 102.

(i) *Financial assets*

Basic financial assets, including loans, trade receivables and cash and cash equivalents, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at market rate of interest.

Loans and receivables and cash and cash equivalents are initially recognised on the date that they are originated. All other basic financial assets are recognised initially on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

Basic financial assets are recognised initially at cost and subsequently measured at amortised cost.

At the end of each reporting period the Syndicate's basic financial assets are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the assets' original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed and the reversal recognised in the profit or loss.

The Syndicate's investments in debt securities are classified as fair value through profit and loss financial assets. These are initially recognised at fair value, which is normally the transaction price. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in the profit and loss account.

The fair value is determined based on the fair value hierarchy, which defined by the standard are as follows:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Notes to the Financial Statements *(continued)*

3 Significant Accounting Policies (continued)

(e) Financial Instruments *(continued)*

The Syndicate derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Any interest in transferred financial assets that is created or retained by the Syndicate is recognised as a separate asset or liability.

(ii) *Financial Liabilities*

Financial liabilities, including trade and other payables, bank loans, and loans from fellow group companies are recognised initially at transaction price on the trade date at which the Syndicate becomes a party to the contractual provisions of the instrument.

Subsequent measurement is at amortised cost, using the effective interest rate method.

The Syndicate derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

(iii) *Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Syndicate has a legal right to offset the amounts and intends to either settle on a net basis or to realise the asset and settle the liability simultaneously.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Syndicate's cash management are included as a component of cash and cash equivalents.

(g) Taxation

Under Schedule 19 of the Finance Act 1993, managing agents at Lloyd's are not required to deduct basic-rate income tax from trading income. In addition, all UK basic-rate income tax deducted from syndicate investment income is recoverable by 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 United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading "Other Debtors".

No provision has been made for any other overseas tax payable by the Corporate Member on underwriting results.

(h) Deposits with Ceding Undertakings

Deposits with Ceding Undertakings are measured at cost less allowance for impairment.

Notes to the Financial Statements *(continued)*

4 Management of Risk

The Syndicate's core business is to take risk and our mission is to generate a positive contribution to the growth in the Tangible Book Value (TBV) of our ultimate parent company, ACGL. We do this through our objective of maximising return on equity within a defined 'risk appetite'. It is therefore essential that we understand the significant exposures we face to manage the business well. It is also important that our knowledge of those risks underpins every important decision we make across the Syndicate. The risks from our core business of insurance represent our most significant exposures.

(a) Strategic Risk

This is the risk that the Syndicate's strategy is inappropriate or that the Syndicate is unable to implement its strategy. Where events supersede the Syndicate's strategic plan this is escalated at the earliest opportunity through the Syndicate's monitoring tools and governance structure.

On a day-to-day basis, the Syndicate's management structure encourages organisational flexibility and adaptability, while ensuring that activities are appropriately coordinated and controlled. Staff, management and outsourced service providers are expected to excel in service and quality. Individuals and teams are also expected to transact their activities in an open and transparent way. These behavioural expectations reaffirm our low risk tolerance by aligning interests of all stakeholders.

(b) Insurance Risk

(i) Underwriting Risk

The process of selecting and pricing insurance risks is addressed through a framework of policies, procedures and internal controls. Risk selection is our business and our procedures are designed to ensure that the evaluation of risk is transparent and logical. We have a clearly defined appetite for underwriting risk, which dictates our business plan.

To ensure that our risk appetite is not exceeded, we maintain disciplined underwriting, which is reviewed through quarterly underwriting meetings, regularly monitor closely our exposures to and aggregations of risk in particular places, and buy reinsurance to limit our losses from disasters. We adapt our business plan, target products and reinsurance programme to ensure our book of business is well diversified. The Syndicate's long-term underwriting strategy is to seek a diverse and balanced portfolio of risks in order to limit volatility. This is achieved by accepting a spread of business over time, segmented between different classes of business and geography.

The quality of our underwriting models and our capability to accurately measure our aggregate exposure are key to managing this risk. Our underwriters are given incentives to make sound decisions that are aligned with the Syndicate's overall strategic objectives and risk appetite. Clear limits are also placed on their authority. We regularly review our policy wordings in the light of legal developments to ensure the Syndicate's exposure is restricted, as far as possible, to those risks identified in the policy at the time it was issued.

The Syndicate has large aggregate exposures to natural and man-made catastrophic events. These risks are inherently uncertain as it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss which any given occurrence will generate. The Syndicate regularly monitors its exposure to catastrophic events, including earthquake, wind and terrorism, using a catastrophe modelling tool, ("AIR") (Property, Terrorism and Onshore Energy), both locally and at Arch Group level. Additionally, the Syndicate regularly monitors its exposure to man-made realistic disaster scenarios.

The Syndicate seeks to limit its loss exposure by purchasing reinsurance to limit exposure to certain extreme events. The Syndicate monitors concentration risk through limiting its loss exposure by geographical and line of business diversification.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(b) Insurance Risk *(continued)*

The Syndicate's largest exposures to natural catastrophe 1 in 250 year stress events, gross and net basis at December 2020 are:

Territory	Peril	Gross £m	Net £m
Caribbean	Tropical Cyclone	65.3	24.3
USA	Tropical Cyclone	33.0	17.2
Caribbean	Earthquake	19.8	15.5
Australia	Earthquake	19.0	14.2
Canada	Earthquake	11.7	8.0
USA	Earthquake	16.5	7.4
Central Europe	Flood	7.4	6.1
Europe	Earthquake	8.7	6.1
Japan	Earthquake	3.9	3.3
North America	Severe Thunderstorm	5.8	3.1

In common with all insurers, the Syndicate is exposed to price volatility. However, the Syndicate is firm in its resolve to exit business that is unlikely to generate underwriting profit. Additionally, the Syndicate alters its appetite for the lines of business and the layers it writes within them in response to market conditions.

The Syndicate writes a significant amount of premium income through coverholder arrangements to whom binding authority is given to accept risks on behalf of the Syndicate. This delegation is strictly controlled through tight underwriting guidelines and limits, and extensive monitoring, review and audits.

(ii) Reserving and Claims Risk

The Syndicate's claims teams are focused upon delivering quality, reliability and speed of service to both internal and external clients. Their aim is to adjust and process claims in a fair, efficient and timely manner, in accordance with the policy's terms and conditions, the regulatory environment, and the Syndicate's broader interests. Our objective is to set prompt and accurate case reserves for all known claims liabilities, including provisions for expenses.

The Syndicate operates to a prudent best estimate reserving philosophy. Reserve estimates are derived by the internal actuary after consultation with individual underwriters, claims team, actuarial analysis of the loss reserve development and comparison with market benchmarks. The objective is to produce reliable and appropriate estimates that are consistent over time and across classes of business. The internal actuary's loss assessments are peer reviewed by ACGL actuaries, and the reserves also are subject to review by external actuaries. Where legal disputes are reflected in the book's history, reserves are established taking these into account. Larger disputes are reviewed individually in conjunction with the claims team and legal advice received. Reserves are not discounted for the time value of money.

