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SYNDICATE 6103

Report and Financial Statements
31 December 2020

MAP

Underwriting at Lloyd's

CONTENTS

CHAIRMAN'S REPORT

In another busy North American catastrophe year, with two substantial hurricanes and another very damaging outbreak of Californian wildfires driving the Lloyd's market to a loss ratio well over 100% in the class, a loss of just 0.3% on Stamp Capacity after all expenses is an extremely creditable outcome.

The 2019 year is looking very profitable, illustrating the upside of this high risk, high reward syndicate, and 2020 should deliver a positive result on an increasing volume. Although opportunities in 2021 have been somewhat restricted by the continued capital flows into this market sector, the low barriers to entry and the use of flawed pricing models, growth has been achieved as rates start to reach the levels our technical analysis requires.

This combination of relatively modest losses in bad years and substantial profits in quiet catastrophe years shows the value of the syndicate to capital providers and bodes well for the future. We are fortunate to be able to participate in this area where MAP has proven market leading skill.

D E S Shipley
Chairman
24 February 2021

SYNDICATE 6103

Underwriting Year Distribution Accounts
2018 Closed Year of Account
31 December 2020

DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Managing Agent
Managing Agency Partners Limited (MAP)

Directors
K Allchorne (Non-executive)
C E Dandridge (Non-executive)
J D Denoon Duncan
A S Foote (Non-executive)
T P Froehlich (Non-executive)
A Kong
P Langridge
D E S Shipley (Non-executive Chairman)
C J Smelt
R J Sumner
R K Trubshaw (Active Underwriter)

Company Secretary
P Langridge

Managing Agent's Registered Office
Fitzwilliam House
10 St. Mary Axe
London
EC3A 8EN

Managing Agent's Registration
Registered in England; number: 03985640

SYNDICATE

Active Underwriter
R K Trubshaw

Registered Auditor
Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

MANAGING AGENT'S REPORT

The managing agent presents its report for the 2018 year of account of Syndicate 6103 as closed at 31 December 2020.

These financial statements have been prepared in compliance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("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. Separate annual accounts under UK GAAP on the calendar year results are available to all the syndicate's members (see pages 27 to 56).

UNDERWRITER'S REPORT

2018 Year of Account

Capacity £47.7 million

The syndicate's business was written by way of a 30% quota share of all US property catastrophe business (other than terrorism and retrocession business) written by Syndicate 2791. Worldwide business may be written, as long as the predominant exposure is the United States.

The 2018 year closed with a loss of £0.2m to members, equivalent to -0.3% of Stamp capacity, compared with the forecast range of -2.5% to 2.5%. The closing rate of exchange was US$1.37:£1. The RITC is with Syndicate 2791; following the commutation of the quota share reinsurance contract there will be no outstanding residual liability.

Utilisation of capacity

The final utilisation was 35% at closing rates of exchange. No reinsurance was purchased.

Performance review

In September 2017 we took the decision to re-inflate Syndicate 6103 back to a 30% quota share for the 2018 year of account, in expectation that we would experience market conditions similar to 2013 (which had the same percentage cession). The thinking was that not only would 6103 be able to take advantage of a dislocated catastrophe market, the host Syndicate 2791 would also be able to deliver on its gross promises to clients, particularly on those non ceded catastrophic exposed lines (insurance, binders, risk excess, marine etc) which would otherwise be restricted by the specific cat excess of loss reinsurance book. Syndicate 6103 would resume its historic role as a necessary safety-valve for 2791.

Unfortunately, the market failed to move significantly following the poor experience of 2017: indeed, by "doubling down" so readily capital providers effectively negated the opportunity to re-price business. Consequently, it was very difficult for businesses like MAP, which rely on market dislocation to re-underwrite other people's mistakes, to make any meaningful headway. After taking into account the increase in cession, gross premium volume was only up 14% over 2017, still a long way short of historic norms.

Catastrophe incidence was similarly elevated to 2017, with hurricanes Florence and Michael impacting the US, four significant loss events in Asia (which have no effect on 6103), followed by a repeat of the Californian Wildfires. Projected ultimate gross losses for these events are $18.7m (last year $18.8m), with $17.6m incurred at year end (last year $17.1m). The balance of the account relates to attritional loss activity, in particular tornado/hail events (ultimate forecast $3.9m or 17% of loss ratio).

Analysis of premium written by syndicate classification

	Gross written £'000	Net written £'000
Property reinsurance	17,126	17,126

Investment Return

The investment return for the period was a profit of £0.61m. The average annual return on assets held over the last three years is 5.4%. Due to the claims paid, the assets available to Syndicate 6103 have been low over the past three years and the investments have been derisked to be US treasuries only.

The syndicate operates on a funds withheld basis vis-à-vis Syndicate 2791, from which it accepts its business. The contract between the syndicates provides that the investment return receivable by Syndicate 6103 follows that achieved by Syndicate 2791 on its own funds, principally the Credit for Reinsurance Trust Fund in respect of the US dollar balances. If the average balance is negative, an interest expense is calculated on the monthly average at the relevant currency six-month duration Government Bond rate plus 1.5%. The whole of the return is treated as investment income.

The Effect of Exchange Rates on the 2018 Distribution Account

As these accounts are reported over the three consecutive years from 2018, during which the GBP:US dollar exchange rate has moved from an average of 1.34 to a closing rate of 1.37 at the end of 2020, this has resulted in an exchange loss of £0.06m versus the average rates over the three-year period as further set out in note 8.

2019 Year of Account Forecast

After two painful years, the market finally started to move in a more positive direction. Most of the improvement was limited to catastrophe exposed lines of business, which directly benefitted Syndicate 6103, although technical rate adequacy on large Nationwide portfolios was still difficult to achieve. Gross premium volume is up 22% over 2018, to a level slightly less than that last seen in 2013.

The United States had no major events in 2019, although Hurricane Dorian, which devastated the Bahamas, was a narrow miss for Florida. On the other hand, severe convective storms continue to affect the reinsurance book, often exhibiting a similarly lengthened development pattern to major catastrophes.

Although Covid-19 manifested itself in the international consciousness early in 2020, we believe any reinsurance impacts will likely be weighted towards the 2019 year of account, not least because the bulk of the book is not renewed until after April 1st. There is only one account where we feel there is a potential expectation of explicit indemnity. Following Syndicate 2791, we have adopted a contingent provision against policy leakage or legal interpretations thereof, which could potentially result in future claims, although our book is weighted towards small, regional personal lines carriers, where business interruption should be less material.

This is clearly an evolving situation, which will likely exercise the industry for years to come, and we will be keeping a constant eye on developments.

At year end our gross ultimate provision for Covid-19 is $0.8m, of which $0.5m pertains to the 2019 year of account. No claims had been notified as at year end.

There is no longer any business still on risk, and, subject to the issues outlined above, the year should ultimately generate a reasonable return. The forecast range is a profit between 20% and 30% of stamp capacity.

An estimate of the 2019 underwriting result as at 36 months is set out below:

	£'000
Stamp capacity	47,548
Gross premiums written	20,425
Net premiums written	20,425
Claims incurred – net of reinsurance	(5,367)
Net operating expenses	(986)
Investment return	1,237
Profit commission	(2,119)
Personal expenses	(141)
Estimate of profit for the year of account after personal expenses	13,049

Assumptions underlying the 2019 Estimated Result:

(i) Exchange rates at 31 December 2021 will not be materially different from those at 31 December 2020.
(ii) Investment returns attributable to 2019 during 2021 = 0.25% for US dollar and 0.00% for all other currencies.
(iii) Claims will be paid in line with our expected development patterns.

2020 Overview

The market was already changing a year ago, in response to poor attritional performance, elevated catastrophic experience and depressed investment yields. How much this has been further exacerbated by the impact of Covid-19 is difficult to judge, but there seem to be three main issues.

Firstly, is the effect on the liability side of the industry balance-sheet, with claimants in particular attempting to trigger business interruption coverage. As outlined above, MAP is not directly involved in most of the obvious high-profile areas, and, whatever the ultimate quantum, we are very likely relatively underweight. Certainly, few coverage issues have been finalised to date, and this is highly likely to be a long-term tax on the industry, whether it be litigation expense, defence costs, reinsurance recoverables and/or management time in addition to ultimate indemnity. At present there is a large gap between stated market expectations of ultimate loss and held reserves. Somebody is always wrong, and how insurers digest this evolving risk will influence strongly how they behave in the marketplace going forward.

The second impact is on the asset side of the balance-sheet, certainly in terms of reduced investment yields, and potentially in increased pressures on solvency as certain asset classes are re-based in a post pandemic world. It should be easier for small, independent entrepreneurial businesses like MAP to compete in an increasingly risk-averse environment, given we are not reliant on investment yield to underpin an unbalanced risk-return.

