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Arch Syndicate 6118  
31 December 2020

Report, Annual Accounts and Underwriting Year Accounts

Syndicate 6118

31 December 2020

# Arch Syndicate 6118

## 31 December 2020

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**DIRECTORS AND ADMINISTRATION**

**Managing Agent**

Arch Managing Agency Limited (formally Barbican Managing Agency Limited)

**Directors**

S Bashford	appointed 30.04.2020
N Denniston	appointed 30.04.2020
J Kittinger	
P Leoni	appointed 30.04.2020
P Martin	resigned 12.01.2021
J Mentz	appointed 30.04.2020
P Storey	appointed 30.04.2020
H Sturgess	
M Hammer-Dahinden	appointed 30.04.2020
A Flanagan	appointed 01.01.2021
D Booth	resigned 30.04.2020
W Canagaretna	resigned 08.01.2021
H Colthurst	resigned 30.04.2020
A Elliot	resigned 30.04.2020
J Heap	resigned 30.04.2020
R Johnson	resigned 30.04.2020
R Keers	resigned 30.04.2020
L Tucker	resigned 30.04.2020

**Managing Agent's Registered Office**

60 Great Tower Street  
London  
EC3R 5AZ

**Managing Agent's Registered Number**

06948515

**Company Secretary**

Z L Nattress	(Resigned 19 June 2020)
P A Ralph	(Appointed 01 November 2020)

**Syndicate Active Underwriter**

S Williams

**Auditor**

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London E14 5EY

# Arch Syndicate 6118

31 December 2020

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## REPORT OF THE DIRECTORS OF THE MANAGING AGENCY

The Directors of the Managing Agent ("the Agency") present their Report and Annual Accounts for the year ended 31 December 2020 for Syndicate 6118 ("the Syndicate").

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

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) for the closed 2018 Year of Account. Underwriting year accounts are not required until the closure of the Year of Account, typically at the 36 month stage.

A list of directors of the managing agent who held office during the year and to the date of this report can be found on page 2. As 2018 is the last year of account on which Syndicate 6118 participated and this year of account has reinsured to close with syndicate 1884, these will be the last accounts for 6118. Accordingly, as disclosed in note 1 of the annual accounts, the annual accounts have not been prepared on a going concern basis. However, this does not impact the valuation of the assets and liabilities reported in the annual accounts.

### Managing Agent

The Managing Agent of the Syndicate since its inception on 1 January 2014 is Arch Managing Agency Limited (formally Barbican Managing Agency Limited), whose registered office is situated at 60 Great Tower Street, London, EC3R 5AZ and whose registered number is 06948515.

### Principal Activity

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business in the Lloyd's Market. The business within these segments includes Marine, Aviation and Transport, Energy, Property, Financial Lines, Accident and Health, Casualty and Specialty.

The result for calendar year 2020 is a loss of £3.1m (2019: profit of £0.9m). This is analysed further below.

### Key Performance Indicators

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

	2020	2019
	£000	£000
Gross premiums written	(6,199)	19,269
Gross premiums earned	(436)	70,291
Net premiums earned	(331)	50,270
Net claims incurred	(2,916)	(39,422)
Investment return	496	3,523
Operating expenses	(405)	(13,538)
Realised and unrealised movements on foreign exchange	36	108
Loss for the year	<u>(3,120)</u>	<u>941</u>
Net Claims ratio	-881.0%	78.4%
Net Expense ratio	-122.4%	26.9%
Net Combined ratio	-1003%	105.3%

### REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

#### Review of the Business

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

For the 2019 and 2020 Year of Account, the Syndicate did not participate on the whole account quota share with Syndicate 1955 (2018 Year of Account: 33.9%). The 2018 Year of Account, which is the final Year of Account for Syndicate 6118, quota share was ceded gross of external reinsurance and gross of acquisition costs, as per the contract.

The 2018 Year of Account planned premium income capacity net of acquisition costs was £108.7m.

As the Syndicate's quota share reinsurance contract was not renewed for 2019, activity in the calendar year has comprised solely the run off of classes that Syndicate 1955 ceded to it.

The Syndicate wrote £(6.2)m of gross premium during 2020 (2019: £19.3m). The negative movement was primarily due to the premium cap adjustment. The 2018 Year of Account is the final Year of Account for the Syndicate and the annual accounts are solely 2018 Year of Account movements.

#### Investment Returns

The Syndicate is cashless and does not hold any investments. However, it takes a share of Barbican Syndicate 1955's investment income. Investment yields were up overall in 2020 to 1.7% (2019: 1.6%). The 2020 investment return of £0.5m is below prior year (2019: £3.5m) due to 6118 only participating on the 2018 Year of Account, thus benefitting from a lower share of the 1955 income.

#### Principal Risks and Uncertainties

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

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

##### *Insurance Risk*

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

### REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

#### *Credit Risk*

The key aspects of credit risk are the risk of default by one or more of the Syndicate's reinsurers and by Syndicate 1955 in respect of the reinsurance it cedes to the Syndicate on a funds withheld basis. The Agency Board's policy is that Syndicate 1955 generally reinsures with businesses rated A- or higher by one or more rating agencies. Syndicate 1955 only uses reinsurers with lower ratings or that are completely unrated where collateral or a claims paying guarantee from a parent undertaking is provided. Furthermore, the cash flows from Syndicate 1955 are expected to occur following the closure of the Years of Account at 36 months due to occur in 2021.

#### *Currency Risk*

The key aspect of currency risk is the risk of losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Agency Board, which may instruct surplus currencies to be sold to reduce any deficit on other currencies.

#### *Liquidity Risk*

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

#### *Group Risk*

Group risk is the possibility that the operation of one part of the Arch Group adversely affects another. The Group is defined as Arch Capital Group Limited and all owned subsidiaries.

Group risk includes: negative publicity; inadequate communication within the organisation; undue influence from fellow subsidiaries, holding companies or stakeholders; financial pressures to make funds available to the Group; and financial restraint leading to shortcomings in core activities such as reinsurance purchasing.

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

#### *Operational Risk*

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

### REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)

#### Principal Risks and Uncertainties (continued)

##### *Regulatory Risk*

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

##### *Market Risk*

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

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

For further information on the principal risks and uncertainties, see Note 11 in the Notes to the Financial Statements.

#### Outlook and Future Developments

The Syndicate did not renew its participation in the quota share reinsurance of Syndicate 1955 for the 2019 Year of Account. Accordingly, 2018 was the last active trading year for the Syndicate.

On February 18, 2021, AMAL entered into an agreement with Premia Managing Agency Limited for the Reinsurance to Close (RITC) of Syndicate 6118's 2018 underwriting Year of Account into Premia Syndicate 1884's 2021 underwriting Year of Account. The RITC covers legacy business underwritten by Syndicate 6118 on the 2018 Year of Account and under the agreement, approximately £26.1 million of net liabilities transferred to Syndicate 1884.

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

**REPORT OF THE DIRECTORS OF THE MANAGING AGENCY (CONTINUED)**

**Outlook and Future Developments (continued)**

Climate Change

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

The Syndicate, as part of the wider Arch Capital Group Limited (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.

**Disclosure of Information to the Auditor**

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

By order of the Agency Board



J Kittinger  
Chief Financial Officer  
11 March 2021

Annual Accounts

Syndicate 6118

31 December 2020

### **MANAGING AGENT'S RESPONSIBILITIES STATEMENT**

The Agency is responsible for preparing the Syndicate Annual Accounts in accordance with applicable law and regulations.