The following table shows the impact of an increase or reduction in claims handling expense and number of IBNR claims, on the profit or loss account.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(b) Insurance Risk *(continued)*

	Claims inflation assumption £000		Claims handling expenses £000		Number of IBNR claims £000	
	+5% increase	-5% reduction	+10% increase	-10% reduction	+5% increase	-5% reduction
2020 Impact on profit after tax and equity						
Gross of Reinsurance	(18,805)	18,805	(427)	427	(11,148)	11,148
Net of Reinsurance	(13,282)	13,282	(427)	427	(7,887)	7,887
2019 Impact on profit after tax and equity						
Gross of Reinsurance	(16,156)	16,156	(383)	383	(9,026)	9,026
Net of Reinsurance	(11,781)	11,781	(383)	383	(6,337)	6,337

(iii) Ceded Reinsurance Risk

Reinsurance risk to the Syndicate arises where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, resulting in coverage disputes or prove inadequate in terms of the vertical or horizontal limits purchased. The Syndicate's reinsurance programmes are determined from the underwriting team business plans and seek to protect Syndicate capital from an adverse volume or volatility of claims on both a per risk and per event basis. In 2020, the Syndicate bought a combination of proportional and non-proportional reinsurance treaties and facultative reinsurance to reduce the maximum net exposure. The Syndicate aims to establish appropriate retention levels and limits of protection that are consistent with keeping within the Board's risk tolerance and achieving the target rates of return. The efficacy of protection sought is assessed against the cost of reinsurance, taking into consideration current and expected market conditions.

The Syndicate's reinsurance philosophy is to:

- Provide stable, sustainable core capacity for each product line with non-core reinsurance purchased when market conditions allow;
- Reduce volatility;
- Achieve a broad spread of well rated security;
- Purchase reinsurance to limit exposure from maximum line sizes and accumulations with Catastrophe limits purchased up to our risk appetite;
- Utilise AIR as the standard model throughout ACGL;
- Comply with the guidance from the ACGL Security Committees;
- Apply common standards throughout ACGL;
- Consider hard and soft factors such as ability to pay and willingness to pay;
- Set cession limits by reinsurer and by lines of business; and
- Strive for 100% of security rated A- or higher.

The Syndicate also benefits from an internal quota share with Arch Reinsurance Ltd., the level of which is set at 15.0% of premiums and claims.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(c) Operational Risk

Management continually review potential operational risk factors and has enacted controls to meet these. They have been classified as follows:

Operational Risk Classification	Description
People	Loss of staff (underwriting and key non-underwriting) or inability to recruit; issues concerning integrity and competence of staff, including training; succession; manual inputting error; lack of management supervision; inadequate performance and or failure of escalation to management; and data protection breach or loss.
Processes	Inappropriate underwriting; inappropriate claims and reserve handling; inappropriate reinsurance purchasing; inadequate performance or failure of a third-party supplier; inadequate segregation of duties; inadequate management information; weak processing controls; and failure of corporate governance.
Systems (including Cyber Attack)	Hardware/software failure; network telecommunications software; IT third-party provider inadequate performance or failure; inadequate virus protection; inadequate system or security information; insufficient or untested business continuity processes; insufficient processing capacity; system breach defects; and systems error.
External events, including physical security and business continuity	Natural or man-made disasters leading to business continuity threat; external financial crime, including theft or fraud; changes to the regulatory environment; external security breach; and power outage.
Outsourcing, including delegated underwriting	Inadequate performance or failure of an outsourced service provider, including breach of agreement.
Financial crime, including Anti-Money Laundering	Internal or external fraud; electronic crime; money laundering; terrorist financing; bribery and corruption; market abuse; and insider dealing.
Legal	Risk of loss resulting from failure to comply with laws as well as prudent ethical standards and contractual obligations. It also includes the exposure to litigation from all aspects of the Syndicate's activities.

The operational risk profile is reviewed by the Risk Committee and the controls to mitigate the risks are included in the Risk Register. Risk owners are required to report to the Risk Committee and review the relevant risks and are responsible for identifying new, emerging or changing risks and any subsequent control changes required to realign the risks with the risk appetite. When measuring operational risk, both quantitative factors, in the form of the probable loss, and qualitative factors, in the form of an assessment of the likely reputational impact or the ability of the Syndicate to deliver its service, are taken into account and contribute to determining the risk tolerance.

In respect of one of our largest operational risks, failure of an outsourced service provider, we have formal Service Level Agreements and monitoring processes in place for all key outsourced providers including IT service providers and coverholders. We also have a formal disaster recovery plan in place that deals with both workspace recovery and the retrieval of communications, IT systems and data if a major problem occurred. These procedures would enable us to move the affected operations to alternative facilities very quickly. The disaster recovery plan is tested regularly.

Identifying, planning for and controlling emerging risks is an important part of our risk management activity across all aspects of our business, including underwriting, operations and strategy. We make a significant effort to try to identify material emerging threats to the Syndicate. It is a core responsibility of each of our committees and we believe we take all reasonable steps to minimise the likelihood and impact of emerging risks and to prepare for them in case they occur.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(d) Market Risks

Our investment results are subject to a variety of risks, including changes in the business, financial condition or results of operations of the entities in which we invest, as well as changes in general economic conditions and overall market conditions. Valuations of investments are also exposed to potential loss from various market risks, including changes in equity prices, interest rates, and exchange rates.

The Syndicate's primary investment objective is to preserve capital and to ensure adequate liquidity for settling policyholder claims, while also providing a return that meets or exceeds the total return of the assigned benchmark for each portfolio. Technical funds, those funds held for reserves, are invested primarily in high quality bonds and cash. The high quality and short duration of these funds allows the Syndicate to meet its aim of paying valid claims quickly. These funds, as far as possible, are maintained in the currency of the original premiums for which they are set aside to reduce foreign exchange risk.

Market risk also encompasses the risk of default of counterparties, which is primarily with issuers of bonds in which we invest. Our third-party investment managers are issued guidelines as to the type and nature of bonds in which to invest.

The value of the Syndicate's fixed-income securities is inversely correlated to movements in market interest rates. If market interest rates fall, the fair value of the fixed-income investments would tend to rise and vice versa, assuming that credit spreads remain constant.

The sensitivity of the price of a bond is also closely correlated to its duration. The longer the duration of a security, the greater its price volatility.

(i) Interest Rate shift in basis Points

Interest rate risk	**2020**	**2019**
	£000	**£000**
Impact of 50 basis point increase on result	(2,984)	(2,435)
Impact of 50 basis point decrease on result	486	1,656
Impact of 50 basis point increase on net assets	(2,984)	(2,435)
Impact of 50 basis point decrease on net assets	486	1,656

(e) Currency Risk

The Syndicate is exposed to currency risk in respect of liabilities under insurance policies and reinsurance recoverable debtors under reinsurance policies, denominated in currencies other than sterling. The most significant currencies to which the Syndicate is exposed are the U.S. Dollar, the Australian Dollar and the Euro.

The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Assets and liabilities are appropriately matched and as such, the impact to the net result of the Syndicate through movements in the exchange rates between Sterling, USD, AUD and EUR are mitigated. (See note 4 (g) for asset liability matching table).

(f) Credit Risk

Exposure to credit risk arises from financial transactions with counterparties including debtors, borrowers, brokers, policyholders, reinsurers and guarantors. The Syndicate uses the credit ratings assigned to particular counterparties to measure credit risk.
To lessen the risk of the Syndicate's exposure to any particular reinsurer, exposure limits are approved. On behalf of the Syndicate, ACGL has developed processes to formally examine all reinsurers before entering into new business arrangements.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(f) Credit Risk *(continued)*

The Syndicate has established guidelines for its investment managers regarding the type, duration and quality of investments within the Syndicate guidelines. The performance of investment managers is regularly reviewed to confirm adherence to these guidelines.