The third impact is the logistics of remote working. MAP was born 20 years ago, working from home, so in a way we have simply come full circle. It is certainly relatively easier to operate if you have a small number of like-minded people, all of whom are principals in the business and are used to operating without branch offices or extended management-reporting lines.

The proof is in the pudding, they say, and it is pleasing to report that we have written 40% more gross premium than in 2019, slightly exceeding our original business plan forecast. Moreover, in certain areas such as Florida, Texas and the North-East, the syndicate's maximum risk appetite was reached, and cessions were curtailed. On the other hand, 2020 was an elevated catastrophe year (Covid-19 apart), particularly in the US, and there are strong indications that claims cost inflation across many classes is running much higher than the general economy. Doubtless lock-down restrictions are contributing to this, whether that be through extended repair-times, contractor availability or interrupted supply-chains. Nevertheless, there is an observable, underlying inflationary trend that is often being missed by standard industry models, which needs to be evaluated correctly and priced for.

Our ultimate gross loss estimate for Hurricane Laura (which struck Louisiana in August, causing around $12bn of insured damage) across all years of account is $13.4m, of which $8.0m was incurred at year end. The balance of account had incurred losses of $6.6m, representing 19.0% of loss ratio, which will likely develop significantly.

Consequently, our forecast profitability at this early stage is less than planned, although, contingent upon the absence of any future major catastrophic impacts, the year should ultimately generate a positive return.

2021 Trading Conditions

Given the continuing disruption in the market, coupled with the fact that the syndicate filled its risk appetite in key zones in 2020, we chose to expand capacity from £50m to £66m for 2021. Note that in US Dollar terms (the working currency for the syndicate) this represents $81.8m versus $63.5m in 2020, a 29% increase. Although only 25% of the book is renewed at 1/1, January to January premium volume is up over 30% as rating continued to strengthen, and hitherto under-priced business came up to our technical standards.

As outlined above, the market is facing years of Covid-19 indigestion, but it was noticeable that very few hard decisions were taken concerning coverage at year-end, (with even the UK Supreme Court ruling not coming until mid-January). Most carriers were content to 'kick the can down the road', but eventually the thorny issues surrounding reinsurance recoverables (particularly if collateralised) will need to be addressed. The market has been reasonably cogent in developing effective exclusionary language going forward, (despite the pig-headed posturing of certain broking houses), not least because a product which every policy-holder can call on at the same time is by definition uninsurable. Insurance is the ultimate leverage game, and relies on risk diversification through time, geography and amount: £100 of indemnity on average requires 25p of premium and 25p of capital. A promise to pay policy limits to everyone at the same time is clearly false. (Global asteroid impact would be the nearest analogy).

New capital is (probably) less affected by the pandemic and has had a dampening effect on the market already, not necessarily because of anything it is actively selling, but its very presence has caused the holding markets to be more defensive of their positions, particularly the Europeans. Perhaps more pertinent is the background of the Capital Markets, awash with cheap money, and desperate for yield, which is causing them to constantly look at the insurance industry as an asset class – even despite the poor performance of recent years, and questionable status as an uncorrelated exposure.

This brings me on to a perennial bugbear: the inadequate calibration of so-called proprietary rating models. The problem is that the intellectual barriers to entry in property reinsurance are negligible: all one needs is a large bank balance and a computer. It really is just 'plug and play', and most new entrants into our industry are easily seduced. The problem is what they are being fed (via the counterparty's intermediary) is risk-output from a severely under-cooked model. I find it particularly ironic that industry veterans will regularly opine on global warming and climate change, quite rightly pointing out the very real threats to the industry and societies around the World. Yet their organisations are still pricing to the same mis-calibrated metrics that were in place 5 years ago, despite the heightened catastrophic frequency since 2016, in both the Atlantic and Pacific, despite deterioration in loss estimates, despite the proliferation in wildfires in California and Australia – and that is observed reality, let alone whether the future will actually be even more extreme. Unfortunately, should these industry veterans actually deliver on their rhetoric and become more risk averse (and put their prices up), they would be rapidly undercut. In the past, after similar reality checks, (notably after Katrina in 2005), models were re-set to reflect the observed, empirical data. For whatever reason, this hasn't happened yet. Until it does, any business that operates with a more prudent risk metric, as we do, will pay the price of being relatively uncompetitive, particularly on the larger Nationwide contracts.

Seven Year Summary of Closed Years of Account

	Note	2012	2013	2014	2015	2016	2017	2018
Syndicate allocated capacity (£m)		31.5	41.2	30.0	12.5	13.9	15.7	47.7
Number of Underwriting Members		909	997	1,039	991	975	997	1,056
Aggregate net premiums (£m)		24.8	19.4	9.2	4.7	4.9	5.3	17.1
Results for illustrative share of £10,000		%	%	%	%	%	%	%
Utilisation of capacity at premium income monitoring rates of exchange		84.1	48.8	33.0	33.3	30.0	33.3	36.9
Gross premiums written (% of illustrative share)		85.3	48.9	30.6	37.6	35.1	33.4	35.9
Net premiums (% of illustrative share)		78.8	47.0	30.6	37.6	35.1	33.4	35.9
Profit/(Loss) (% of gross premiums)		29.9	77.9	89.3	81.9	59.6	(19.0)	(1.0)
Results for illustrative share of £10,000		£	£	£	£	£	£	£
Gross premiums	1	8,526	4,889	3,058	3,755	3507	3,343	3,591
Net premiums		7,881	4,702	3,058	3,755	3507	3,343	3,591
Reinsurance to close from an earlier year of account	2	–	–	–	–	–	–	–
Net claims		(3,285)	(328)	(503)	(385)	(949)	(3,267)	(3,108)
Reinsurance to close	3	(1,273)	(47)	(5)	38	(20)	(548)	(431)
Underwriting profit/(loss)		**3,323**	**4,327**	**2,550**	**3,408**	**2,538**	**(472)**	**52**
Acquisition costs	1	–	–	–	–	–	–	–
Other syndicate operating expenses, excluding personal expenses		(486)	(289)	(179)	(218)	(203)	(189)	(201)
Reinsurers' commissions and profit participations		–	–	–	–	–	–	–
Exchange movement on foreign currency translation		35	255	659	287	114	22	(14)
Net investment income		117	143	68	90	(9)	4	128
Illustrative personal expenses:							–	
Managing agent's fee	4	–	–	–	–	–	–	–
Profit commission	5	(443)	(627)	(366)	(492)	(349)	–	–
Other personal expenses	6	–	–	–	–	–	–	–
Profit/(Loss) after illustrative personal expenses and illustrative profit commission		**2,546**	**3,809**	**2,732**	**3,075**	**2,091**	**(635)**	**(35)**

1. The syndicate is not charged with brokerage costs.
2. Reinsurance to close from earlier years of account have been accepted by Syndicate 2791.
3. Reinsurance to close is stated at relevant average rates applicable or when reserves were first set for each year of account.
4. The syndicate is not charged a managing agent's fee.
5. Profit commission is reported on a pro forma basis before the application of the deficit clause brought forward.
6. The syndicate is not charged personal expenses directly but an equivalent overriding commission of 1% of gross premiums written is included in syndicate operating expenses.

Solvency Capital Requirement

The managing agent is required to provide a Solvency Capital Requirement (SCR) to Lloyd's which sets the capital required to be held by the members of the syndicate for the prospective underwriting year. Lloyd's syndicate SCRs are combined to provide the basis of the Lloyd's internal model which the Prudential Regulation Authority originally approved in December 2016.

This amount is derived from the syndicate's loss distribution, which is calculated internally. It is the loss at the 99.5th confidence level, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one-year SCR) for Lloyd's to use in meeting Solvency II requirements.

The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it is participating but not another member's shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis.

Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Requirement (ECR). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 is 35% of the member SCR 'to ultimate'.

The syndicate current capital requirement has been established using our internal Solvency II model which has been run within the capital regime as prescribed by Lloyd's. The internal model uses sophisticated mathematical models reflecting key risks within the syndicate. The risks are principally Insurance (catastrophes, pricing and reserving), Market (equity, liquidity, currency, interest rate and spread), Credit (brokers, investment and reinsurance) and Operational.

The following table sets out the syndicate's ECR which is unaudited:

2018 Approved Capital

Lloyd's ECR

	2018 £m
6103	116.0

European Union business

In order to ensure continued market access to European (re)insurance business following the U.K.'s commitment to exit the European Union, Lloyd's established a Belgian subsidiary - Lloyd's Insurance Company S.A.

Authorised and regulated as an insurance entity by the National Bank of Belgium and regulated by the Belgian Financial Services and Markets Authority, this 100% owned European domiciled subsidiary is capitalised in accordance with Solvency II rules and is licensed to write non-life risks across the European Economic Area (EEA), the UK and Monaco.