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

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

The syndicate is not a going concern, therefore the accounts have not been prepared on a going concern basis, however, there is no impact as a result of this on the valuation of the assets or liabilities of the syndicate.

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

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

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118

#### Opinion

We have audited the Syndicate annual accounts of Syndicate 6118 ('the Syndicate') for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 16, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Syndicate annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

#### Basis for opinion

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

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

#### Emphasis of matter – closure of the 2018 year of account

We draw attention to the Basis of preparation set out in note 1 which explains that the 2018 year of account of syndicate 6118 will be closing all assets and liabilities and transferring to the 2021 year of account of Syndicate 1884 through a third-party reinsurance to close arrangement at 31 December 2020. Syndicate 6118 has no successor year of account.

As a result, syndicate 6118 is no longer a going concern. The reinsurance to close occurs in the normal course of business for a syndicate year of account at the 36 months stage of development and the Syndicate Accounts has been prepared on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business.

Our opinion is not modified in respect of this matter.

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118**

#### **(CONTINUED)**

#### **Other Information**

The other information comprises the information included in the annual report set out on pages 3 to 9, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent is responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

#### **Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008**

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

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

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

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

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

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

#### **Responsibilities of the directors of the managing agent**

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

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

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118**

#### **(CONTINUED)**

#### **Auditor's responsibilities for the audit of the Syndicate annual accounts**

Our objectives are to obtain reasonable assurance about whether the Syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it 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.

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

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

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

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations, related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP), and requirements referred to by Lloyd's in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118

#### (CONTINUED)

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk that was considered to be higher within the valuation of gross incurred but not reported (IBNR) reserves and estimated premium income. These procedures included testing manual journals and were designed to provide reasonable assurance that the syndicate annual accounts were free from fraud or error.

#### Our audit procedures included:

- Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries, we assessed if there were any indicators of management bias in the valuation of gross IBNR reserves and the recognition of estimated premium income.
- Evaluating the business rationale for significant and/or unusual transactions.
- Testing the appropriateness of journal entries recorded in the general ledger, particularly in respect of judgemental areas including gross IBNR reserves and estimated premium income.

In addition, we considered the impact of Covid-19 on the Syndicate, including an assessment of the consistency of operations and controls in place as they transitioned to operating remotely for a significant proportion of 2020, making enquiries with management via the use of video conferencing. We performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporated unpredictability into the nature, timing and extent of our testing.

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

#### Use of our report

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

Robert Bruce (Senior statutory auditor)

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

London

11 March 2021

# Arch Syndicate 6118

31 December 2020

## INCOME STATEMENT

### Technical Account - General Business

For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Gross premiums written	2	(6,199)	19,269
Outward reinsurance premiums		2,211	(3,151)
Net premiums written		<u>(3,988)</u>	<u>16,118</u>
Change in the provision for unearned premiums:			
- Gross amount		5,763	51,022
- Reinsurers' share		<u>(2,106)</u>	<u>(16,870)</u>
Change in the net provision for unearned premiums	7	<u>3,657</u>	<u>34,152</u>
<b>Earned premiums, net of reinsurance</b>		(331)	50,270
Allocated investment return transferred from non-technical account	3	496	3,523
Claims paid			
- Gross amount		(18,741)	(121,753)
- Reinsurers' share		<u>6,920</u>	<u>48,219</u>
Net claims paid		<u>(11,821)</u>	<u>(73,534)</u>
Change in the claims outstanding			
- Gross amount		17,772	46,406
- Reinsurers' share		<u>(8,867)</u>	<u>(12,294)</u>
Change in the net claims outstanding	8	<u>8,905</u>	<u>34,112</u>
<b>Claims incurred, net of reinsurance</b>		<u>(2,916)</u>	<u>(39,422)</u>
<b>Net operating expenses</b>	4	<u>(405)</u>	<u>(13,538)</u>
<b>Balance on the technical account for general business</b>		<u><u>(3,156)</u></u>	<u><u>833</u></u>

# Arch Syndicate 6118

## 31 December 2020

### INCOME STATEMENT (CONTINUED)

#### Non-Technical Account - General Business

For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Balance on the general business technical account		(3,156)	833
Investment income	3	237	2,226
Unrealised gains on investments	3	246	922
Realised gains on investments	3	15	450
Investment expenses and charges	3	(2)	(75)
		<u>          </u>	<u>          </u>
Allocated investment return transferred to general business technical account		(496)	(3,523)
		<u>          </u>	<u>          </u>
Foreign exchange gains		36	108
		<u>          </u>	<u>          </u>
(Loss)/Profit for the year		<u><u>(3,120)</u></u>	<u><u>941</u></u>

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

# Arch Syndicate 6118

## 31 December 2020

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### STATEMENT OF CHANGES IN MEMBERS' BALANCES

For the year ended 31 December 2020

	Note	2020 £000	2019 £000
At 1 January		(15,304)	(23,149)
(Loss)/Profit for the year		(3,120)	941
Loss distribution		<u>4,445</u>	<u>6,904</u>
At 31 December		<u><u>(13,979)</u></u>	<u><u>(15,304)</u></u>

# Arch Syndicate 6118

31 December 2020

## STATEMENT OF FINANCIAL POSITION

### Assets

As at 31 December 2020

	Notes	2020 £000	2019 £000
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	7	1,086	4,830
Claims outstanding	8	<u>19,775</u>	<u>78,117</u>
		20,861	82,947
<b>Debtors</b>			
Debtors arising out of reinsurance operations	9	<u>12,094</u>	<u>69,348</u>
		12,094	69,348
Deferred acquisition costs	10	761	2,779
<b>Total assets</b>		<u><u>33,716</u></u>	<u><u>155,074</u></u>
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Member's balances		(13,979)	(15,304)
<b>Technical provisions</b>			
Provision for unearned premiums	7	3,007	11,725
Claims outstanding	8	<u>44,688</u>	<u>158,652</u>
		47,695	170,377
<b>Creditors</b>			
Other creditors		-	1
<b>Total liabilities</b>		<u><u>33,716</u></u>	<u><u>155,074</u></u>

The Annual Accounts on pages 14 to 50 were approved by the Board of Arch Managing Agency Limited on 8 March 2021 and were signed on its behalf by



J Kittinger  
Chief Financial Officer  
11 March 2021

# Arch Syndicate 6118

## 31 December 2020

### STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
<b>Cash flows from operating activities</b>			
(Loss)/Profit for the financial year		(3,120)	941
Adjustments for			
Movement in general insurance unearned premiums and outstanding claims	7, 8	(122,682)	(105,705)
Movement in reinsurers' share of unearned premiums and outstanding claims	7, 8	62,085	32,789
Movements in other assets/liabilities		59,768	68,594
Investment return	3	(496)	(3,523)
<b>Net cash (used in)/from operating activities</b>		<b>(4,445)</b>	<b>(6,904)</b>
<b>Cash flows from financing activities</b>			
Loss distribution		4,445	6,904
<b>Net cash from/(used in) financing activities</b>		<b>4,445</b>	<b>6,904</b>
<b>Net change in cash and cash equivalents</b>		<b>-</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year		-	-
<b>Cash and cash equivalents at the end of the year</b>		<b>-</b>	<b>-</b>

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 Significant Accounting Policies

##### a. Statement of Compliance

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

The financial statements are prepared under the historical cost convention.