(i) Credit distribution of invested assets and cash

Standard & Poor's	**2020 £m**	**2020 %**	**2019 £m**	**2019 %**
AAA	140.5	40.6	96.7	31.9
AA	99.5	28.7	112.3	37.1
A	85.6	24.7	71.4	23.5
BBB	3.6	1.0	3.9	1.3
BBB or less	3.3	1.0	6.1	2.0
Not rated	13.7	4.0	12.7	4.2
Total	**346.2**	**100.00**	**303.1**	**100.0**

Credit distribution of reinsurance receivables

A.M. Best	**2020 £m**	**2020 %**	**2019 £m**	**2019 %**
A++	0.4	0.3	-	-
A+	92.5	79.1	66.7	72.2
A	1.5	1.3	25.6	27.7
A-	22.6	19.3	-	-
NR	-	-	0.1	0.1
Total	**117.0**	**100.0**	**92.4**	**100.0**

All recoverable amounts are gross of any internally modelled impairment provision.

(ii) Credit Risk – Ageing and Impairment

Financial assets that are past due but not impaired

		Financial assets that are past due but not impaired					
	Neither due nor impaired	**Up to three months**	**Three to six months**	**Six months to one year**	**Greater than one year**	**Financial assets that have been impaired**	**Total**
2020	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Shares and other variable-yield securities and unit trusts	64,030	-	-	-	-	-	64,030
Debt securities	206,309	-	-	-	-	-	206,309
Participation in investment pools	3,782	-	-	-	-	-	3,782
Overseas deposits as investments	58,846	-	-	-	-	-	58,846
Reinsurers' share of claims outstanding	110,456	-	-	-	-	-	110,456
Reinsurance debtors	6,555	-	-	-	-	-	6,555
Insurance debtors	71,877	7,207	2,391	1,883	678	-	84,036
Other debtors	87,405	-	-	-	-	-	87,405
Cash at bank and in hand	13,269	-	-	-	-	-	13,269
Total credit risk	622,529	7,207	2,391	1,883	678	**-**	634,688

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(f) Credit Risk *(continued)*

	Neither due nor impaired	Financial assets that are past due but not impaired: Up to three months	Three to six months	Six months to one year	Greater than one year	Financial assets that have been impaired	Total
	£000	£000	£000	£000	£000	£000	£000
2019							
Shares and other variable-yield securities and unit trusts	42,203	-	-	-	-	-	42,203
Debt securities	177,876	-	-	-	-	-	177,876
Participation in investment pools	7,005	-	-	-	-	-	7,005
Overseas deposits as investments	60,158	-	-	-	-	-	60,158
Reinsurers' share of claims outstanding	87,500	-	-	-	-	-	87,500
Reinsurance debtors	4,896	-	-	-	-	-	4,896
Insurance debtors	41,556	5,493	3,625	1,096	821	-	52,591
Other debtors	66,915	-	-	-	-	-	66,915
Cash at bank and in hand	15,922	-	-	-	-	-	15,922
Total credit risk	**504,031**	**5,493**	**3,625**	**1,096**	**821**	**-**	**515,066**

(g) Liquidity Risk

The Syndicate's whole account quota share reinsurance contract is denominated in the underlying settlement currencies of the Syndicate: Pounds Sterling ("GBP"), Euros ("EUR"), U.S. Dollars ("USD"), and Australian Dollars ("AUD"). The reinsured liabilities are matched by the currency assets held in a reinsurance trust fund and this provides currency risk mitigation. The reinsurance trust fund is also available to cash calls by the Syndicate and thereby supports its liquidity risk exposure.

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due and maintain a liquidity position. The Syndicate's approach is to manage its cash flows so that it can reasonably survive a significant loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be translated into liquid assets at short notice and without capital loss, to meet expected cash flow requirements. These liquid funds are regularly monitored using cash flow forecasting to ensure that surplus funds are invested to achieve a higher rate of return. Regular cash flow monitoring ensures that maturing deposits are sufficient to meet cash calls. Additionally, intra-group reinsurance obligations are secured by funds deposited into a trust account to fund an amount equal to at least 100% of the obligations to the Syndicate.

We run stress tests to estimate the impact of a major catastrophe on our cash position in order to identify any potential issues. We also run scenario analyses that consider the impact on our liquidity should a number of adverse events occur simultaneously, such as an economic downturn and declining investment returns combined with unusually high insurance losses.

Our investment policy recognises the demands created by our underwriting strategy, so that some investments may need to be realised before maturity or at short notice. Hence a high proportion of our investments are in liquid assets, which reduces our risk of making losses because we may have to sell assets quickly.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

The Syndicate has maintained and continues to maintain excellent liquidity. Liquidity projections are performed on a weekly basis, taking into account any large-loss notifications received. Where a large loss would lead to a strain on the Syndicate's liquidity, the Syndicate has the ability to cash call on the Intercompany Quota Share with ARL ahead of settlement of the claim, supporting the liquidity needs of the Syndicate.

Asset Liability Matching

The Syndicate reviews currency asset and liability positions on a regular basis. The currency net assets / (liabilities) positions denote the Syndicate's foreign exchange risk as a result of the translation of subordinated currency positions that are different to the reporting currency of the Syndicate. The main subordinate trading currencies are EUR, USD and AUD. The following table describes the net assets / (liabilities) positions at the year end.

	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
2020								
Financial investments	84,517	97,120	64,558	27,145	-	367	415	274,122
Overseas Deposits	-	548	-	3,933	47,293	-	7,072	58,846
Insurance and reinsurance receivables	6,550	29,284	27,518	2,749	19,265	475	4,750	90,591
Reinsurers' share of technical provisions	10,796	48,269	45,358	4,531	31,755	782	7,829	149,320
Cash at bank and in hand	474	986	5,772	-	5,533	48	456	13,269
Other assets	26,301	10,999	5,557	-	5,683	-	-	48,540
Total assets	**128,638**	**187,206**	**148,763**	**38,358**	**109,529**	**1,672**	**20,522**	**634,688**
Technical provisions	(34,576)	(154,588)	(145,265)	(14,511)	(101,699)	(2,506)	(25,072)	(478,217)
Insurance and reinsurance payables	(1,822)	(8,146)	(7,655)	(765)	(5,359)	(132)	(1,321)	(25,200)
Other creditors	3,395	(15,791)	(864)	-	(1,496)	-	-	(14,756)
Total liabilities	**(33,003)**	**(178,525)**	**(153,784)**	**(15,276)**	**(108,554)**	**(2,638)**	**(26,393)**	**(518,173)**