Since 1st January 2019, all European non-life business has been directly underwritten by Lloyd's Insurance Company S.A. and 100% reinsured back to the relevant Lloyd's syndicates with this structure facilitating both continuity with European business partners and policyholders and access to the underwriting expertise of the Lloyd's market and its established distribution channels.

Because of this structure, all direct European Union business written from 1 January 2019 has been presented as reinsurance accepted in the annual syndicate accounts.

In addition to its own capital, Lloyd's Insurance Company S.A. benefits from certain Lloyd's central resources, including the Lloyd's Central Fund and Lloyd's unique capital structure, often referred to as the 'Chain of Security'.

With the UK formally committed to leaving the EU at the end of 2020, Lloyd's obtained the necessary legal consent to undertake a Part VII transfer to Lloyd's Insurance Company S.A. with effect from 30th December 2020 in order to ensure the orderly run-off of existing EEA policies and claims without any breach of legal or regulatory requirements.

Syndicate 6103 is currently unaffected by this subsidiary due to its wholly United States reinsurance focus and consequently had no Part VII transfer. However, along with all Lloyd's syndicates it may be affected by future changes in UK-US-European passporting rules.

Future Developments

The syndicate continues to transact United States reinsurance business that it has transacted historically.

Disclosure of Information to the Auditors

So far as each person who was a director of the managing agent 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/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

This managing agent's report was approved by the Board of Managing Agency Partners Limited on 23 February 2021 and signed on its behalf by:

R K Trubshaw
Active Underwriter
Managing Agency Partners Limited
24 February 2021

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 ('the Lloyd's Regulations') require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

The managing agent must prepare the syndicate underwriting year accounts which give a true and fair view of the result of the closed year of account.

In preparing the syndicate underwriting year accounts, the managing agent 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 as 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 of 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 these underwriting year accounts.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Lloyd's Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT

to the Members of Syndicate 6103

Independent auditor's report to the members of Syndicate 6103 – 2018 closed year of account

Report on the audit of the syndicate underwriting year accounts for the 2018 closed year of account for the three years ended 31 December 2020

Opinion

In our opinion the syndicate underwriting year accounts of Syndicate 6103 (the 'syndicate'):

- 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 including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

We have audited the syndicate underwriting year accounts which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of cash flows; and
- the related notes 1 to 14.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "the Financial Reporting Standard applicable in the UK and Republic of Ireland", the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and 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.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate underwriting year accounts in the UK, including the Financial Reporting Council's (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.

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 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 this gives rise to a material misstatement themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate underwriting year accounts under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005), and for being satisfied that they give a true and fair view of the result, and for such internal control as the managing agent determines is necessary to enable the preparation of 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.

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

Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the underwriting year accounts. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the underwriting year accounts but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team including relevant internal specialists such as actuarial and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the underwriting year accounts.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- Auditing standards require that we presume there to be a significant risk of fraud relating to the recognition of revenue.The sole source of written premium for Syndicate 6103 is premium ceded under a quota share reinsurance contract for certain classes of business with Syndicate 2791, which is managed by the same managing agency. The accuracy of recorded premium therefore has the potential to be manipulated by management. In response we have tested that management have identified the right policies and premiums to be ceded to Syndicate 6103 and have applied the correct ceding percentage as per the quota share reinsurance terms.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing underwriting year accounts disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the underwriting year accounts;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and

- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Lloyd's.

Report on other legal and regulatory requirements

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

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

- the information given in the managing agent's report for the financial year for which the syndicate underwriting year accounts are prepared is consistent with the syndicate underwriting year accounts; and
- the managing agent's report has been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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 any material misstatements in the managing agent's report.

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) we are required to report in respect of the following matters if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate or proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records or
- we have not received all the information and explanations we require for our audit; or
- the syndicate underwriting year accounts are not in compliance with the requirements of paragraph 5 of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 6 of 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Downes, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK

24 February 2021

INCOME STATEMENT TECHNICAL ACCOUNT – GENERAL BUSINESS

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

	Note	2018 £'000
Syndicate allocated capacity		47,696
Earned premiums, net of reinsurance:		
Gross premiums written	3	17,126
Outward reinsurance premiums		–
Earned premiums, net of reinsurance		17,126
Allocated investment return transferred from the non-technical account		611
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(14,823)
Reinsurance to close premium payable, net of reinsurance	4,5	(2,055)
Net operating expenses	6	(960)
Balance on the technical account – general business	9	(101)

INCOME STATEMENT NON-TECHNICAL ACCOUNT

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

	Note	2018 £'000
Balance on the general business technical account		(101)
Investment income	10	611
Allocated investment return transferred to general business technical account		(611)
Non-technical account foreign exchange	8	(1)
Loss for the 2018 closed year of account excluding other comprehensive income		(102)

STATEMENT OF COMPREHENSIVE INCOME

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

	Note	2018 £'000
Loss for the 2018 closed year of account excluding other comprehensive income		(102)
Exchange differences on foreign currency translation	8	(63)
Loss for the 2018 closed year of account including other comprehensive income being the loss to be collected from members		(165)

STATEMENT OF FINANCIAL POSITION

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

	Note	2018 £'000
Assets		
Debtors	*11*	17,155
Total assets		17,155
Liabilities		
Amounts due to/(from) members	*12*	(165)
Reinsurance to close premium payable to close the account – gross amount	*5*	2,347
Other creditors	*13*	14,973
Total liabilities		17,155

The financial statements on pages 15 to 25 were approved by the Board of Managing Agency Partners Limited on 23 February 2021 and were signed on its behalf by:

R K Trubshaw
Active Underwriter

R J Sumner
Finance Director

24 February 2021

STATEMENT OF CASH FLOWS

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

	Note	2018 £'000
Operating loss on ordinary activities		(102)
Movement in gross technical provisions		2,347
Movement in debtors		(17,155)
Movement in creditors		14,973
Investment return		(611)
Exchange differences on foreign currency translation		(63)
Net cash inflow/(outflow) from operating activities		(611)
Cash flows from investing activities		
Income accrued from 2791		611
Increase/(decrease) in cash and cash equivalents		–
Cash and cash equivalents at 1 January		–
Cash and cash equivalents at 31 December		–

The syndicate operates on a funds withheld basis. Consequently, there are no movements in cash, portfolio investments and financing.

NOTES TO THE ACCOUNTS

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

1.1 Basis of Preparation and Statement of Compliance

These financial statements 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.

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.

The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires the aggregation of movements in each of the three calendar years for any Underwriting Year of Account. For 2018's Underwriting Year Distribution Account each calendar year result is aggregated using the relevant years' average rate for each item in the income statement.

The financial statements are prepared under the historical cost convention.

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 with the income statement and the statement of cash flows reflecting the transactions for that year of account during the three-year period until closure.

As each syndicate year of account is a separate annual venture, comparatives are not required to be disclosed.

Reinsurance to close

A Reinsurance to Close (RITC) is a reinsurance which closes a year of account and transfers the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year) plus the right to any income due to the closing year of account into an open year of account of the same or a different syndicate in return for a premium.

Effective at each year-end 31 December, the RITC process means that all assets and liabilities have been transferred to a reinsuring year of account. To this extent, the risks that the syndicate is exposed to 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 FRS 102 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 FRS 102 and FRS 103, such as the disclosure of a Statement of Changes in Members' Balances, have not been provided as they are not required for a proper understanding of the underwriting year accounts.

The functional currency is US dollars, but the financial statements are prepared in sterling which is the presentational currency of the syndicate and rounded to the nearest £'000.

Syndicate 6103 operates on a funds withheld basis with Syndicate 2791 which cedes business under a quota-share treaty to Syndicate 6103. Syndicate 2791 is also managed by the managing agent, MAP. Syndicate 6103 holds no cash or investments. All the syndicate's funds are held by Syndicate 2791 which makes payments of liabilities on Syndicate 6103's behalf. Debtors and creditors between the syndicates are grossed up in the syndicate statement of financial position and upon the closure of each year of account, normally after 36 months, the assets and liabilities of that closing year are netted off as part of the commutation settlement with Syndicate 2791.

1.2 Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements require 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.

In the course of preparing the financial statements no judgements have been made in the process of applying the syndicate's accounting policies, other than those involving estimations that have had a significant effect on the amounts recognised in the financial statements.

However, the nature of estimation means that actual outcomes could differ from those estimates.

It should however be noted that upon RITC the uncertainties are transferred to the accepting year of account of Syndicate 2791.

The following are the syndicate's key sources of estimation uncertainty:

Insurance contract technical provisions (reinsurance to close premium payable) (see note 5)

For insurance contracts estimates must 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 reported (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some types of policies IBNR claims can 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, Bornheutter-Ferguson methods and individual reserving at contract level.

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. The provision for claims outstanding 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, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

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 pricing and other models of the business accepted and assessments of underwriting conditions.