##### b. Basis of Preparation

The financial statements for the year ended 31 December 2020 were approved for issue by the Agency Board on 8 March 2021.

The financial statements are prepared in Sterling which is the presentation and functional currency of the Syndicate and rounded to the nearest £000.

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

Amounts ceded from Syndicate 1955 to the Syndicate are taken gross of external reinsurance for the 2018 Year of Account, and are recognised as reinsurance balances in Syndicate 1955, then are in turn recognised as gross balances in the Syndicate. The Syndicate's share of the Syndicate 1955's external outward reinsurance is recognised as reinsurance balances in the Syndicate. For all other years of account, amounts ceded from Syndicate 1955 to the Syndicate are taken net of external reinsurance. The Syndicate also takes a share of investment income and expenses, which are ceded out of Syndicate 1955 and recognised in the equivalent accounts in the Syndicate. Syndicate 6118 is a quota share reinsurer of Syndicate 1955. Syndicate 1955 purchases whole account reinsurance to cover both Syndicate 1955 and associated special purpose arrangements (SPA's) as the underlying business follows. As the Syndicate is a SPA, it does not hold monetary assets on its statement of financial position. In effect it is a cashless syndicate. All funds are maintained in a withheld account and will be distributed once the Year of Account closes.

In respect of the 2018 Year of Account, the syndicate's final Year of Account, syndicate 6118 is entering into a reinsurance to close arrangement with syndicate 1884. On this basis the syndicate is no longer a going concern.

Accordingly, the annual accounts have been prepared on the basis of other than going concern. While these syndicate accounts have not been prepared on a going concern basis, there is no impact on the valuation of the assets or liabilities of the syndicate. The principal accounting policies applied in the preparation of these syndicate annual accounts are set out below. All amounts presented are stated in Pound Sterling, being the syndicate's functional currency, and in thousands, unless noted otherwise.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**c. Judgements and Key Sources of Estimation Uncertainty**

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

*Insurance Contract Technical Provisions*

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims  
*Insurance Contract Technical Provisions (continued)*

It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

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

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

Further details are given in note 11.

*Estimates of Future Premiums*

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

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 1 Significant Accounting Policies (continued)

##### d. Financial Instruments

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

##### *De-recognition of Financial Assets*

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

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

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

##### e. Investment Return

Syndicate 1955's investments are recognised at fair value through the profit and loss. Although SPA 6118 does not itself hold any investments, it takes a share of Syndicate 1955's investment income.

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

Interest income is recognised on an accruals basis based on the effective interest rate. Dividend income is recognised when the shareholder's right to receive payment is established.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the Statement of Financial Position date and their valuation at the previous Statement of Financial Position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**e. Investment Return (continued)**

An allocation of actual investment return supporting the general insurance technical provisions is made from the non-technical account to the technical account. Investment return related to non-insurance business is attributed to the non-technical account.

**f. Insurance Contracts**

*Product Classification*

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

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

*Gross Premiums*

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments to such premiums receivable arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of commission.

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

Under some policies, Gross written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the insured.

Gross written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Gross Premiums (continued)*

The Syndicate has written a quota share contract with Syndicate 1955. The contract operates on a “funds withheld basis” whereby the proportion of the ceded premiums are considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the Years of Account at 36 months and are recognised on the statement of financial position as an asset.

*Reinsurance Premiums*

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

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

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

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

*Fees and Commission Income*

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Claims*

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

*Technical Provisions*

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

*Claims Outstanding*

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

These methods generally involve projecting from past claims development experience over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurers involved. A number of statistical methods are used to assist in making these estimates.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Technical Provisions (continued)*

Claims Outstanding (continued)

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the Annual Accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions for Unearned Premiums

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

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

Unexpired Risks

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

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

At 31 December 2020 and 31 December 2019 the Syndicate did not have an unexpired risks provision.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 1 Significant Accounting Policies (continued)

##### f. Insurance Contracts (continued)

###### *Technical Provisions (continued)*

###### Deferred Acquisition Costs

The Syndicate is a SPA and therefore has no cash, and no brokerage changes hands under the quota share contract. For the 2018 Year of Account, acquisition costs and deferred acquisition costs are ceded from Syndicate 1955 as per the contract. For all prior years of account, acquisition costs are netted off against gross written premium, and deferred acquisition costs are netted off against unearned premium.

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

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

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

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

###### *Reinsurance Assets*

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**f. Insurance Contracts (continued)**

*Insurance Receivables*

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment should events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Income Statement.

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

**g. Provisions**

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

**h. Foreign Currencies**

The Syndicate's functional currency and presentational currency is Sterling.

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**1 Significant Accounting Policies (continued)**

**i. Taxation**

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

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

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

**j. Profit Commission**

Profit commission is payable to the Agency at a rate of 17.5% on the 2018 Years of Account on the cumulative profit. This is charged to the Syndicate as incurred but does not become payable until after the appropriate Year of Account closes, normally at 36 months. In the event that a Year of Account is loss making, a deficit clause permits losses to be carried forward against future Year of Account profits (up to two years) in order to reduce future Year of Account profit commission payments.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 2 Segmental Analysis

## a. Analysis by Class of Business

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

2020	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Reinsurance	(6,199)	(436)	(969)	(405)	(1,842)	(3,652)	26,834
2019	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Reinsurance	19,269	70,291	(75,347)	(13,538)	15,904	(2,690)	87,430

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

For the 2018 year of account, gross operating expenses include acquisition costs ceded by Syndicate 1955.

All premiums were concluded in the UK.

## b. Analysis by Geographical Location

Geographical analysis of gross premiums written is based on the location of underlying policyholders, which is not materially different from revenue by source. The geographical analysis of premiums by destination (or location of risk) is as follows:

	2020 £000	2019 £000
UK	(6,946)	16,511
EU member states	503	92
USA	(5,301)	1,630
Rest of the World	5,545	1,036
Gross premiums written	(6,199)	19,269

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**3 Investment return**

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

	2020	2019
	£000	£000
Investment income		
Income from investments, cash and other deposits	237	2,226
Gains on realisation of investments	15	450
Total investment income	<u>252</u>	<u>2,676</u>
Unrealised gains in investments at fair value through profit or loss	246	922
Investment management charges		
Investment management expenses, including interest	(2)	(75)
Net investment return	<u>496</u>	<u>3,523</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)****4 Net Operating Expenses**

	2020	2019
	£000	£000
Acquisition costs	(1,327)	3,034
Standard personal expenses	(100)	149
Change in deferred acquisition costs (note 10)	2,030	9,627
Administrative expenses	(198)	728
Net operating expenses	<u>405</u>	<u>13,538</u>

Profit commission is included within administrative expenses and the managing agency fee is included within standard personal expenses.

The 2018 Year of Account is the final Year of Account for the Syndicate and the annual accounts are solely 2018 Year of Account movements which include a premium cap adjustment which has resulted in a negative movement in the calendar year.

**5 Auditor's Remuneration**

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

	2020	2019
	£000	£000
Audit of the Syndicate Annual Accounts	27	23
Audit related services	24	21
	<u>51</u>	<u>44</u>

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

**6 Staff Costs and Directors' Remuneration****a. Staff Costs**

All staff in the Arch Group are employed by Arch Europe Insurance Services Limited ("AEIS"), an Arch group Company.