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

	GBP	USD	EUR	CAD	AUD	JPY	OTH	Total
	£000	£000	£000	£000	£000	£000	£000	£000
2019								
Financial investments	80,284	72,024	55,768	18,160	-	410	438	227,084
Overseas Deposits	-	659	-	3,072	48,533	-	7,894	60,158
Insurance and reinsurance receivables	4,483	15,810	19,238	1,475	11,737	765	3,979	57,487
Reinsurers' share of technical provisions	8,910	31,419	38,233	2,931	23,326	1,520	7,908	114,247
Cash at bank and in hand	5,499	2,901	5,280	-	1,750	-	492	15,922
Other assets	22,374	8,141	4,308	-	5,345	-	-	40,168
Total assets	**121,550**	**130,954**	**122,827**	**25,638**	**90,691**	**2,695**	**20,711**	**515,066**
Technical provisions	(30,128)	(106,223)	(129,258)	(9,908)	(78,859)	(5,138)	(26,737)	(386,251)
Insurance and reinsurance payables	(1,314)	(4,634)	(5,638)	(432)	(3,440)	(224)	(1,166)	(16,848)
Other creditors	5,913	(13,235)	(693)	-	(512)	-	-	(8,527)
Total liabilities	**(25,529)**	**(124,092)**	**(135,589)**	**(10,340)**	**(82,811)**	**(5,362)**	**(27,903)**	**(411,626)**

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(g) Liquidity Risk *(continued)*

The Syndicate manages the impact of currency fluctuations by attempting to ensure currency matching is maintained where feasible. In addition, as part of this process, currency trades may be made to maintain the desired currency net asset allocations. The Syndicate has established foreign exchange facilities with a number of banks to cater for these transactions.

Exchange Sensitivity Analysis

The following table describes the sensitivity to currency change on net assets.

	EUR Net Assets in GBP			USD Net Assets in GBP			AUD Net Assets in GBP		
	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase	£000	+10% increase	-10% increase
Net assets/(liabilities) at 31 December 2020	(5,021)	(502)	502	8,681	868	(868)	976	98	(98)
Net assets/(liabilities) at 31 December 2019	(12,762)	(1,276)	1,276	6,862	686	(686)	7,880	788	(788)

The above sensitivity analysis is based on the way the Syndicate manages the currencies exposure. The increase shown in the table above reflects the weakening of the currency shown against sterling and a decrease reflects the strengthening of the currency against sterling.

(h) Counterparty Credit Risk

With regard to premium debtor risk, the Syndicate ensures that all brokers are subject to a due diligence protocol and that they have terms of business agreements in place. An approval system also exists for new brokers, and broker performance is regularly reviewed. System exception reports highlight trading with non-approved brokers, and the Syndicate's credit control team regularly monitors the ageing and collectability of debtor balances. Bank credit ratings and concentrations are also monitored at the Investment Committee.

The largest single reinsurer counterparty is Arch Reinsurance Ltd. in respect of the internal quota share reinsurance. The internal reinsured claims outstanding in the Credit distribution of reinsurance receivables table above (Page 31) are included within the balance that has a credit rating of 'A+'. The balances due from Arch Reinsurance Ltd. have further security in the form of a segregated trust to secure the liabilities. The value of the trust fund is required at all times to be greater than the reinsured liabilities, and the assets in trust are required to be invested to meet PRA admissibility rules. Bank credit ratings are monitored by the Investment Committee.

In addition, the Company monitors all key counterparties, including exposures to banking counterparties, on an ongoing basis.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(i) Regulatory Risk

This risk is affected by changes in law and regulations which are not identified, understood, or are inappropriately and incorrectly interpreted, or adopted, or business practices are not efficiently modified. Further, there is a risk that current legal or regulatory requirements are not complied with. We have a constructive and open relationship with our regulators.

After months of negotiations, the UK and EU finally agreed a trade deal on 24 December 2020. Although a number of key aspects of the deal have been agreed, the deal does not currently cover financial services. In particular the agreement does not provide passporting rights like those in the EU single market: UK and EU financial services will need local authorisation. EU headquartered firms that relied on passport rights to engage with UK clients will have to rely on the UK's temporary permissions regime with a view to becoming FCA or PRA authorised, or cease to do business in the UK, or limit their activities to the terms of the UK's overseas person's exclusion. A UK firm doing business with EU clients will need to be authorised in an EU member state, or rely on exclusions, or temporary relief.

In line with Lloyd's guidance, the Syndicate successfully completed a Part VII exercise during the year. Current progress and key risks are set out below:

<u>Current Progress</u>

To date, the following progress has been made:

1. Transfer of all EEA non-life insurance policies written between 2009 and 2020 (and related liabilities) underwritten by the Syndicate for those years of accounts were transferred to Lloyd's Insurance Company S.A. ('Lloyd's Brussels) on 30 December 2020.
2. 100% Quota Share Reinsurance Agreement, reinsuring the transferred risks on the same policies back from Lloyd's Brussels to the relevant open years of account of the Syndicate was entered into on the same day.

<u>Key Risks resulting from the Part VII transfer</u>

The following risks have emerged specifically as a result of the Part VII transfer and relate mainly to the operation of the Syndicate.

1. Complete and accurate reporting of direct and inwards reinsurance business, the management of which has been incorporated into existing underwriting controls.
2. Set up and management of new claims floats to enable monthly cash settlements between the Syndicate and Lloyd's Brussels. To address the risk our existing claims float controls have been extended to cover the newly created claims floats.
3. Accurate reporting of monthly movements in the transferred portfolio and fulfilment of Lloyd's reporting requirements.

(j) Conduct Risk

Conduct risk describes the Syndicate's behaviour that aims to provide appropriate products to the right group of consumers that achieve fair outcomes. The Syndicate's approach starts with our strong culture which means we consider and understand the needs of our customers and form an important cultural base to getting this right. From a risk management perspective, we facilitated the development of the conduct objective, the conduct risk appetite and the standards required to remain within this risk appetite. We are able to extract conduct-related controls from the risk register to provide the Board with assurance that the expected behaviours towards customers are being demonstrated.

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(k) Reputational Risk

Reputational risk is the risk of negative publicity as a result of the Syndicate's contractual arrangements, customers, products, services and other activities. Key sources of reputational risk include operation of a Lloyd's franchise and reliance upon the Arch brand in the United States, Europe and Australia. The Syndicate's preference is to minimise reputational risks, but where it is not possible or beneficial to avoid them, we seek to minimise their frequency and severity by management through public relations and communication channels.

(l) Capital Risk

The Syndicate uses an Internal Capital Model for setting economic capital along with a number of other uses. The Syndicate follows a risk-based approach to determine the amount of capital required to support its activities. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is regularly performed, and the results are documented and reconciled to the Board's risk appetite where necessary.

Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to supervision by the PRA under the Financial Services and Markets Act 2000 and in accordance with the Solvency II Directive.

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

Although, as described below, 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, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 2012 is not disclosed in these annual accounts.

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. Over and above this, Lloyd's applies a capital uplift to the Member's capital requirement, to derive 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.

Provision of capital by the member

The member may provide capital to meet its ECA through any mixture of (i) assets held in trust by Lloyd's specifically for that member (funds at Lloyd's "FAL"), (ii) assets held in and managed within a syndicate (funds in syndicate "FIS"), or (iii) undistributed member's balances. As at the 31 December 2020 the Syndicate held FIS to meet its ECA for the open Years of Accounts. For the 2021 Year of Account, FAL was contributed to meet the ECA.