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

The directors consider 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 claim provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. In addition, where losses are not settled until several years after the expiration of the policy in question, the estimates are considered to be more volatile and consequently are subjected to additional management judgemental prudence adjustments. The methods used, and the estimates made, are reviewed regularly.

Where the amount of any material salvage and subrogation recoveries is separately identified it is reported as an asset.

Changes in assumptions, quantum or complexity of claims can affect the value of these provisions.

2. Accounting Policies

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three-year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium.

Insurance contracts

An insurance contract (including inwards reinsurance contract) is defined as a contract containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause the syndicate to pay significant additional benefits in any scenario. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year of account. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified received at the statement of financial position date.

Premiums are treated as fully earned and are disclosed before the deduction of taxes or duties levied on them.

Acquisition costs

The syndicate is not charged with acquisition costs and has no deferred acquisition costs.

Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the year of inception. Premiums ceded to reinstate reinsurance cover or additional premiums payable on loss are recognised when they may be assessed with reasonable certainty. The syndicate has not purchased any reinsurance for the 2018 year of account.

Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums receivable in the event of a claim being made are charged to the same year of account as that to which the claim is debited.

2. Accounting Policies *continued*

Reinsurance to close premium payable

The reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported) net of any estimated collectable reinsurance recoveries relating to the closed year of account.

The estimate of claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date together with the provision for related claims handling costs. It also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

Future unallocated loss adjustment expenses

An accrual for all future unallocated loss adjustment expenses ('ULAE') is made if applicable. The ULAE is comprised of those costs which are related to the settlement of earned claims, but which are not directly attributable to individual claims. ULAE expenses are undiscounted and include the expenses of managing the run-off of the business on the basis the business is a going concern. Costs of administration of the reinsurance programme are included in the gross ULAE. Separate reserves are established for each year of account.

Legal provisions

The syndicate may be subject to legal disputes in the normal course of business. Provisions for such events and their related costs are recognised within expenses and accruals where there is an expected present obligation relating to a past event or evidence exists of the requirement for a general provision that can be measured reliably, and it is probable that an outflow of economic benefit will be required to settle an obligation.

The directors of the managing agent do not expect the outcome of these claims, either individually or in aggregate, to have a material effect upon the syndicate's operations or financial position. As allowed by FRS 102, further disclosure has not been given as it may seriously prejudice the outcome of any legal proceedings.

Insurance receivables and payables

Insurance receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration received. They are derecognised when the obligation is settled, cancelled or expired.

Bad debt

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

Foreign currency translation

Financial Reporting Standard 102 requires each entity to identify its functional currency and a presentational currency. The functional currency is identified as the currency of the primary economic environment in which the entity operates. The functional currency of this syndicate is US dollars as the majority of the underwriting business, cash flows and expenses are in US dollars. We have chosen to maintain our presentational currency as sterling as the syndicate is based in the UK, complies with UK reporting standards and this enables simpler comparisons to other Lloyd's insurance syndicates.

The syndicate records transactions in four settlement currencies being sterling, US dollars, Canadian dollars and Euros and when reported these currencies are translated in the income statement at the average rates of exchange for each calendar year of the 36-month period respectively. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

As permitted by FRS 103, the syndicate has continued with its existing accounting policy to treat non-monetary assets and liabilities arising from insurance contracts (which include items such as unearned premiums and deferred acquisition costs) the same as monetary assets and liabilities. Consequently, all assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date or, if appropriate, at the forward contract rate.

Exchange differences from the functional currency (US dollars) arising from the retranslation of opening balances and between average and year-end rates to the presentational currency are included in the statement of comprehensive income.

All other exchange differences are included in the general business non-technical account.

2. Accounting Policies *continued*

Foreign currency translation continued

Where Canadian dollars or Euros are sold or bought relating to the profit or loss of the closed underwriting account after 36 months, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where US dollars relating to the profit or loss of a closed underwriting account are bought or sold by the syndicate on behalf of the members on that year, any exchange profit or loss accrues to those members.

The following rates of exchange to sterling have been used in the preparation of these accounts.

	Year-end rate	Average rates during		
	2020	2020	2019	2018
USD	1.37	1.28	1.28	1.34
CAD	1.74	1.72	1.69	1.73
EUR	1.12	1.13	1.14	1.13

Investments

The syndicate does not hold any investments or derivatives.

Investment return

Investment return comprises an allocation, calculated on the monthly average of the Total Funded Paid Experience balance with Syndicate 2791 (equivalent to the premiums received, claims paid, ceding commission, interest expenses and income). This return is equal to the rate of investment return on its Credit for Reinsurance Fund for US dollar denominated balances achieved by Syndicate 2791 on its invested funds during the relevant month. Interest on other currency positive balances is credited at rates achieved by Syndicate 2791 on those currencies for the relevant month.

If the average balance is negative, an interest expense is calculated on the monthly average at the relevant currency six-month duration Treasury Bill rate plus 1.5%. The whole of the return is treated as investment income.

Allocation of investment return

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments are generated by insurance related assets.

Operating expenses

All current and future syndicate expenses at the statement of financial position date, including audit fees, are charged to and borne by Syndicate 2791 for which the syndicate is charged a ceding commission of 5% of gross premiums written. Personal expenses (Lloyd’s subscriptions and central fund) which are charged to Syndicate 2791 are covered by an overriding commission of 1% of gross premiums written.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members’ agents is gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the statement of financial position under the heading ‘debtors’. No provision has been made for any overseas tax payable by members on underwriting results.

Profit commission

Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause. This is charged to the syndicate on an earned basis but does not become payable until after the year of account closes, normally at 36 months. When the syndicate makes a loss, that loss will be debited by member until fully utilised reducing the following two years of account's results for the purpose of calculating profit commission.

3. Segmental Analysis

All the syndicate's business, as set out in the technical account, is classified as reinsurance accepted and all premiums were concluded in the UK. The geographical situs of the risks is principally the USA.

4. Movement in Underwriting Reserves

The following table reconciles the reinsurance to close in the income statement to the statement of financial position:

	Reserves at average rates £'000	Exchange to closing rate £'000	Closing RITC £'000
Change in three-year period (2018 pure)	(2,055)	(292)	(2,347)
	(2,055)	(292)	(2,347)

5. Reinsurance to Close Premium Payable

	2018 pure £'000
Gross and net outstanding claims	823
Provision for gross and net claims incurred but not reported	1,524
Net premium for reinsurance to close	2,347

The reinsurance to close is effected to the 2019 year of account of Syndicate 2791.

6. Net Operating Expenses

	£'000
Outwards profit commission	–
Other administrative expenses	(960)
	(960)

Other administrative expenses comprise Lloyd's subscriptions, central fund contributions and the ceding commission payable to Syndicate 2791 in accordance with the terms of the contract. All other syndicate expenses, including audit fees, are charged to and borne by Syndicate 2791 for which the syndicate is charged a ceding commission of 5% of gross premiums written. Personal expenses are also charged to Syndicate 2791, but these are covered by an equivalent charge of 1% of gross premiums written.

The ceding commission within the administrative expenses include:	£'000
Auditors' remuneration from Deloitte LLP during the period 1st Jan 2018 to 31st Dec 2020	
Fees for the audit of the syndicate	15
Audit-related assurance	19
Other non-audit services	–
	34

Audit related assurance includes reporting required by law and regulation, reviews of interim financial information and reporting on regulatory returns.

Non-audit service fees relate to actuarial valuation services and for the provision of the Syndicate Actuarial Opinions (SAO) to Lloyd's and HMRC.

7. Staff Numbers and Costs

All staff are employed by the managing agent. No recharge of payroll costs or in respect of directors' remuneration is made specifically to the syndicate – all such charges are made to Syndicate 2791 and covered by the ceding commission. Profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

8. Exchange Gains and Losses

Exchange gains and losses arise as follows:

	£'000
On 2018 balances brought forward at 1 January 2020: from opening to closing rates	(90)
On transactions during the calendar year: from average to year end rates	26
	(64)
Represented by:	
Non-technical account foreign exchange	(1)
Exchange differences on foreign currency translation	(63)
	(64)

9. Balance on the Technical Account – General Business

All income and expenses relate to the 2018 pure year of account.

10. Investment Income

	£'000
Investment income	611

11. Debtors

	£'000
Arising out of reinsurance operations	16,693
Inter-syndicate loans	267
Members' agents' fees advances	189
Non-standard personal expenses due from/(to) members	6
	17,155

All debtors are due from Syndicate 2791 and, as the syndicate operates on a funds withheld basis, are settled on closure of the account.

12. Amounts Due from Members

	£'000
Loss for the 2018 closed year of account due from members at 31 December 2020	(165)

13. Other Creditors

	£'000
Arising out of reinsurance operations	14,973
Profit commissions	–
Inter-syndicate loan	–
	14,973

All creditors are payable to Syndicate 2791 and, as the syndicate operates on a funds withheld basis, are settled on closure of the account.