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

**b. Directors' Remuneration**

The Syndicate was not recharged any expenses relating to the remuneration of the Directors of the Agency (2019: £nil).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 7 Provisions for Unearned Premiums

2020	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2020	11,725	(4,830)	6,895
Premiums written in the year	(6,199)	2,211	(3,988)
Premiums earned in the year	436	(105)	331
RITC transfer on the 2017 Year of Account	(3,015)	1,651	(1,364)
Foreign exchange	60	(13)	47
At 31 December 2020	<u>3,007</u>	<u>(1,086)</u>	<u>1,921</u>
2019			
At 1 January 2019	64,456	(22,019)	42,437
Premiums written in the year	19,269	(3,151)	16,118
Premiums earned in the year	(70,291)	20,021	(50,270)
RITC transfer on the 2016 Year of Account	(808)	-	(808)
Foreign exchange	(901)	319	(582)
At 31 December 2019	<u>11,725</u>	<u>(4,830)</u>	<u>6,895</u>

## 8 Claims outstanding

2020	£000	£000	£000
At 1 January 2020	158,652	(78,117)	80,535
Claims incurred in the current accident year	-	-	-
Claims incurred in the prior accident years	969	1,947	2,916
Claims paid during the year	(18,741)	6,920	(11,821)
RITC transfer on the 2017 Year of Account	(95,936)	49,305	(46,631)
Foreign exchange	(256)	170	(86)
At 31 December 2020	<u>44,688</u>	<u>(19,775)</u>	<u>24,913</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**8 Claims outstanding (continued)**

	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2019	211,626	(93,717)	117,909
Claims incurred in the current accident year	49,919	(30,578)	19,341
Claims incurred in the prior accident years	25,428	(5,347)	20,081
Claims paid during the year	(121,753)	48,219	(73,534)
RITC transfer on the 2016 Year of Account	140	-	140
Foreign exchange	(6,708)	3,306	(3,402)
At 31 December 2019	<u>158,652</u>	<u>(78,117)</u>	<u>80,535</u>

**9 Debtors**

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

	2020 £000	2019 £000
Debtors arising out of reinsurance operations – due within one year	12,094	43,552
Debtors arising out of reinsurance operations – due after one year	-	25,796
	<u>12,094</u>	<u>69,348</u>

**10 Deferred Acquisition Costs**

	2020 £000	2019 £000
At 1 January	2,779	10,489
Change in deferred acquisition costs (note 4)	(2,030)	(9,627)
RITC transfer on the closing Year of Account	-	2,044
Foreign Exchange	12	(127)
At 31 December	<u>761</u>	<u>2,779</u>

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11 Risk Management

##### a. Governance Framework

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

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

The Agency Board approves risk management policies relevant to the Syndicate and meets regularly to approve any commercial, regulatory and organisational requirements of such policies and their implementation. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Significant emphasis is placed on the assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

##### b. Capital Management Objectives, Policies and Approach

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

b. Capital Management Objectives, Policies and Approach (continued)

The operations of the Agency, which manages the underwriting of the Syndicate, are subject to regulatory requirements within the jurisdictions in which it operates, in particular compliance with Financial Conduct Authority (“FCA”) rules, Prudential Regulation Authority (“PRA”) rules, Lloyd’s standards and byelaws and relevant EU regulations and European Insurance and Occupational Pensions Authority (“EIOPA”) guidelines. Such regulations not only prescribe approval and monitoring of activities, but also impose certain restrictive provisions (e.g. capital adequacy) to minimise the risk of default and insolvency on the part of insurers to meet unforeseen liabilities as they arise.

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

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

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

c. Approach to Capital Management

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

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

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

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

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

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11 Risk Management (continued)

##### d. Capital Resources Requirement

The Syndicate is subject to capital requirements imposed by Lloyd's. Throughout the year the Syndicate has complied with the Lloyd's risk based LIM methodology under Solvency II, which is used to calculate the Syndicate's capital requirement. Lloyd's capital setting uses a capital requirement set at Syndicate level as a starting point, but the requirement to meet Solvency II & Lloyd's capital requirements applies at member level only. Accordingly, the capital requirement of Syndicate 6118 is not disclosed in these Financial Statements.

##### e. Solvency II Capital Requirements

Under the Solvency II regime, there are two prescribed methods for assessing an insurer's regulatory capital requirements – using either a standard formula set by the regulator or an Internal Model specific to that insurer which is subject to regulatory approval.

The Syndicate operates within the Lloyd's market. The PRA has determined that the Society of Lloyd's is the relevant insurer for the Lloyd's market. The Society of Lloyd's has chosen to operate an Internal Model and this was approved by the PRA in December 2015. In consequence, all Lloyd's managing agents are required to operate an internal model for each managed Syndicate that is structured on Solvency II lines and which (when aggregated) ensures the integrity and effectiveness of the Society of Lloyd's Internal Model.

The Society of Lloyd's not only oversees the approval and monitoring of each Syndicate's internal model, but also imposes certain restrictive provisions to minimise the risk of non-compliance with regulatory capital requirements.

The effective management of risk and capital is a key strategic priority. The Agency's risk management framework enhances the definition of the risk standards and risk tolerances which guide the day-to-day business decision making and processes and aim to ensure that risk appetite is not exceeded.

Economic capital is calculated for the Syndicate considering the complete spectrum of risks identified by the risk framework, ensuring that the capital requirement reflects the risk profile and enabling capital to be allocated and returns measured on a risk adjusted basis.

The Syndicate submitted its Quarterly Solvency Return (QSR) for 31 December 2020 to Lloyd's on 21 January 2021. The Annual Solvency Return (ASR) for 31 December 2020 is due to Lloyd's on 11 March 2021.

##### f. Insurance Risk

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

f. Insurance Risk (continued)

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

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

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

**Claims**

Open market claims are settled by the claims management team. The claims department has produced claims handling guidelines which incorporate Lloyd's minimum standards.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## f. Insurance Risk (continued)

Claims development tables are shown on an underwriting year basis below.

Gross insurance ultimate contract outstanding claims provisions as at 31 December 2020:

Underwriting Year	2014 & Prior	2015	2016	2017	2018	Total
Estimate of ultimate gross claims:	£000	£000	£000	£000	£000	£000
At end of underwriting year	-	-	-	-	90,813	-
One year later	-	-	-	-	106,884	-
Two years later	-	-	-	-	108,420	108,420
Three years later	-	-	-	-	-	-
Four years later	-	-	-	-	-	-
Five years later	-	-	-	-	-	-
Current estimate of ultimate claims						108,420
Cumulative payments						(59,904)
Gross unearned claims reserve						(3,828)
Gross claims reserve						44,688

Net insurance ultimate contract outstanding claims provisions as at 31 December 2020:

Underwriting Year	2014 & Prior	2015	2016	2017	2018	Total
Estimate of ultimate net claims:	£000	£000	£000	£000	£000	£000
At end of underwriting year	-	-	-	-	57,017	-
One year later	-	-	-	-	63,359	-
Two years later	-	-	-	-	66,837	66,837
Three years later	-	-	-	-	-	-
Four years later	-	-	-	-	-	-
Five years later	-	-	-	-	-	-
Current estimate of ultimate claims						66,837
Cumulative payments						(40,464)
Net unearned claims reserve						(1,460)
Net claims reserve						24,913

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 Risk Management (continued)

f. Insurance Risk (continued)

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

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

31 December 2020	Change in Assumptions	Impact on gross liabilities £000	Impact on net liabilities £000	Impact on profit for the year and members' balances £000
Average claim cost	+10%	4,425	2,046	(2,046)
Average number of claims	+10%	4,425	2,415	(2,415)

31 December 2019	Change in Assumptions	Impact on gross liabilities £000	Impact on net liabilities £000	Impact on profit for the year and members' balances £000
Average claim cost	+10%	19,939	8,163	(8,163)
Average number of claims	+10%	19,939	10,654	(10,654)

The Syndicate has material exposure to Hurricane Michael, Typhoon Jebi, the Camp and Woolsey Wildfires and the Lurssen Shipyard loss in the 2018 year of Account. During the year, the exposure to Typhoon Jebi and Lurssen Shipyard have deteriorated; however, there has been an improvement for the Camp and Woolsey Wildfires. This increases the uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing sensitivity analysis on the losses pertaining to these loss events, we determined that a 10% increase on the gross reserves will have a minimal impact on the net reserves due to the reinsurance programme covering the affected classes of business. The Syndicate does not have any material exposure to these losses on any of the older years of account.