Capital Management

The Board of AMAL has in place policies and procedures for managing compliance with regulatory capital requirements and its own capital management objective. This objective is to balance risk and return while

Notes to the Financial Statements *(continued)*

4 Management of Risk *(continued)*

(l) Capital Risk *(continued)*

maintaining economic and regulatory capital in accordance with risk appetite. The Board of AMAL has no appetite for the Syndicate failing to maintain sufficient capital. To this end, AMAL recalculates its ECA routinely at different points during the annual business cycle, and may also recalculate the ECA on an ad hoc basis if the risk management framework identifies significant changes to the risk profile, or as required by the Board.

(m) Risk Arising out of the COVID-19 Pandemic

Throughout 2020 the COVID-19 pandemic has continued to develop leading to increased uncertainty in the market. The level of exposure in respect of COVID-19 for the Syndicate is considered material and continues to be monitored closely.

The majority of the Syndicate's exposure relates to recessionary effects in our long-tail lines of business and remains largely unearned. To assess the impact on the Syndicate's reserves, a detailed review of policy wording and exposure was performed by the actuarial team, in conjunction with the claims and underwriting teams.

Following the Supreme Court's final judgement on the FCA's business interruption test case, which substantially allowed the FCA's appeal on behalf of policy holders, the COVID-19 reserves held by the Syndicate were reviewed in light of the updated court ruling and found to be appropriate, with no material changes to COVID-19 reserves resulting from the court ruling. As the claims experience continues to develop, the reserves continue to be subject to ongoing review.

In addition to the reserve risk arising out of the COVID-19 pandemic, there is also an increased probability of further risks arising out of the COVID-19 pandemic. These risks include second order impacts on the economy, the insurance industry and individual classes of business, such as interest rate and currency volatility, increased risk of security defaults and an increased risk of inability to bind business. As the Syndicate continues to be closely currency matched, the exposure to currency volatility is significantly reduced, whilst the interest rate risk continues to be monitored in conjunction with the investment manager. To date, no increase in security defaults have been observed or notified by the investment manager but the investment committee continues to monitor the performance of the Syndicate's investment portfolio. Lastly, the transition to working fully digitally has been successful with the ability to successfully bind business not being impacted by the COVID-19 pandemic.

The operational risks to the Syndicate arising out of the COVID-19 pandemic broadly fall within two categories:

a) Maintaining the operating effectiveness of risk and control procedures;
b) Ensuring the safety and health of our staff whilst maintaining efficiency and effectiveness levels of staff working 100% remotely.

To ensure the operating effectiveness of the Syndicate's risk and control procedures, the risk function performed an in-depth review of the risk and control procedures in conjunction with the business. The review focused on whether, and to what extent, business risks had changed as a result of the pandemic and whether the effectiveness of any controls would be compromised due to staff working 100% remotely. The review concluded that on the whole operational risk had not materially increased due to the pandemic and that the business was able to function broadly as prior to the COVID-19 outbreak. The impact on risk and controls continues to be monitored.

During the early stages of the COVID-19 pandemic, a working from home policy was implemented across all UK staff and offices closed ahead of the government mandated action. The policy continuities to be revised to align with the latest government advice.

To enable a successful remote working environment, new IT initiatives were rolled out to facilitate better communication, positively impacting team collaboration whilst additional IT equipment was sourced to provide conducive home working environments.

Notes to the Financial Statements *(continued)*

(m) Risk Arising out of the COVID-19 Pandemic *(continued)*

In addition to practical initiatives to facilitate efficient working from home for all staff, a number of well-being initiatives have been launched during the last 12 months. This includes the Mental Health First Aider ("MHFA") team, who have provided support to all staff during the pandemic.

Whilst there have not been no reports of significant infection rates amongst Arch staff, with limited impact on workforce productivity, infection rates continue to be monitored on an ongoing basis.

5 Critical accounting judgements and estimation uncertainty

The preparation of the financial statements in conformity with the Generally Accepted Accounting Practice in the UK ("UK GAAP"), requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates and judgements.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These disclosures supplement the commentary on insurance and financial risk management in the Strategic Report.

(i) Key sources of estimation uncertainty

The areas of the Syndicate's business containing key sources of estimation uncertainty include the measurement of insurance and reinsurance assets and liabilities at the balance sheet date. The most significant of these involves the valuation of outstanding claims and, in particular, the provision for claims incurred but not reported.

The processes used to determine the assumptions on which the measurement of insurance contract provisions is based, actual assumptions used, the effects of changes in assumptions, and an analysis of sensitivity to changes in assumptions are described below.

(ii) Process used to determine the assumptions for measuring insurance contracts

Claims Outstanding, i.e. loss reserves for the Syndicate are comprised of (1) estimated amounts for claims reported ("case reserves") and (2) incurred but not reported ("IBNR") losses. Claims personnel determine whether to establish a case reserve for the estimated amount of the ultimate settlement of individual claims. The estimate reflects the judgement of claims personnel based on general corporate reserving practices, the experience and knowledge of such personnel regarding the nature and value of the specific type of claim and, where appropriate, advice of counsel. The Syndicate also contracts with a number of outside third-party administrators in the claims process who, in certain cases, have limited authority to establish case reserves. The work of such administrators is reviewed and monitored by our claims personnel.

Loss Reserves are also established to provide for loss adjustment expenses and represent the estimated expense of settling claims, including legal and other fees and the general expenses of administering the claims adjustment process. Periodically, adjustments to the reported or case reserves may be made as additional information regarding the claims is reported or payments are made. IBNR reserves are established to provide for incurred claims which have not yet been reported to an insurer or reinsurer at the balance sheet date, as well as to adjust for any projected variance in case reserving. IBNR reserves are derived by subtracting paid losses and loss adjustment expenses and case reserves from estimates of ultimate losses and loss adjustment expenses. Actuaries estimate ultimate losses and loss adjustment expenses using various generally accepted actuarial methods applied to known losses and other relevant information. Like case reserves, IBNR reserves are adjusted as additional information becomes known or payments are made. The process of estimating reserves involves a considerable degree of judgement by management and, as of any given date, is inherently uncertain.

Ultimate losses and loss adjustment expenses are generally determined by extrapolation of claim emergence and settlement patterns observed in the past that can reasonably be expected to persist into the future. The Syndicate uses several methods for determining its reserves. These methods generally fall into one of the following categories or are hybrids of one or more of the following categories:

Notes to the Financial Statements *(continued)*

5 Critical accounting judgements and estimation uncertainty *(continued)*

Expected loss methods – these methods are based on the assumption that ultimate losses vary proportionately with premiums. Expected loss and loss adjustment expense ratios are typically developed based upon the information derived by underwriters and actuaries during the initial pricing of the business, supplemented by industry data available from organisations, such as statistical bureau and consulting firms, where appropriate. These ratios consider, among other things, rate increases and changes in terms and conditions that have been observed in the market. Expected loss methods are useful for estimating ultimate losses and loss adjustment expenses in the early years of long-tailed lines of business, when little or no paid or incurred loss information is available, and is commonly applied when limited loss experience exists for a syndicate.

Historical incurred loss development methods – these methods assume that the ratio of losses in one period to losses in an earlier period will remain constant in the future. These methods use incurred losses (i.e. the sum of cumulative historical loss payments plus outstanding case reserves) over discrete periods of time to estimate future losses. Historical incurred loss development methods may be preferable to historical paid loss development methods because they explicitly take into account open cases and the claims adjusters' evaluations of the cost to settle all known claims. However, historical incurred loss development methods necessarily assume that case reserving practices are consistently applied over time. Therefore, when there have been significant changes in how case reserves are established, using incurred loss data to project ultimate losses may be less reliable than other methods.