14. Related Parties

The managing agency (MAP), the Syndicates 2791 and 6103 and the directors of MAP are all related parties.

- MAP's relationship to the syndicates is governed by a managing agent's agreement.
- The syndicates relationship to each other is governed by a reinsurance contract for each year of account.
- Some of the directors of the managing agency own shares in the managing agent and receive remuneration from the managing agent based on MAP's profitability.
- The directors also participate alongside other capital providers in the syndicate via two unrelated entities MAP Capital Limited and Nomina 208 LLP.
- An investment fund in which the syndicate formerly held investments participated in the syndicate's capital and is deemed a related party by virtue of its participation in Syndicate 2791.

MAP's relationship to the syndicates

No managing agency fees are charged from MAP to this syndicate in 2018. Profit commission of £nil is due to the managing agent in respect of the results for this year of account.

No expenses are recharged to this syndicate from MAP. All recharges made by MAP to Syndicate 2791 are covered by the ceding commission paid by this syndicate to Syndicate 2791. There is no management compensation charged to this syndicate, see note 7. No profit related remuneration is payable by the syndicate to employees of MAP. The managing agency agreement contract setting out fees and profit commission payable to the managing agent is under standard terms set out by Lloyd's.

The syndicates relationship to each other

The underwriting business of Syndicate 6103 is derived solely under a reinsurance contract with Syndicate 2791. Under the terms of this contract:

- Syndicate 6103 is obliged to accept 30% for 2018 year of account of all business written by Syndicate 2791 under certain categories of its property catastrophe book depending on the year of account. Syndicate 2791 retains the balance of this book net for its own account.
- Syndicate 2791 receives a ceding commission of 5% and an overriding commission of 1% of gross written premiums ceded to Syndicate 6103 to cover personal expenses of Syndicate 6103 names borne by Syndicate 2791.
- A profit commission of 15% of profits, as defined in the contract, is payable to MAP.
- All funds are retained and invested by Syndicate 2791 on behalf of Syndicate 6103 and interest is payable (or charged on negative balances) to Syndicate 6103 at rates agreed.

Under the terms of the reinsurance contract the balance owed by Syndicate 2791 to Syndicate 6103 at the end of the period is £0.2m and will be settled through the Lloyd's distribution process. There are no other conditions or guarantees offered by Syndicate 2791 to Syndicate 6103 under the reinsurance contract.

14. Related Parties *continued*

The following transactions between the syndicates occurred for the 2018 year of account:

	£'000
Premiums ceded	17,126
Paid claims recovered	(14,823)
Ceding commission	(789)
Overriding commission	(171)
Investment income receivable	611
Reinsurance to close premium	(2,055)
Profit commission payable	–

The directors' ownership of MAP

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agent and syndicate.

The directors' interests in the ordinary share capital of MAP Equity Limited the ultimate holding company, which has an issued share capital of 250,000 £1 shares, at the statement of financial position date were as follows:

	A Shares (voting)	B Shares (non-voting)
R K Trubshaw	33,000	–
A Kong	22,000	–
J D Denoon Duncan	–	8,333
P Langridge	–	2,500
C J Smelt	5,000	2,500
R J Sumner	–	10,000

The directors' participations in the syndicate

Messrs. Shipley, Denoon Duncan, Kong, Trubshaw, Sumner and Smelt, or their related parties, participate on Syndicate 6103 via a dedicated, but unaligned to the managing agent, corporate member MAP Capital Limited and a corporate member, Nomina No 208 LLP.

For the 2018 year of account MAP Capital Limited provided £2.6m of capacity on Syndicate 6103 representing 5.5% of capacity.

For the 2018 year of account Nomina No 208 LLP has provided £1.6m of capacity representing 3.3% of capacity.

MAP has no direct or indirect interest in MAP Capital Limited or Nomina No 208 LLP.

All capital is provided on an arm's length basis.

There are no other transactions or arrangements requiring disclosure.

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SYNDICATE 6103

Annual Report and Accounts
31 December 2020

DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Managing Agent
Managing Agency Partners Limited (MAP)

Directors
K Allchorne (Non-executive)
C E Dandridge (Non-executive)
J D Denoon Duncan
A S Foote (Non-executive)
T P Froehlich (Non-executive)
A Kong
P Langridge
D E S Shipley (Non-executive Chairman)
C J Smelt
R J Sumner
R K Trubshaw (Active Underwriter)

Company Secretary
P Langridge

Managing Agent's Registered Office
Fitzwilliam House
10 St. Mary Axe
London
EC3A 8EN

Managing Agent's Registration
Registered in England; number: 03985640

SYNDICATE

Active Underwriter
R K Trubshaw

Registered Auditor
Deloitte LLP
Hill House
1 Little New Street
London
EC4A 3TR

The directors of the managing agent present their report for the year ended 31 December 2020. The principal activity of the syndicate is that of writing reinsurance business.

This annual report is prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations'), FRS 102 and FRS 103 being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

Separate underwriting year accounts for the closed 2018 year of account are attached to these accounts in the section headed Underwriting Year Distribution Accounts (pages 3 to 25).

The syndicate commenced underwriting for the 2007 year of account. All 2017 and prior years have been reinsured into Syndicate 2791. From the 2018 year of account its business was written by way of a 30% quota share of all US property catastrophe business (other than terrorism and retrocession business) written by Syndicate 2791. Worldwide business may be written, as long as the predominant exposure is the United States.

The syndicate is charged a 5% ceding commission and an overriding commission of up to 1% of gross premiums written under the contract to cover administration expenses, Lloyd's levies and subscriptions borne by Syndicate 2791. The syndicate does not pay any brokerage costs. A profit commission of 15% of any underwriting profit is payable to the managing agent. The syndicate has not purchased reinsurance protection for the 2018 or 2019 years of account but did so for the 2020 year of account. The maximum net exposure appetite is managed to 125% of capacity, after reinstatement premium, in any one of Lloyd's mandated Realistic Disaster Scenarios.

UNDERWRITER'S REPORT

A Review of the Calendar Year Result

These financial statements are prepared focusing on the calendar year results under UK Generally Accepted Accounting Practice (GAAP) for insurance companies.

The 2020 calendar year produced an annually accounted profit of £4.9m (2019: £13.7m) on net earned premiums of £30.9m (2019: £20.1m). All the syndicate's business comprises US property catastrophe risks. The net combined ratio was 85.8% (2019: 32.3%).

Movement on underwriting years of account during the 2020 calendar year

	2018 £'000	2019 £'000	2020 £'000	**Total** **£'000**	2019 £'000
Gross written premium	17	781	31,226	**32,024**	21,040
Net premium earned	17	3,160	27,692	**30,869**	20,099
Net claims incurred	(672)	(2,939)	(20,034)	**(23,645)**	(3,225)
Operating expenses	(4)	(172)	(2,672)	**(2,848)**	(3,264)
Investment income	255	1,113	25	**1,393**	489
Non-technical account foreign exchange gains and (losses)	(3)	(3)	(7)	**(13)**	(6)
Annual accounted profit/(loss)	(407)	1,159	5,004	**5,756**	14,093
Currency translation differences	19	(527)	(329)	**(837)**	(345)
Total comprehensive income	(388)	632	4,675	**4,919**	13,748
As previously reported	223	12,364	–	**12,587**	(2,157)
Cumulative pure year result	(165)	12,996	4,675	**17,506**	11,591
Net annual accounting ratios:					
Claims ratio				**76.6%**	16.1%
Expense ratio				**9.2%**	16.2%
Combined ratio				**85.8%**	32.3%

UNDERWRITER'S REPORT *continued*

A Review of the Calendar Year Result *continued*

	2020 Gross written £'000	**2020 Net written £'000**	**2020 Net earned £'000**	**2020 Underwriting profit £'000**
Property reinsurance	**32,024**	**31,795**	**30,869**	**5,756**

	2019 Gross written £'000	2019 Net written £'000	2019 Net earned £'000	2019 Underwriting profit £'000
Property reinsurance	21,040	21,040	20,099	14,093

2020 Overview

The market was already changing a year ago, in response to poor attritional performance, elevated catastrophic experience and depressed investment yields. Dislocation caused by Covid-19 accelerated this process, such that net earned premium volume was up 54% over 2019. There are no back years, due to the commutation agreement with Syndicate 2791; the open year 2018 saw a slight deterioration in loss picks from severe convective storms, whereas 2019 saw an overall improvement. Despite an above average catastrophe year in 2020, a modest profit has been generated.

2021 Trading Conditions

Given the continuing disruption in the market, coupled with the fact that the syndicate filled its risk appetite in key zones in 2020, we chose to expand capacity from £50m to £66m for 2021. Note that in US Dollar terms (the working currency for the syndicate) this represents $81.8m versus $63.5m in 2020, a 29% increase. Although only 25% of the book is renewed at 1/1, January to January premium volume is up over 30% as rating continued to strengthen, and hitherto under-priced business came up to our technical standards.