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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**
**11 Risk Management (continued)**

## f. Insurance Risk (continued)

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

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

	Estimated net loss
	\$m
US earthquake	2.9
US windstorm	2.3
Japan earthquake	0.3
Japan windstorm	0.1
Europe windstorm	<u>0.3</u>

The following table shows hypothetical claims arising for the largest realistic disaster scenarios based on the Syndicate's average risk exposures during 2019.

	Estimated net loss
	\$m
US earthquake	2.9
US windstorm	2.3
Japan earthquake	0.3
Japan windstorm	0.1
Europe windstorm	<u>0.3</u>

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## f. Insurance Risk (continued)

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

31 December 2020	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Energy - marine	951	(509)	442
Energy - non-marine	4,289	(2,251)	2,038
Marine, aviation and transport	9,725	(5,506)	4,219
Fire and other damage to property	7,852	(6,012)	1,840
Third party liability	20,543	(5,032)	15,511
Accident and health	521	(119)	402
Pecuniary loss	807	(346)	461
Total	<u>44,688</u>	<u>(19,775)</u>	<u>24,913</u>

31 December 2019	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
Energy - marine	7,102	(5,345)	1,757
Energy - non-marine	14,147	(9,207)	4,940
Marine, aviation and transport	32,621	(16,961)	15,660
Fire and other damage to property	19,569	(17,989)	1,580
Third party liability	82,627	(26,434)	56,193
Accident and health	654	(122)	532
Pecuniary loss	1,932	(2,059)	(127)
Total	<u>158,652</u>	<u>(78,117)</u>	<u>80,535</u>

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

At 31 December 2020	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	19,803	(8,763)	11,040
EU Member States	2,190	(969)	1,221
USA	15,256	(6,751)	8,505
Rest of the World	7,439	(3,292)	4,147
Total	<u>44,688</u>	<u>(19,775)</u>	<u>24,913</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## f. Insurance Risk (continued)

At 31 December 2019	Gross liabilities £000	Reinsurance assets £000	Net liabilities £000
United Kingdom	72,800	(36,475)	36,325
EU Member States	14,811	(7,364)	7,447
USA	42,909	(21,284)	21,625
Rest of the World	28,132	(12,994)	15,138
Total	<u>158,652</u>	<u>(78,117)</u>	<u>80,535</u>

## Key Assumptions

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

## 9. Credit Risk

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## g. Credit Risk (continued)

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

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

A ratings table for the Syndicate's financial assets is given below.

At 31 December 2020	AA £000	A and below £000	Unrated £000	Total £000
Reinsurers' share of claims outstanding	2,425	16,168	1,182	19,775
Debtors arising out of reinsurance operations	-	12,094	-	12,094
Total	<u>2,425</u>	<u>28,262</u>	<u>1,182</u>	<u>31,869</u>
At 31 December 2019	AA £000	A and below £000	Unrated £000	Total £000
Reinsurers' share of claims outstanding	5,545	65,862	6,710	78,117
Debtors arising out of reinsurance operations	-	69,348	-	69,348
Total	<u>5,545</u>	<u>135,210</u>	<u>6,710</u>	<u>147,465</u>

The source for ratings is Standard & Poor's and A.M. Best.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## g. Credit Risk (continued)

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

At 31 December 2020	Neither past due nor impaired £000	Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000	Total £000
Reinsurers' share of claims outstanding	19,775	-	-	-	-	19,775
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	12,094	-	-	-	-	12,094
Other debtors	1,847	-	-	-	-	1,847
<b>Total</b>	<b>33,716</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,716</b>

At 31 December 2019	Neither past due nor impaired £000	Up to three months £000	Three to six months £000	Six months to one year £000	Greater than one year £000	Total £000
Reinsurers' share of claims outstanding	78,117	-	-	-	-	78,117
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	69,348	-	-	-	-	69,348
Other debtors	7,609	-	-	-	-	7,609
<b>Total</b>	<b>155,074</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>155,074</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## h. Foreign Currency Risk

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

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

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

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

At 31 December 2020	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers share of technical provisions	1,451	16,688	1,535	207	980	20,861
Reinsurance receivables	(7,392)	16,714	1,697	535	540	12,094
Other debtors	439	299	8	1	14	761
Total assets	<u>(5,502)</u>	<u>33,701</u>	<u>3,240</u>	<u>743</u>	<u>1,534</u>	<u>33,716</u>
Technical provisions	(4,885)	(33,145)	(3,721)	(770)	(5,174)	(47,695)
Other creditors	-	-	-	-	-	-
Total liabilities	<u>(4,885)</u>	<u>(33,145)</u>	<u>(3,721)</u>	<u>(770)</u>	<u>(5,174)</u>	<u>(47,695)</u>
Members' balances	<u>(10,387)</u>	<u>556</u>	<u>(481)</u>	<u>(27)</u>	<u>(3,640)</u>	<u>(13,979)</u>
At 31 December 2019	GBP £000	US \$ £000	Euro € £000	CAD \$ £000	Other £000	Total £000
Reinsurers share of technical provisions	6,569	68,546	6,009	471	1,352	82,947
Reinsurance receivables	(7,448)	57,176	10,710	3,283	5,627	69,348
Other debtors	1,433	1,070	122	22	132	2,779
Total assets	<u>554</u>	<u>126,792</u>	<u>16,841</u>	<u>3,776</u>	<u>7,111</u>	<u>155,074</u>
Technical provisions	(15,772)	(122,827)	(19,063)	(2,283)	(10,432)	(170,377)
Other creditors	(1)	0	0	0	0	(1)
Total liabilities	<u>(15,773)</u>	<u>(122,827)</u>	<u>(19,063)</u>	<u>(2,283)</u>	<u>(10,432)</u>	<u>(170,378)</u>
Members' balances	<u>(15,219)</u>	<u>3,965</u>	<u>(2,222)</u>	<u>1,493</u>	<u>(3,321)</u>	<u>(15,304)</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## i. Sensitivity Analysis

Sensitivity analysis is carried out on the underwriting/investment portfolio in relation to key parameters such as: exchange rates, market rating cycles, coverage cycles and catastrophe model output. At 31 December 2020, the Syndicate used closing rates of exchange of £1: \$1.37 and £1: €1.12 (31 December 2019: £1: \$1.32 and £1: €1.18).