Bornhuetter-Ferguson ("B-F") paid and incurred loss methods – these methods utilise actual paid and incurred losses and expected patterns of paid and incurred losses, taking the initial expected ultimate losses into account to determine an estimate of expected ultimate losses. The B-F paid and incurred loss methods are useful when there are few reported claims and a relatively less stable pattern of reported losses.

Additional analyses – other methodologies are often used in the reserving process for specific types of claims or events, such as catastrophic or other specific major events, including COVID-19. These include vendor catastrophe models, which are typically used in the estimation of Loss Reserves at the early stage of known catastrophic events before information has been reported to an insurer or reinsurer, and analyses of specific industry events, such as large lawsuits or claims.

The selection of a method to determine the Syndicate's reserves is driven by not only the characteristics of the lines of business, but also by the development stage of the years of account and the availability, credibility and relevance (for future projection) of in-house or benchmark data. For short-tail lines of business, such as Property and Offshore Operating, reserves will mostly be calculated using the expected loss ratio method for the most recent year of account, unless early loss experience necessitates an upward deviation, before moving to the more data-driven methods for more mature years. For long-tail lines of business, typically the Casualty and D&O classes, reflecting slower loss emergence and settlement, the expected loss ratio method is usually applied for longer than 1 year, unless early loss experience necessitates an upward deviation, before allowing for benign claims experience using more data-driven methods.

(iii) Premium Accruals

Where bordereaux for binders are not received on a timely basis, premium accruals are created by the underwriting teams on a quarterly basis. The accruals are based on a combination of assessment of previous premium bookings and consultation with the delegated underwriting authorities. Accruals are monitored on an ongoing basis by the underwriting teams and finance.

Notes to the Financial Statements *(continued)*

6 Segmental Information

Segmental information required by *The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008* is as follows:

	Gross Premiums Written	**Gross Premiums Earned**	**Gross Claims Incurred**	**Gross Operating Expenses**	**Ceded Balance**	**Total**
	2020	**2020**	**2020**	**2020**	**2020**	**2020**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Direct Insurance						
Accident and health	14,472	14,093	(8,778)	(6,559)	(238)	(1,482)
Marine	57,798	47,510	(31,795)	(16,293)	3,222	2,644
Fire and other damage to property	74,428	59,387	(20,300)	(21,079)	(7,968)	10,040
Third party liability	70,864	59,193	(45,161)	(20,536)	1,727	(4,777)
Energy non marine	8,097	7,151	(2,978)	(1,822)	(2,142)	209
Aviation	6,745	5,352	(1,622)	(1,916)	(614)	1,200
Direct Total	**232,404**	**192,686**	**(110,634)**	**(68,205)**	**(6,013)**	**7,834**
Reinsurance						
Casualty	42,425	43,243	(21,408)	(17,243)	(1,949)	2,643
Property	2,386	2,274	(416)	(871)	(366)	621
Marine	14,643	13,551	(7,659)	(4,708)	(61)	1,123
Energy	987	872	(299)	(261)	(30)	282
Aviation	1,073	966	(338)	(329)	(32)	267
Reinsurance Total	61,514	60,906	(30,120)	(23,412)	(2,438)	4,936
Total	**293,918**	**253,592**	**(140,754)**	**(91,617)**	**(8,451)**	**12,770**

2019 Restated

	Gross Premium Written Restated*	**Gross Premium Earned Restated***	**Gross Claims Incurred Restated***	**Gross Operating Expenses Restated***	**Ceded Balance Restated***	**Total Restated***
	2019	**2019**	**2019**	**2019**	**2019**	**2019**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Direct						
Accident and health	17,321	22,484	(13,846)	(8,339)	(95)	204
Marine	42,739	43,768	(25,238)	(15,383)	(5,211)	(2,063)
Fire and other damage to property	50,827	49,540	(11,506)	(17,230)	(8,616)	12,189
Third party liability	63,335	66,370	(30,457)	(23,199)	(6,669)	6,044
Energy non marine	5,799	7,735	(9,145)	(1,895)	826	(2,479)
Aviation	3,952	3,202	(3,394)	(1,267)	80	(1,379)
Direct Total	**183,973**	**193,099**	**(93,586)**	**(67,313)**	**(19,685)**	**12,516**
Reinsurance						
Casualty	29,436	22,409	(12,573)	(7,713)	(233)	1,889
Property	1,478	992	(398)	(365)	(22)	207
Marine	8,419	5,025	(3,038)	(1,642)	(6)	339
Energy	457	333	(177)	(79)	(42)	35
Aviation	136	58	(23)	(29)	(1)	5
Reinsurance Total	39,926	28,817	(16,209)	(9,828)	(304)	2,475
Total	**223,899**	**221,916**	**(109,795)**	**(77,141)**	**(19,989)**	**14,991**

* The 2019 segmental analysis has been restated to provide information at a more granular class of business level and to reflect new business written through Lloyd's Insurance Company S.A. as reinsurance. This change has been made to improve clarity of disclosure and not to correct a prior year error.

Notes to the Financial Statements *(continued)*

6 Segmental Information *(continued)*

The ceded balance represents the charge or benefit to the technical account from the aggregate of all items relating to outwards reinsurance.

The segmental information presented above is not impacted by the Part VII transfer of business to Lloyd's Brussels. Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020. In line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels.

This treatment is consistent with the treatment in the Profit and Loss Technical Account.

7 Operating Expenses

Within gross operating expenses are included commissions for direct insurance of £53.9m in 2020 (2019: £49.0m).

	2020 £000	**2019 £000**
Acquisition costs	(80,501)	(57,978)
Change in deferred acquisition costs	9,632	(448)
Administrative expenses	(20,748)	(18,715)
Reinsurance commissions and profit participation	19,255	17,207
	(72,362)	**(59,934)**

Administrative expenses include:

	2020 £000	**2019 £000**
Fees payable to the Syndicate's auditors and their associates for the audit of the Syndicate's annual accounts	(163)	(118)
Audit services pursuant to regulation	(176)	(155)
Other Services	-	-
Total	**(339)**	**(273)**

8 Investment Income

	2020 £000	**2019 £000**
Interest and similar income		
From financial instruments designated as at fair value through profit or loss	2,189	3,572
From investments designated as at fair value through profit or loss		
Net gain on realisation of investments	1,537	1,504
Unrealised gain on investments	789	491
Total Investment income	**4,515**	**5,567**

Notes to the Financial Statements *(continued)*

9 Directors' Remuneration and Employee Costs

(a) Directors' remuneration

The Directors of AMAL and the Active Underwriter received the following aggregate remuneration charged to the Syndicate during the year:

	2020 £000	2019 £000
Directors of the Managing Agent	991	1,012
Active Underwriter	105	212

Further information in respect of the Directors of AMAL is provided in that Managing Agent's financial statements.

(b) Employee Costs

The average number of staff employed by Arch Europe Insurance Services Ltd ("AEIS"), but working for the Syndicate during the year, analysed by category is as follows:

	2020	2019
Underwriting	40	34
Administration and finance	51	51
Claims	15	9
	107	**94**

The Managing Agent has a service and secondment agreement with AEIS, whereby staff employed by AEIS are provided to the Managing Agent.