As outlined above, the market is facing years of Covid-19 indigestion, but it was noticeable that very few hard decisions were taken concerning coverage at year-end, (with even the UK Supreme Court ruling not coming until mid-January). Most carriers were content to 'kick the can down the road', but eventually the thorny issues surrounding reinsurance recoverables (particularly if collateralised) will need to be addressed. The market has been reasonably cogent in developing effective exclusionary language going forward, (despite the pig-headed posturing of certain broking houses), not least because a product which every policy-holder can call on at the same time is by definition uninsurable. Insurance is the ultimate leverage game, and relies on risk diversification through time, geography and amount: £100 of indemnity on average requires 25p of premium and 25p of capital. A promise to pay policy limits to everyone at the same time is clearly false. (Global asteroid impact would be the nearest analogy).

New capital is (probably) less affected by the pandemic and has had a dampening effect on the market already, not necessarily because of anything it is actively selling, but its very presence has caused the holding markets to be more defensive of their positions, particularly the Europeans. Perhaps more pertinent is the background of the Capital Markets, awash with cheap money, and desperate for yield, which is causing them to constantly look at the insurance industry as an asset class – even despite the poor performance of recent years, and questionable status as an uncorrelated exposure.

This brings me on to a perennial bugbear: the inadequate calibration of so-called proprietary rating models. The problem is that the intellectual barriers to entry in property reinsurance are negligible: all one needs is a large bank balance and a computer. It really is just 'plug and play', and most new entrants into our industry are easily seduced. The problem is what they are being fed (via the counterparty's intermediary) is risk-output from a severely under-cooked model. I find it particularly ironic that industry veterans will regularly opine on global warming and climate change, quite rightly pointing out the very real threats to the industry and societies around the World. Yet their organisations are still pricing to the same mis-calibrated metrics that were in place 5 years ago, despite the heightened catastrophic frequency since 2016, in both the Atlantic and Pacific, despite deterioration in loss estimates, despite the proliferation in wildfires in California and Australia – and that is observed reality, let alone whether the future will actually be even more extreme. Unfortunately, should these industry veterans actually deliver on their rhetoric and become more risk averse (and put their prices up), they would be rapidly undercut. In the past, after similar reality checks, (notably after Katrina in 2005), models were re-set to reflect the observed, empirical data. For whatever reason, this hasn't happened yet. Until it does, any business that operates with a more prudent risk metric, as we do, will pay the price of being relatively uncompetitive, particularly on the larger Nationwide contracts.

FINANCIAL REPORT

Investment Return

The investment return is represented by the syndicate's share of income earned by Syndicate 2791 on balances (underwriting, non-technical and statement of financial position funding) received or paid on Syndicate 6103's behalf. Income receivable or chargeable is calculated monthly on average balances actually received or paid by Syndicate 2791 at relevant rates for each currency, as set out in the reinsurance agreement.

The investment return contributed a profit of £1.4m (2019: profit of £0.5m) to the annual result.

The syndicate undertakes no lending of securities and does not undertake exchange rate management.

Currency Translation Differences

Whilst virtually all of the syndicate's assets are held in US dollars the results are published in sterling. The result of this is that changes in the £:US dollar exchange rate can alter the reported sterling results. However, as capital providers receive distributions virtually all in US dollars, the accounting exchange movement booked has no effect on the currency distributions to capital providers.

The accounting exchange loss for the year is £0.8m (2019: loss £0.3m). This principally reflects the US dollar weakening against sterling from the opening rate of 1.32 to the current year end rate of 1.37 as further set out in note 10.

Reinsurance

The syndicate has not purchased reinsurance for the 2018 or 2019 years of account but did so for the 2020 year of account.

Solvency Capital Requirement

The managing agent is required to provide a Solvency Capital Requirement (SCR) to Lloyd's which sets the capital required to be held by the members of the syndicate for the prospective underwriting year. Lloyd's syndicate SCRs are combined to provide the basis of the Lloyd's internal model which the Prudential Regulation Authority originally approved in December 2016.

This amount is derived from the syndicate's loss distribution, which is calculated internally. It is the loss at the 99.5th confidence level, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one-year SCR) for Lloyd's to use in meeting Solvency II requirements.

The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate on which it is participating but not another member's shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis.

Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Requirement (ECR). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 is 35% (2019: 35%) of the member SCR 'to ultimate'.

The syndicate current capital requirement has been established using our internal Solvency II model which has been run within the capital regime as prescribed by Lloyd's. The internal model uses sophisticated mathematical models reflecting key risks within the syndicate. The risks are principally Insurance (catastrophes, pricing and reserving), Market (equity, liquidity, currency, interest rate and spread), Credit (brokers, investment and reinsurance) and Operational.

The following table sets out the syndicate's ECR which is unaudited:

	2021 £m	2020 £m
6103	167.9	129.1

FINANCIAL REPORT *continued*

The syndicate quota share arrangement with Syndicate 2791 has remained at 30% cession for the 2020 and 2021 years of account which is reflected in similar ECR capital as shown above.

European Union business

In order to ensure continued market access to European (re)insurance business following the U.K.'s commitment to exit the European Union, Lloyd's established a Belgian subsidiary - Lloyd's Insurance Company S.A.

Authorised and regulated as an insurance entity by the National Bank of Belgium and regulated by the Belgian Financial Services and Markets Authority, this 100% owned European domiciled subsidiary is capitalised in accordance with Solvency II rules and is licensed to write non-life risks across the European Economic Area (EEA), the UK and Monaco.

Since 1st January 2019, all European non-life business has been directly underwritten by Lloyd's Insurance Company S.A. and 100% reinsured back to the relevant Lloyd's syndicates with this structure facilitating both continuity with European business partners and policyholders and access to the underwriting expertise of the Lloyd's market and its established distribution channels.

Because of this structure, all direct European Union business written from 1 January 2019 has been presented as reinsurance accepted in the annual syndicate accounts.

In addition to its own capital, Lloyd's Insurance Company S.A. benefits from certain Lloyd's central resources, including the Lloyd's Central Fund and Lloyd's unique capital structure, often referred to as the 'Chain of Security'.

With the UK formally committed to leaving the EU at the end of 2020, Lloyd's obtained the necessary legal consent to undertake a Part VII transfer to Lloyd's Insurance Company S.A. with effect from 30th December 2020 in order to ensure the orderly run-off of existing EEA policies and claims without any breach of legal or regulatory requirements.

Syndicate 6103 is currently unaffected by this subsidiary due to its wholly United States reinsurance focus and consequently had no Part VII transfer. However, along with all Lloyd's syndicates it may be affected by future changes in UK-US-European passporting rules.

Future Developments

The syndicate continues to transact United States reinsurance business that it has transacted in historically.

Research and Development

The syndicate has not participated in any research and development activity during the period.

RISK MANAGEMENT

We have established a risk management framework whose primary objective is to protect the syndicate from events which negatively impact current and future returns. Further information is disclosed in note 20 to the financial statements.

Principal Risks and Uncertainties

Syndicate 6103 accepts business under a funds withheld reinsurance contract with Syndicate 2791. The majority of the principal risks applying to Syndicate 6103 are managed within Syndicate 2791.

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover, that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient. Underwriting strategy is agreed by MAP's Board and set out in the Syndicate Business Plan which is submitted to Lloyd's each year. Processes are in place to identify, quantify and manage aggregate exposures and technical prices within each of our underwriting classes. Reinsurance may be purchased where appropriate to our risk appetite and to reduce the retained financial impact of catastrophic loss. Reserves set are subject to stress testing and independent review.

Credit risk

Credit risk is the risk of default or the inability of one or more of the syndicate's reinsurers or brokers to settle their debts as they fall due. Where reinsurance is purchased it is placed with security that meets the criteria agreed by the Board. Use is made of independent rating agencies. Business is only accepted through accredited Lloyd's brokers who are reviewed by the Agency's Security Committee. The syndicate has not purchased any reinsurance for the 2018 and 2019 years of account but did so for the 2020 year of account.

Liquidity risk

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. Liquidity management forms an important part of the financial management practices of the syndicate. Cash flow projections and budgetary controls are maintained and reported upon to the Board. However, the syndicate has no cash and investments and this risk is wholly managed by Syndicate 2791.

Market risk

Market risk is the potential adverse financial impact of changes in value of financial instruments caused by fluctuations in foreign currency, interest rates or equity prices. The potential impact of market risk elements is reported to the Board and the potential financial impact of changes in market value is principally monitored through the use of an economic scenario generator in the capital setting process.