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

Increase/(decrease) on members' balances	2020	2019
	£000	£000
Strengthening of US dollar	62	441
Weakening of US dollar	(51)	(360)
Strengthening of Euro	(54)	(247)
Weakening of Euro	44	202

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

	Impact on profit		Impact on members' balances	
	2020	2019	2020	2019
	£000	£000	£000	£000
Shift in yield (basis points)				
50 basis points decrease	697	952	697	952
50 basis points increase	(931)	(936)	(931)	(936)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## 11 Risk Management (continued)

## j. Liquidity Risk

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

## Future Cash Flows

The table below presents the undiscounted value of monetary liabilities of the Syndicate into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates for insurance contract liabilities.

At 31 December 2020	< 1 yr £000	1-3 yrs £000	3-5 yrs £000	> 5 yrs £000	Total £000
Claims outstanding	<u>14,080</u>	<u>12,270</u>	<u>8,161</u>	<u>10,177</u>	<u>44,688</u>
At 31 December 2019	< 1 yr £000	1-3 yrs £000	3-5 yrs £000	> 5 yrs £000	Total £000
Claims outstanding	<u>35,291</u>	<u>51,814</u>	<u>33,984</u>	<u>37,563</u>	<u>158,652</u>

## k. Operational Risk

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

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

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

#### 11 Risk Management (continued)

##### i. Group Risk

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

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

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

##### m. Dependencies between Risk Categories

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

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

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**11 Risk Management (continued)**

n. 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. There is an increased probability of further risks arising out of the COVID-19 pandemic from an operational perspective. 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 which are arising indirectly through the Syndicate's participation on the whole account quota share contract with Syndicate 1955. As Syndicate 1955 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 efficiency and effectiveness 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 continues 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**12 Related Parties**

a. Special Purpose Arrangements ("SPA") Cessions

Syndicate 1955 ceded reinsurance to the Syndicate on a funds withheld basis.

For the 2018 Year of Account, Syndicate 1955 ceded 33.9% based on its result to the Syndicate. These cessions resulted in the Syndicate receiving £(6.2)m (2019: £19.3m) of reinsurance premium from Syndicate 1955 during the year and having a balance of £12.1m receivable from Syndicate 1955 on a funds withheld basis as at 31 December 2020 (2019: £69.3m).

As from 1 January 2021, 2018 Year of Account will be closed by Reinsurance to Close (RITC) to Syndicate 1884's 2021 Year of Account.

Arch owns approximately 25% of Premia as well as warrants to purchase additional common equity and has two directors to serve on the seven person board of directors of Premia.

b. Arch Companies

The Syndicate, along with Syndicate 1955, Syndicate 2012, Syndicate 1856 and SPA 6132, is managed by the Agency, whose parent company is Barbican Holdings (UK) Limited. The ultimate parent company is Arch Capital Group Ltd, a Bermuda registered company which consolidates the Syndicate result.

**13 Funds at Lloyd's**

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

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

**14 Off-Statement of Financial Position items**

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

**15 Derivatives**

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

**16 Post Reporting Date Events**

The 2018 underwriting year is the SPA's last year of participation and it will be closed by Reinsurance to Close (RITC) into Syndicate 1884's 2021 Year of Account.

On February 18, 2021, AMAL entered into an agreement with Premia Managing Agency Limited for the Reinsurance to Close (RITC) of Syndicate 6118's 2018 underwriting Year of Account into Premia Syndicate 1884's 2021 underwriting Year of Account. The RITC covers legacy business underwritten by Syndicate 6118 on the 2018 Year of Account and under the agreement, approximately £26.1 million of net liabilities transferred to Syndicate 1884.

Underwriting Year Accounts  
Closed 2018 Year of Account  
Syndicate 6118  
31 December 2020

### MANAGING AGENT'S RESPONSIBILITIES STATEMENT

The Agency is responsible for preparing the Syndicate Underwriting Year Accounts in accordance with applicable law and regulations.

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

- select suitable accounting policies which are applied consistently and, where there are items which affect more than one Year of Account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the Reinsurance to Close shall, where the reinsuring members and reinsured members are members of the same Syndicate for different Years of Account, be equitable between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed Year of Account without regard to the date and receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate Underwriting Year Accounts.

The Directors of the Agency confirm that they have complied with the above requirements in preparing the Syndicate Underwriting Year Accounts.

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

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

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118 CLOSED 2018 YEAR OF ACCOUNT**

#### **Opinion**

We have audited the Syndicate underwriting year accounts for the 2018 year of account of Syndicate 6118 ('the Syndicate') for three years ended 31 December 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 12, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Syndicate underwriting year accounts:

- give a true and fair view of the loss for the 2018 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

#### **Basis for opinion**

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

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

#### **Emphasis of matter - closure of the 2018 year of account**

We draw attention to the Basis of preparation which explains that the 2018 year of account of syndicate 6118 has closed and all assets and liabilities have been externally transferred to the 2021 year of account of Syndicate 1884 by reinsurance to close at 31 December 2020.

As a result, the 2018 year of account of syndicate 6118 is no longer a going concern. The reinsurance to close occurs in the normal course of business for a syndicate year of account at the 36 months stage of development and the syndicate underwriting year accounts have been prepared on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business.

Our opinion is not modified in respect of this matter.

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118 CLOSED 2018 YEAR OF ACCOUNT (CONTINUED)**

#### **Other Information**

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

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

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

We have nothing to report in this regard.

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

We have nothing to report in respect of the following matters where The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you, if in our opinion:

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate underwriting year accounts are not in agreement with the accounting records.

#### **Responsibilities of the managing agent**

As explained more fully in the Statement of the Managing Agent's Responsibilities, set out on page 52, the managing agent is responsible for the preparation of the Syndicate underwriting year accounts in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the Syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Syndicate underwriting accounts, the managing agent is responsible for assessing the Syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

#### **Auditor's responsibilities for the audit of the Syndicate underwriting year accounts**

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

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118 CLOSED 2018 YEAR OF ACCOUNT (CONTINUED)**

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

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

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

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations, related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UKGAAP) and requirements referred to by Lloyd's in the Instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate underwriting year accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate underwriting year accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiry of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, inspecting significant correspondence with Lloyd's, the FCA and the PRA.
- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the syndicate's underwriting year accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk that was considered to be higher within the valuation of gross incurred but not reported (IBNR) reserves and estimated premium income. These procedures included testing manual journals and were designed to provide reasonable assurance that the syndicate underwriting year accounts were free from fraud or error.

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ARCH SYNDICATE 6118 CLOSED 2018 YEAR OF ACCOUNT (CONTINUED)**

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

Our audit procedures included:

- Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries, we assessed if there were any indicators of management bias in the valuation of gross IBNR reserves and the recognition of estimated premium income.
- Evaluating the business rationale for significant and/or unusual transactions.
- Testing the appropriateness of journal entries recorded in the general ledger, particularly in respect of judgemental areas including gross IBNR reserves and estimated premium income.

In addition, we considered the impact of Covid-19 on the Syndicate, including an assessment of the consistency of operations and controls in place as they transitioned to operating remotely for a significant proportion of 2020, making enquiries with management via the use of video conferencing. We performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporated unpredictability into the nature, timing and extent of our testing.