	2020 £000	2019 £000
Salaries	9,151	7,380
Social security costs	1,238	838
Other pension costs	792	655
	11,181	**8,873**

10 Other Debtors and Creditors

	2020 £000	2019 £000
Amounts due from associated undertakings	7,522	9,599
Amounts due to associated undertakings	(4,883)	(1,999)
	2,639	**7,600**

11 Other Assets

	2020 £000	2019 £000
Claims Funds	11,408	10,359
	11,408	**10,359**

Notes to the Financial Statements *(continued)*

12 Accruals and Deferred Income

	2020 £000	2019 £000
Deferred ceding commissions	9,872	6,528
	9,872	**6,528**

13 Financial Investments

	Fair Value 2020 £000	Cost 2020 £000	Fair Value 2019 £000	Cost 2019 £000
Shares and other variable-yield securities				
Short term & cash equivalents	55,536	55,536	36,544	36,544
Other investments	8,494	8,494	5,659	5,659
	64,030	**64,030**	**42,203**	**42,203**
Debt securities and other fixed-income securities				
Sovereign & government agency	192,377	193,908	165,312	168,590
Corporate bonds	13,932	14,514	12,564	12,694
Collective Investments Undertakings	3,782	3,792	7,005	7,007
Other investments	-	-	-	-
	210,091	**212,214**	**184,881**	**188,291**

The Managing Agent believes that the carrying value of the investments is supported by their underlying net assets. The financial investments shown above are all listed investments.

The fair values above were determined using the fair value hierarchy as defined in Note 3 (e) (i). The split by level is:

As at 31 December 2020

	Level 1 £000	Level 2 £000	Level 3 £000
Other variable-yield securities	-	60,694	3,336
Debt securities and other fixed-income securities	48,267	158,042	-
Participation in investment pools	3,782	-	-
Overseas Deposits	3,598	55,248	-
	55,647	**273,984**	**3,336**

As at 31 December 2019

	Level 1 £000	Level 2 £000	Level 3 £000
Other variable-yield securities	-	41,608	595
Debt securities and other fixed-income securities	36,601	141,275	-
Participation in investment pools	7,005	-	-
Overseas Deposits	2,533	57,625	-
	46,139	**240,508**	**595**

Notes to the Financial Statements *(continued)*

14 Technical Provisions

(a) Summary of net technical provisions:

	Gross 2020 £000	Ceded 2020 £000	Net 2020 £000	Gross 2019 £000	Ceded 2019 £000	Net 2019 £000
Notified claims	136,538	(45,249)	91,289	127,670	(33,722)	93,948
IBNR (incl ULAE)	222,952	(65,207)	157,745	180,516	(53,778)	126,738
Unearned Premium	118,727	(38,863)	79,864	78,065	(26,747)	51,318
Total	**478,217**	**(149,319)**	**328,898**	**386,251**	**(114,247)**	**272,004**

(b) Reconciliation of claims technical provisions:

	2020 £000	2019 £000
Net claims technical provisions brought forward		
Outstanding claims	93,948	96,737
IBNR claims	126,738	121,257
	220,686	**217,994**
Losses incurred in the year		
Current accident year	100,868	91,828
Prior accident years	(3,061)	(6,581)
	97,807	**85,247**
Paid losses		
Current accident year	(9,288)	(11,736)
Prior accident years	(66,146)	(62,425)
	(75,434)	**(74,161)**
Foreign exchange differences	5,975	(8,394)
Net claims technical provisions carried forward		
Outstanding claims	91,289	93,948
IBNR claims	157,745	126,738
	249,034	**220,686**

Notes to the Financial Statements *(continued)*

14 Technical Provisions *(continued)*

(c) Gross claims development triangles – by underwriting year

Underlying Pure Year	At end of u/w year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Cumulative payments	Outstanding reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2011	39,296	110,316	116,999	113,562	109,345	110,837	110,667	109,663	109,833	107,242	100,552	6,690
2012	38,352	79,652	73,785	73,654	72,920	69,965	70,602	66,667	67,071		54,954	12,117
2013	54,292	107,739	112,756	115,112	109,829	102,453	98,758	98,686			88,167	10,519
2014	40,704	94,138	107,009	107,732	115,346	112,677	113,159				100,911	12,248
2015	39,791	105,373	117,080	117,531	113,609	112,042					87,801	24,241
2016	41,968	117,792	128,804	127,164	135,336						87,636	47,700
2017	63,602	134,650	148,627	149,040							103,777	45,263
2018	45,575	108,290	112,209								52,827	59,382
2019	48,469	117,379									33,250	84,129
2020	59,590										6,114	53,476
Total	**471,639**	**975,329**	**917,269**	**803,795**	**656,385**	**507,974**	**393,186**	**275,016**	**176,904**	**107,242**	**715,989**	**355,765**

	Cumulative payments	Outstanding reserves
2010 & Prior	84,293	3,725
Total	**800,282**	**359,490**

(d) Net claims development triangles – by underwriting year

Underlying Pure Year	At end of u/w year	One year later	Two years later	Three years later	Four years later	Five years later	Six years later	Seven years later	Eight years later	Nine years later	Cumulative payments	Outstanding reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2011	27,533	76,275	77,603	74,294	73,936	75,215	74,457	74,325	74,515	73,358	68,721	4,637
2012	28,295	63,169	58,945	59,202	58,987	57,946	57,081	53,884	54,215		46,470	7,745
2013	38,889	74,593	77,873	80,326	77,055	72,295	70,345	70,353			62,293	8,060
2014	30,611	69,171	79,250	81,095	84,554	83,728	84,451				75,513	8,938
2015	29,500	79,663	90,240	91,608	88,352	87,814					69,542	18,272
2016	31,384	91,468	101,443	101,348	104,045						70,113	33,932
2017	43,015	101,843	115,122	115,838							82,612	33,226
2018	29,322	76,064	81,320								40,433	40,887
2019	34,884	80,950									28,250	52,700
2020	42,050										5,104	36,946
Total	**335,483**	**713,196**	**681,796**	**603,711**	**486,929**	**376,998**	**286,334**	**198,562**	**128,730**	**73,358**	**549,051**	**245,343**

	Cumulative payments	Outstanding reserves
2010 & Prior	70,725	3,691
Total	**619,776**	**249,034**

Notes to the Financial Statements *(continued)*

14 Technical Provisions *(continued)*

The tables below show the movements that occurred in the insurance provisions and related reinsurance assets during the year.

Claims Provisions

	Gross 2020 £000	Ceded 2020 £000	Net 2020 £000	Gross 2019 £000	Ceded 2019 £000	Net 2019 £000
At 1 January	308,186	(87,500)	220,686	310,931	(92,938)	217,993
Movement per technical account	45,205	(22,832)	22,373	9,527	1,559	11,086
Exchange rate impact	6,099	(124)	5,975	(12,272)	3,879	(8,393)
31 December	**359,490**	**(110,456)**	**249,034**	**308,186**	**(87,500)**	**220,686**

Unearned Premiums

	Gross 2020 £000	Ceded 2020 £000	Net 2020 £000	Gross 2019 £000	Ceded 2019 £000	Net 2019 £000
At 1 January	78,065	(26,747)	51,318	78,863	(22,603)	56,260
Movement per technical account	40,326	(12,343)	27,983	1,983	(4,724)	(2,741)
Exchange Rate Impact	336	227	563	(2,781)	580	(2,201)
31 December	**118,727**	**(38,863)**	**79,864**	**78,065**	**(26,747)**	**51,318**

15 Funds at Lloyd's (FAL)

Arch Syndicate Investments Ltd is the sole Member of Syndicate 2012 and for the 2021 Year of Account is also providing capital on behalf of Syndicate 1955. The FAL for both Syndicates as set by Lloyd's, has been funded through a combination of collateralised letters of credit and cash.