Foreign currency exchange risk

We operate from the United Kingdom but all our premiums and claims are settled in currencies other than sterling. Our reported financial results are denominated in sterling and are therefore affected by the exchange rate against sterling of our main currency assets (US dollars, Euros and Canadian dollars). The syndicate will settle/collect its surplus assets/liabilities in US dollars as each underwriting year closes, or earlier if a solvency transfer is approved. We do not therefore seek to hedge the US dollar exposure. Other currencies are tracked against sterling to ensure the amount of exposure is monitored and if needed appropriate action taken.

Interest rate risk

Interest rate risk is the potential adverse financial impact of changes in value of assets and liabilities caused by rising or falling market interest rates. For example, debt and fixed income securities are exposed to actual fluctuations or changes in market perception of current or future interest rates. Exposure to interest rate risk is monitored through the use of Value-at-Risk analysis, scenario testing, stress testing and duration reviews. Interest rate risk is managed by matching of assets and liabilities to within five years. Although the syndicate holds no investments it is exposed to interest rate risk by way of its share of the investment fund held on its behalf by Syndicate 2791.

Operational risk

Operational risk is the potential adverse financial and reputational impact of inadequate or failed internal processes, people and systems or from external events. An internal risk assessment process has been developed to assess the potential impact and probability of certain events and a system of internal controls has been implemented to mitigate the risks. These controls have been monitored by Senior Management and the Board whilst their ongoing effectiveness is validated through both the ongoing risk assessment and internal audit process.

RISK MANAGEMENT *continued*

Regulatory risk

The managing agent and the syndicate are required to comply with the requirements of the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and Lloyd's. 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 loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The managing agent has a director of risk and assurance who monitors regulatory developments and assesses the impact on agency policy and is supported by an assistant who carries out a compliance monitoring programme.

Climate change risk

Stress tests have been carried out as part of the ORSA process (and detailed in the Quarterly Risk Report and Annual ORSA Report), which assess the potential impact of climate change across the major risk categories (Underwriting, Reserving, Market, Operational and Credit Risk). It was not thought that any of the scenarios stress tested would materially impact capital or profitability over a one-year time horizon. The Executive and Risk Committee reviewed the climate change stress testing as part of the ORSA report.

CORPORATE GOVERNANCE

Directors and Directors' Interests

The directors of the managing agent who served during the year ended 31 December 2020 together with their participations on the syndicate were as follows:

	2020 year of account £'000	2019 year of account £'000
K Allchorne	–	–
C E Dandridge (Non-executive)	–	–
J D Denoon Duncan*	**72**	63
A S Foote (Non-executive)*	**76**	67
T P Froehlich (Non-executive)	–	–
A Kong*	**264**	237
P Langridge	–	–
D E S Shipley (Non-executive Chairman)*	**472**	421
C Smelt*	**244**	206
R J Sumner*	**165**	151
R K Trubshaw (Active Underwriter)*	**1,549**	1,400

*Participate via Nomina 208 LLP, an unaligned corporate member and/or MAP Capital Limited.

Governance Framework

MAP maintains a clear organisational and governance framework with the role and responsibility of the Board, sub-committees, directors and senior staff clearly defined and documented.

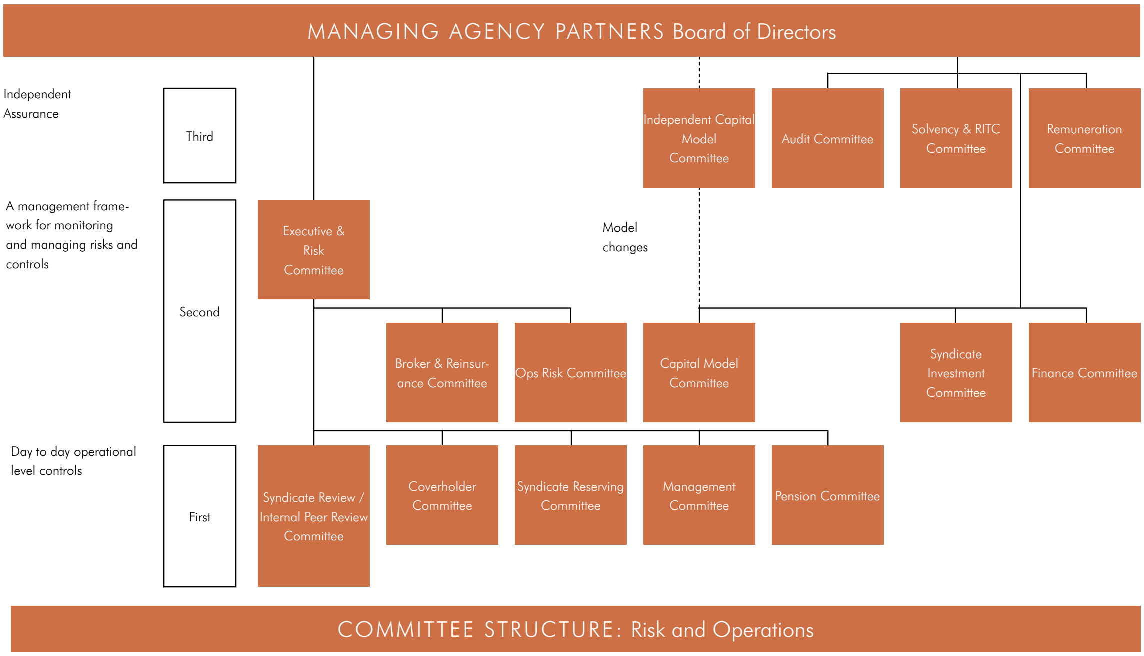
An established risk management framework operates in respect of the identification, assessment, management and monitoring of all core areas of risk to which the business is exposed in its day-to-day activities (insurance risk, market risk, reserving risk, credit risk, liquidity risk and operational risk) with defined and articulated risk appetites in all areas.

CORPORATE GOVERNANCE *continued*

MAP operates a three lines of defence approach to the overall governance of its operations. The first line of defence is the day to day operational level controls; the second line of defence being a framework for monitoring and managing risks and controls; and the third being challenge through both:

- oversight committees each comprising a majority of non-executive directors; and
- independent assurance review through the Internal Audit function.

This is depicted in the following Committee Structure diagram:



Reappointment of Auditors

Deloitte LLP are deemed to be reappointed as the syndicate's auditors.

Disclosure of Information to the Auditors

So far as each person who was a director of the managing agent 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/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Annual General Meeting

As permitted under the Syndicate Meetings (Amendment No.1) Byelaw (No.18 of 2000) MAP does not propose holding a Syndicate Annual General Meeting of the members of the syndicate. Members may object to this proposal within 21 days of the issue of these accounts. Any such objection should be addressed to P Langridge, Risk & Assurance Director at the registered office of Managing Agency Partners Limited.

This managing agent's report was approved by the Board of Managing Agency Partners Limited on 23 February 2021 and signed on its behalf by:

R K Trubshaw
Active Underwriter
Managing Agency Partners Limited
London

P Langridge
Company Secretary

24 February 2021

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent 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 managing agent 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 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 managing agent is required to:

1. select suitable accounting policies which are applied consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. prepare the annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to presume that the syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business's 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 Syndicate 6103

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of Syndicate 6103 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes in members' balances;
- the statement of financial position;
- the statement of cash flows; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (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.

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report, other than the syndicate annual financial statements 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 annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our 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 financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements 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 syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the syndicate annual financial statements

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

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

Extent to which 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 material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team including relevant internal specialists such as actuarial and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- Auditing standards require that we presume there to be a significant risk of fraud relating to the recognition of revenue. The sole source of written premium for Syndicate 6103 is premium ceded under a quota share reinsurance contract for certain classes of business with Syndicate 2791, which is managed by the same managing agency. The accuracy of recorded premium therefore has the potential to be manipulated by management. In response we have tested that management have identified the right policies and premiums to be ceded to Syndicate 6103 and have applied the correct ceding percentage as per the quota share reinsurance terms.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Lloyd's.

Report on other legal and regulatory requirements

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

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

- the information given in the strategic report and the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the managing agent's report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the managing agent's report.

Matters on which we are required to report by exception

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

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Downes, ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK

24 February 2021

INCOME STATEMENT TECHNICAL ACCOUNT – GENERAL BUSINESS

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Earned premiums, net of reinsurance			
Gross premiums written	3	**32,024**	21,040
Outward reinsurance premiums		**(229)**	–
Net premiums written		**31,795**	21,040
Change in the provision for unearned premiums			
Gross amount	4	**(926)**	(941)
Reinsurers' share	4	–	–
Change in the net provision for unearned premiums		**(926)**	(941)
Earned premiums, net of reinsurance		**30,869**	20,099
Allocated investment return transferred from the non-technical account		**1,393**	489
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	3,5	**(13,837)**	(6,618)
Reinsurers' share		–	–
Net claims paid		**(13,837)**	(6,618)
Change in the provision for claims			
Gross amount	3,5	**(9,808)**	3,393
Reinsurers' share	5	–	–
Change in the net provision for claims		**(9,808)**	3,393
Claims incurred, net of reinsurance		**(23,645)**	(3,225)
Ceding and overriding commission		**(1,821)**	(1,149)
Administrative expenses		**(1,027)**	(2,115)
Net operating expenses	3,6	**(2,848)**	(3,264)
Balance on the technical account for general business		**5,769**	14,099

All operations are continuing.