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

#### **Use of our report**

This report is made solely to the syndicate's members, as a body, in accordance with The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Robert Bruce (Senior statutory auditor)

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

London

11 March 2021

# Arch Syndicate 6118

## 31 December 2020

### INCOME STATEMENT

#### Technical Account - General Business

For the Closed 2018 Year of Account for the three years ended 31 December 2020

	Notes	Cumulative balance at 31 December 2020 £000
Syndicate allocated capacity		<u>108,712</u>
<b>Earned premiums, net of reinsurance</b>		
- Gross premiums written	2	131,109
- Outward reinsurance premiums		<u>(44,354)</u>
Earned premiums, net of reinsurance		<u>86,755</u>
Allocated investment return transferred from non-technical account	3	1,547
<b>Claims incurred, net of reinsurance</b>		
Claims paid		
- Gross amount		(106,492)
- Reinsurers' share		<u>39,794</u>
Net claims paid		<u>(66,698)</u>
Net operating expenses	4	(35,850)
<b>Balance on the technical account for general business</b>		<u><u>(14,246)</u></u>

# Arch Syndicate 6118

## 31 December 2020

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### INCOME STATEMENT (CONTINUED)

#### Balance on the general business technical account

For the Closed 2018 Year of Account for the three years ended 31 December 2020

	Notes	Cumulative balance at 31 December 2020 £000
Balance on the general business technical account		(14,246)
Investment income	3	1,141
Unrealised gains on investments	3	367
Realised gains on investments	3	74
Investment expenses and charges	3	(35)
		<hr/>
Allocated investment return transferred to general business technical account		(1,547)
		<hr/>
Foreign exchange gains		267
		<hr/>
Loss for the closed Year of Account		<u><u>(13,979)</u></u>

# Arch Syndicate 6118

## 31 December 2020

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### STATEMENT OF FINANCIAL POSITION

For the Closed 2018 Year of Account

As at 31 December 2020

<b>Assets</b>	Notes	2020 £000
<b>Debtors due within one year</b>		
Debtors arising out of reinsurance operations	6	12,094
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the Year of Account	7	21,622
<b>Total Assets</b>		<u>33,716</u>
<b>Liabilities</b>		
2020 £000		
<b>Capital and reserves</b>		
Member's balances		(13,979)
<b>Technical provisions</b>		
Reinsurance to close premiums payable to close the Year of Account – gross	7	47,695
<b>Total liabilities</b>		<u>33,716</u>

The Syndicate Underwriting Year Accounts on pages 57 to 73 were approved by the Board of Arch Managing Agency Limited on and were signed on its behalf by



J Kittinger  
Chief Financial Officer  
11 March 2021

# Arch Syndicate 6118

## 31 December 2020

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### STATEMENT OF CASH FLOWS

For the Closed 2018 Year of Account for the three years ended 31 December 2020

	Notes	Cumulative balance at 31 December 2020 £000
<b>Cash flows from operating activities</b>		
Loss for the financial year		(13,979)
Adjustments for		
Movement in technical provisions		47,695
Movement in reinsurers' share of technical provisions		(20,861)
Movements in debtors		(12,855)
Net cash from operating activities		<u>-</u>
<b>Net change in cash and cash equivalents</b>		<u>-</u>
Cash and cash equivalents at the beginning of the year		-
<b>Cash and cash equivalents at the end of the year</b>		<u><u>-</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the Closed 2018 Year of Account for the three years ended 31 December 2020

### 1 Significant Accounting Policies

#### a. Statement of Compliance

The Syndicate Underwriting Year Accounts have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. 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) have been applied to the extent that they are relevant for a proper understanding of the Underwriting Year Accounts.

The 2018 Year of Account has closed and all assets and liabilities have been reinsured to close as at 31 December 2020. The result for the Year of Account was declared in Sterling so there is no exchange rate risk. To this extent, the risks to which it is exposed in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the Syndicate Annual Accounts. Accordingly, these underwriting year accounts do not include the associated risk disclosures required by section 34 of FRS102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the main Annual Accounts of the syndicate, in addition, certain other disclosure requirements under FRS102 and FRS103 such as the disclosure of a Statement of Changes of Members Balances have not been provided as we believe they are not required for a proper understanding of the Underwriting Year accounts.

#### b. Basis of Preparation

Members participate on a syndicate by reference to a Year of Account and each syndicate Year of Account is a separate annual venture. These accounts relate to the 2018 Year of Account which has been closed by reinsurance to close at 31 December 2020; consequently, the Statement of Financial Position represents the assets and liabilities of the 2018 Year of Account, and the Income Statement and Statement of Cash Flows reflect the transactions for that Year of Account during the 36 month period until closure.

The Underwriting Year Accounts for the 36 months ended 31 December 2020 were approved for issue by the Agency Board on 11 March 2021.

The Underwriting Year Accounts are prepared in Sterling which is the presentation and functional currency of the Syndicate and rounded to the nearest £000.

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

As each syndicate Year of Account is a separate annual venture, there are no comparative figures.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

##### b. Basis of Preparation (continued)

Amounts ceded from Syndicate 1955 to the Syndicate are taken gross of external reinsurance for the 2018 Year of Account, and are recognised as reinsurance balances in Syndicate 1955, then are in turn recognised as gross balances in the Syndicate. The Syndicate's share of the Syndicate 1955's external outward reinsurance is recognised as reinsurance balances in the Syndicate. For all other years of account, amounts ceded from Syndicate 1955 to the Syndicate are taken net of external reinsurance. The Syndicate also takes a share of investment income and expenses, which are ceded out of Syndicate 1955 and recognised in the equivalent accounts in the Syndicate. Syndicate 6118 is a quota share reinsurer of Syndicate 1955. Syndicate 1955 purchases whole account reinsurance to cover both Syndicate 1955 and associated special purpose arrangements (SPA's) as the underlying business follows. As the Syndicate is a SPA, it does not hold monetary assets on its statement of financial position. In effect it is a cashless syndicate. All funds are maintained in a withheld account and will be distributed once the Year of Account closes.

In respect of the 2018 year of account, the syndicate's final year of account, syndicate 6118 entered into a reinsurance to close arrangement with syndicate 1884. On this basis the syndicate is no longer a going concern.

According, the underwriting year of accounts have been prepared on the basis of other than going concern. While these syndicate accounts have not been prepared on a going concern basis, there is no impact on the valuation of the assets or liabilities of the syndicate. The principal accounting policies applied in the preparation of these syndicate annual accounts are set out below. All amounts presented are stated in Pound Sterling, being the syndicate's functional currency, and in thousands, unless noted otherwise

The Syndicate also takes a share of investment income from Syndicate 1955.

##### c. Judgements and Key Sources of Estimation Uncertainty

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

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position. The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

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

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

A number of judgements and assumptions are used in assessing salvage and subrogation recoveries.

##### Estimates of Future Premiums

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

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

##### d. Financial Instruments

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

##### De-recognition of Financial Assets

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

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

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

##### d. Financial Instruments (continued)

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

##### e. Investment Return

Syndicate 1955's investments are recognised at fair value through the profit and loss. Although the Syndicate does not itself hold any investments, it takes a share of Syndicate 1955's investment income.

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

Interest income is recognised on an accruals basis based on the effective interest rate. Dividend income is recognised when the shareholder's right to receive payment is established.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the Statement of Financial Position date and their valuation at the previous Statement of Financial Position date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

An allocation of actual investment return supporting the general insurance technical provisions is made from the non-technical account to the technical account. Investment return related to non-insurance business is attributed to the non-technical account.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

##### f. Insurance Contracts

###### Product Classification

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

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

###### Gross Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments to such premiums receivable arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of commission.