Collateralised letters of credit totalling £147.9m (2019: £117.8m) are provided by Arch Reinsurance Ltd. on behalf of Arch Syndicate Investments Ltd, supporting the capital requirement of Syndicate 2012 and the 2021 underwriting year of Syndicate 1955, and hence do not form part of these financial statements.

No new funds (2019: £0.9m) were contributed into the FIS during the 2020 financial year.

The remaining element of the FAL requirement amounts to £114.2m FIS (2019: £118.1m), which has been deposited into premium trust funds of Syndicate 2012 by Arch Syndicate Investments Ltd. An additional £52.7m of new Tier 1 FAL, has been deposited as cash at Lloyd's on behalf Syndicate 2012 and the 2021 underwriting year of Syndicate 1955.

Notes to the Financial Statements *(continued)*

16 Related Parties

Syndicate 2012 is managed by AMAL. The Directors of AMAL regard ACGL, a company incorporated in Bermuda, as the ultimate holding company and controlling party. This is the largest company into which the Syndicate's results are consolidated. Copies of the consolidated financial statements of ACGL can be obtained from The Secretary, Arch Capital Group Ltd, Waterloo House, Ground Floor, 100 Pitts Bay Road, Pembroke HM 08, Bermuda. Arch Reinsurance Ltd. Is the smallest company into which the Syndicate's results are consolidated.

Arch Reinsurance Ltd.

Syndicate 2012 has a whole account quota share reinsurance contract of 15.0% (2019: 15.0%) with Arch Reinsurance Ltd. The Syndicate ceded £37.2m (2019: £28.3m) of net written premiums during the 2020 financial year. The effect of the quota share contract reduced net losses incurred by £1.6m (2019 reduced by £1.4m) in the 2020 financial year.

Arch Managing Agency Limited ("AMAL")

AMAL is the Managing Agent of Syndicate 2012 as of 31 August 2020. During 2020 the Syndicate paid the Managing Agent £103,750 (2019: nil) as a managing agency fee. The Managing Agent entered into a service and secondment agreement with Arch Europe Insurance Services Ltd ("AEIS"), whereby AEIS provides services in the form of staff and facilities to the Managing Agent.

Arch Underwriting at Lloyd's Ltd ("AUAL")

AUAL was the Managing Agent of Syndicate 2012 until 30 August 2020. During 2020 the Syndicate paid the Managing Agent £311,250 (2019: £415,000) as a managing agency fee. The Managing Agent entered into a service and secondment agreement with Arch Europe Insurance Services Ltd ("AEIS"), whereby AEIS provided services in the form of staff and facilities to the Managing Agent.

Arch Underwriting at Lloyd's (Australia) Pty Ltd ("AUALA")

This service company is wholly owned by the Managing Agent and is authorised to bind business on behalf of Syndicate 2012. During 2020 AUALA has bound £38.5m (2019: £28.3m) of gross written premiums on behalf of Syndicate 2012. The Syndicate has incurred a net profit of £1.6m (2019: profit £1.0m) on the business bound by the service company for the year ended 31 December 2020.

Arch Syndicate Investments Ltd

The Syndicate is supported by Arch Syndicate Investments Ltd, which provides 100% of its underwriting capacity, see note 15 Funds at Lloyd's.

Arch Underwriting Agency (Australia) Pty. Ltd ("AUAAPL")

This service company is wholly owned by the AMAL, the Managing Agent, and is authorised to bind business on behalf of Syndicate 2012. During 2020 AUAAPL has bound £nil (2019: £nil) of gross written premiums on behalf of Syndicate 2012. The gross written premiums in 2020 are aggregated within the AUALA bound premiums and therefore form part of the £38.5m total. (2019: 28.3m).

Axiom Underwriting Agency Limited ("Axiom")

AUAL owned 100% of Axiom up to 23 December 2020, which is authorised to bind business on behalf of Syndicate 2012. During 2020, Axiom has bound £0.01m (2019: £0.6 m) of gross written premiums on behalf of the Syndicate.

Notes to the Financial Statements *(continued)*

17 Part VII Transfer

On 30 December 2020, the Member of the Syndicate, as comprised for each of the relevant years of account between April 2009 and April 2019, transferred all EEA non-life insurance policies written between 2009 and 2020 (and related liabilities) underwritten by them for those years of account to Lloyd's Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Member of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

Following the sanction of the scheme by the High Court on 18 November 2020, the scheme took effect on 30 December 2020 and the Member of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of £60.0m. On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of £60.0m and non-cash assets relating to the transferred liabilities. The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's profit and loss account and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the profit and loss account presentation. Outstanding debtor and creditor balances in respect of the transferred business that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

Current year underwriting results for the transferred policies have been reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. In future years, results relating to these risks will be reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels.

18 Change in Accounting Estimate

Previously management applied methodology to estimate the last month of the year premium (i.e. December month premium) based on prior-year actual December premium. However under new estimation techniques, the December month premium will be estimated using an accrual based on actual information from the policy administration system. The change in estimate leads to a more accurate estimation of amounts. The cumulative impact of the change in estimate on premiums is material on a gross basis (with no material impact on retained earnings / equity either individually or cumulatively, given that the written premium in December is substantially unearned at the balance date).

The tables below set out the impact of the change in estimate on the 2020 financials. The impacts disclosed are for the current period only and there will be no impact on future periods resulting from the initial change in estimate.

Notes to the Financial Statements *(continued)*

18 Change in Accounting Estimate *(continued)*

Impact on the Profit and Loss Account for the year ending 31 December 2020

	2020 £000
Earned premium, net of reinsurance	
Gross premiums written	20,079
Outward reinsurance premiums	(3,907)
Net premiums written	16,172
Change in the gross provision for unearned premiums	(20,079)
Change in the provision for unearned premiums, reinsurers' share	3,907
Earned premiums, net of reinsurance	-
Total technical income	-

ASSETS	2020 £000
Reinsurers' share of technical provisions	
Provision for unearned premiums	3,907
Debtors	
Debtors arising out of direct insurance operations	15,298
Prepayments and accrued income	
Deferred acquisition costs	4,781
TOTAL ASSETS	**23,986**
LIABILITIES	
Technical provisions	
Provision for unearned premiums	20,079
Creditors	
Creditors arising out of reinsurance operations	2,495
Accruals and deferred income	1,412
TOTAL LIABILITIES	**23,986**

Directors of the Managing Agent and Administration

Directors of the Managing Agent as at 4 March 2021

S. Bashford
N. Denniston
A. Flanagan
M. Hammer-Dahinden
J. Kittinger
P. Leoni
J. Mentz
P. Storey
H. Sturgess

Syndicate Secretary

P. Ralph

Managing Agent Registered Number

06645822

Managing Agent Registered Office

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