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

Under some policies, Gross written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the insured.

Gross written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk.

The Syndicate is a SPA and therefore has no cash, and no brokerage changes hands under the quota share contract. Acquisition costs are therefore netted off against gross written premium.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

##### f. Insurance Contracts (continued)

The Syndicate has written a quota share contract with Syndicate 1955. The contract operates on a "funds withheld basis" whereby a proportion of the ceded premiums is considered as combined funds from which loss recoveries will be drawn. The associated cash flows are expected to occur following the closure of the 2015 Year of Account at 36 months. As such, the balance of amounts ceded by Syndicate 1955 to the Syndicate is recognised as an asset on the Statement of Financial Position, and reinsurance assumed from Syndicate 1955 is recognised as gross written premium.

##### Reinsurance Premiums

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

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

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

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

##### Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

##### f. Insurance Contracts (continued)

###### Insurance Receivables

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

###### Reinsurance to Close

The reinsurance to close for the 2018 Year of Account is determined on the basis of estimated outstanding liabilities and related claims settlement costs including claims incurred but not reported (IBNR) for the closed Year of Account.

The provision for outstanding claims is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the Statement of Financial Position date.

The reinsurance to close also includes the estimated costs of claims incurred but not reported at the Statement of Financial Position date based on statistical methods.

###### Claims Outstanding

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurers involved. A number of statistical methods are used to assist in making these estimates.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

##### f. Insurance Contracts (continued)

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

The Directors of the Agency consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the Annual Accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

##### Provisions for Unearned Premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The provision for unearned premiums is predominantly calculated on a monthly pro rata basis with some classes of business such as Space having more complex earnings profiles. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

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

##### g. Provisions

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

##### h. Foreign Currencies

The Syndicate's functional currency and presentational currency is Sterling.

Transactions in US dollars, Canadian dollars, Euros, Australian dollars and Japanese Yen are initially recorded in the functional currency at the average rates of exchange for the period where for practical purposes it is not possible to use the actual rate at the date of transaction.

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 1 Significant Accounting Policies (continued)

##### h. Foreign Currencies (continued)

Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

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

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

##### i. Taxation

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

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

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

##### j. Profit Commission

Profit commission is included within net operating expenses within the Income Statement. It is charged by the Agency at a rate of 17.5% of any cumulative profit on the 2018 Year of Account. This is charged to the Syndicate as incurred but does not become payable until after the appropriate Year of Account closes, normally at 36 months.

##### k. Consortia Income

Consortia income is charged by Syndicate 1955 on certain lines of business, at a rate of 5.0%, 7.5% or 10.0% of Gross written premium (depending on the consortium) on a Year of Account basis. This is charged by Syndicate 1955 as incurred and becomes payable quarterly based on the premium written that quarter. Consortium income is then ceded to the Syndicate in accordance with the quota share agreement.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the Closed 2018 Year of Account for the three years ended 31 December 2020

**2 Segmental Analysis**

## a. Analysis by Class of Business

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

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Reinsurance	131,109	131,109	(106,492)	(35,850)	(4,560)	(15,793)	(26,834)

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

All premiums were concluded in the UK.

## b. Analysis by Geographical Location

Geographical analysis of gross premiums written is based on the location of underlying policyholders, which is not materially different from revenue by source. The geographical analysis of premiums by location of risk is as follows:

	Gross premiums written £000
UK	54,486
EU member states	12,979
USA	40,360
Rest of the World	23,284
Gross premiums written	<u>131,109</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the Closed 2018 Year of Account for the three years ended 31 December 2020

**3 Investment return**

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

	Cumulative balance at 31 December 2020 £000
Investment income	
Income from investments, cash and other deposits	1,141
Gains on realisation of investments	74
Total investment income	<u>1,215</u>
Unrealised gains in investments at fair value through profit or loss	367
Investment management charges	
Investment management expenses, including interest	(35)
Net investment return	<u><u>1,547</u></u>

**4 Net Operating Expenses**

	Cumulative balance at 31 December 2020 £000
Acquisition costs	28,350
Standard personal expenses	2,099
Change in deferred acquisition costs	(510)
Administrative expenses	5,911
Net operating expenses	<u><u>35,850</u></u>

The managing agency fee is included within standard personal expenses.

**5 Staff Costs and Directors' Remuneration****a. Staff costs**

All staff in the Arch Group are employed by Arch Europe Insurance Services Limited ("AEIS"), an Arch group Company. The cost of these staff is mainly borne by Syndicate 1955, with no amounts recharged directly to the Syndicate.

**b. The Syndicate was not recharged any expenses relating to the remuneration of the Directors of the Agency.**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

For the Closed 2018 Year of Account for the three years ended 31 December 2020

**6 Debtors**

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

	2020
	£000
<b>Financial assets that are debt instruments measured at amortised cost:</b>	
Debtors arising out of reinsurance operations – due within one year	12,094
Other debtors	761
	<u>12,855</u>

The debtors arising out of reinsurance operations represents the cession from Syndicate 1955 to the Syndicate on a funds withheld basis.

**Reinsurance to Close Premiums Payable and Receivable**

7 Effective 31 December 2020, the 2018 Year of Account of the Syndicate was closed into Syndicate 1884

	Unearned premiums £000	Claims outstanding £000	Claims incurred but not reported £000	Total £000
Gross	3,007	20,143	24,545	47,695
Reinsurance recoveries anticipated	- 1,847	- 6,794	- 12,981	- 21,622
Net	<u>1,160</u>	<u>13,349</u>	<u>11,564</u>	<u>26,073</u>

### NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the Closed 2018 Year of Account for the three years ended 31 December 2020

#### 8 Related Parties

##### SPA Cessions

Syndicate 1955 cedes reinsurance to the Syndicate on a funds withheld basis.

For the 2018 Year of Account, Syndicate 1955 ceded 33.8% based on its result to the Syndicate. These cessions resulted in the Syndicate receiving £(6.2m) (2019: £19.3m) of reinsurance premium from Syndicate 1955 during the year and having a balance of £12.1m receivable from Syndicate 1955 on a funds withheld basis as at 31 December 2020 (2019: £69.3m).

##### Arch Companies

The Syndicate, along with Syndicate 1955, Syndicate 2012, Syndicate 1856 and Special Purpose Syndicate 6132, is managed by the Agency, whose parent company is Barbican Holdings (UK) Limited. The ultimate parent company is Arch Capital Group Limited, a Bermuda registered company which consolidates the Syndicate result. For the 2018 Year of Account the Agency received profit commission of £nil from the Syndicate.

The Directors consider the ultimate controlling party to be Arch Capital Group Limited.

#### 9 Funds at Lloyd's

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

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

#### 10 Post Reporting Date Events

The 2018 underwriting year is the SPA's last year of participation and it will be closed by Reinsurance to Close (RITC) into Syndicate 1884's 2021 Year of Account.

On February 18, 2021, AMAL entered into an agreement with Premia Managing Agency Limited for the Reinsurance to Close (RITC) of Syndicate 6118's 2018 underwriting Year of Account into Premia Syndicate 1884's 2021 underwriting Year of Account. The RITC covers legacy business underwritten by Syndicate 6118 on the 2018 Year of Account and under the agreement, approximately £26.1 million of net liabilities transferred to Syndicate 1884.

#### 11 Off-Statement of Financial Position items

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

#### 12 Derivatives

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