INCOME STATEMENT NON-TECHNICAL ACCOUNT – GENERAL BUSINESS

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Balance on the general business technical account		**5,769**	14,099
Investment income	8	**1,393**	489
Allocated investment return transferred to general business technical account		**(1,393)**	(489)
Non-technical account foreign exchange	10	**(13)**	(6)
Profit for the financial year		**5,756**	14,093

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2020

	Note	2020 £'000	2019 £'000
Profit for the financial year		**5,756**	14,093
Exchange differences on foreign currency translation	10	**(837)**	(345)
Total comprehensive income for the year		**4,919**	13,748

STATEMENT OF CHANGES IN MEMBERS' BALANCES

for the year ended 31 December 2020

Reconciliation of Members' Balances	2020 £'000	2019 £'000
Members' balances brought forward at 1 January	**11,591**	751
Total Comprehensive Income for the year	**4,919**	13,748
Receipt of losses/payments of (profit) to members' personal reserve funds via Syndicate 2791 for the 2017 (2016) year of account	**1,068**	(2,806)
Members' agents fees for the 2017 (2016) year of account	**(72)**	(102)
Members' balances carried forward at 31 December	**17,506**	11,591

Members participate on syndicates by reference to years of account and their ultimate result; assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a participation.

STATEMENT OF FINANCIAL POSITION ASSETS

at 31 December 2020

	Note	2020 £'000	2019 £'000
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	–	–
Claims outstanding	5	–	–
		–	–
Debtors			
Debtors arising out of reinsurance operations	11	**66,297**	42,896
Other debtors	12	**1,071**	466
		67,368	43,362
Total assets		**67,368**	43,362

STATEMENT OF FINANCIAL POSITION LIABILITIES

as at 31 December 2020

	Note	2020 £'000	2019 £'000
Capital and reserves			
Members' balances		**17,506**	11,591
Technical provisions			
Provision for unearned premiums	4	**3,089**	2,307
Claims outstanding	5	**15,385**	7,252
		18,474	9,559
Creditors			
Creditors arising out of reinsurance operations	13	**28,452**	19,922
Other creditors	14	**2,936**	2,290
		31,388	22,212
Total liabilities		**67,368**	43,362

The financial statements on pages 40 to 56 were approved by the Board of Managing Agency Partners Limited on 23 February 2021 and were signed on its behalf by:

R K Trubshaw
Active Underwriter

R J Sumner
Finance Director

24 February 2021

STATEMENT OF CASH FLOWS

for the year ended 31 December 2020

	Note	2020 £000	2019 £'000
Operating profit on ordinary activities		**5,756**	14,093
Movement in gross technical provisions		**8,915**	(2,900)
Movement in reinsurers' share of gross technical provisions		–	–
Movement in debtors		**(24,006)**	(14,445)
Movement in creditors		**9,176**	6,505
Investment return		**(1,393)**	(489)
Exchange differences on foreign currency translation		**(837)**	(345)
Members' agents' fee advances		**(72)**	(102)
Net cash (outflow)/inflow from operating activities		**(2,461)**	2,317
Cash flows from investing activities			
Income accrued from Syndicate 2791		**1,393**	489
Cash flows owed from financing activities			
Payments of profits to members in respect of underwriting participations		**–**	(2,936)
Receipt of losses from members in respect of underwriting participations		**1,068**	130
Net cash inflow/(outflow) from financing activities		**1,068**	(2,806)
Increase in cash and cash equivalents		–	–
Cash and cash equivalents at 1 January		–	–
Cash and cash equivalents at 31 December	*15*	–	–

NOTES TO THE ACCOUNTS

for the year ended 31 December 2020

1.1 Basis of Preparation and Statement of Compliance

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

The functional currency is US dollars, but the financial statements are prepared in sterling which is the presentational currency of the syndicate and rounded to the nearest £'000. As permitted by FRS 103 the syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

The financial statements are prepared under the historical cost convention.

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP.

Syndicate 6103 operates on a funds withheld basis with Syndicate 2791. Syndicate 2791 is also managed by the managing agent, MAP. Syndicate 6103 holds no cash or investments. All the syndicate's funds are held by Syndicate 2791 which makes payments of liabilities on Syndicate 6103's behalf. Debtors and creditors between the syndicates are grossed up in the syndicate statement of financial position and upon the closure of each year of account, normally after 36 months, the assets and liabilities of that closing year are netted off as part of the commutation settlement with Syndicate 2791.

1.2 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.

In the course of preparing the financial statements no judgements have been made in the process of applying the syndicate's accounting policies, other than those involving estimations that have had a significant effect on the amounts recognised in the financial statements.

However, the nature of estimation means that actual outcomes could differ from those estimates.

The following are the syndicate's key sources of estimation uncertainty:

Insurance contract technical provisions (see notes 5 & 20)

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 (IBNR) at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty and for some types 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, Bornheutter-Ferguson methods and individual reserving at contract level.

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. The provision for claims outstanding 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, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

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 pricing and other models of the business accepted and assessments of underwriting conditions.

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, 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 financial statements for the period in which the adjustments are made. In addition, where contracts are yet to expire, or where losses are not settled until several years after the expiration of the policy in question, the estimates are considered to be more volatile and consequently are subjected to additional management judgemental prudence adjustments. The methods used, and the estimates made, are reviewed regularly.

Where the amount of any material salvage and subrogation recoveries is separately identified it is reported as an asset.

Changes in assumptions, quantum or complexity of claims can affect the value of these provisions.

1.2 Judgements and Key Sources of Estimation Uncertainty *continued*

Estimates of future premiums (see notes 4 & 11)

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and the main assumption underlying these estimates is that past premium development can be used to project future premium development.

Estimates include an element of judgement with regard to the level of claims affected future premiums receivable by the syndicate. The methods used for assessing future premiums generally involve projecting from past experience, based on the development of claims and the related inwards premiums receivable against these claims. The directors consider the estimates of gross future premium are fairly stated on the basis of the information available currently to them. However, the ultimate premium receivable can vary as a result of subsequent information or events and this may result in significant adjustments.

In addition, the most recent underwriting year estimates are considered to be more volatile and consequently are subjected to judgemental management adjustments.

2. Accounting Policies

Insurance contracts

An insurance contract (including inwards reinsurance contract) is defined as a contract containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause the syndicate to pay significant additional benefits. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year of account. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified received at the statement of financial position date.

Differences between such estimates and actual amounts will be recorded in the period in which the actual amounts are determined.

Premiums are disclosed before the deduction of taxes or duties levied on them.

Premiums for contracts where the syndicate delegates underwriting authority to another party (e.g. binding authorities, lineslips or proportional treaties) use an estimate of the proportion of premiums incepted at the reference date as an estimate based on historical inception patterns, if no pattern exists business is assumed to incept evenly over the term of the delegated authority.

Unearned gross premiums

Written premiums are recognised evenly over the term of the contract for those contracts where the incidence of risk does not vary over the term. Contracts where the incidence of risk differs over the term are earned based on the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statement of financial position date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Acquisition costs

The syndicate is not charged with acquisition costs and has no deferred acquisition costs.

Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the year of inception. Premiums ceded to reinstate reinsurance cover or additional premiums payable on loss are recognised when they may be assessed with reasonable certainty. The syndicate has only purchased reinsurance for the 2020 year of account covered by the financial statements.

Unearned reinsurance premium

Reinsurance premiums paid to purchase high excess reinsurance contracts are earned evenly over the period at risk.

2. Accounting Policies *continued*

Claims provisions and related recoveries

Claims paid comprise claims and claim handling expenses paid during the period.

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. The provision for claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the statement of financial position date based on statistical methods. Separate reserves are established for each year of account.

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

Future unallocated loss adjustment expenses

An accrual for all future unallocated loss adjustment expenses ('ULAE') is made if applicable. The ULAE is comprised of those costs which are related to the settlement of earned claims, but which are not directly attributable to individual claims. ULAE expenses are undiscounted and include the expenses of managing the run-off of the business on the basis the business is a going concern. Costs of administration of any reinsurance programme are included in the gross ULAE. Separate reserves are established for each year of account.

Legal provisions

The syndicate may be subject to legal disputes in the normal course of business. Provisions for such events and their related costs are recognised within expenses and accruals where there is an expected present obligation relating to a past event or evidence exists of the requirement for a general provision that can be measured reliably, and it is probable that an outflow of economic benefit will be required to settle an obligation.

The directors of the managing agent do not expect the outcome of these claims, either individually or in aggregate, to have a material effect upon the syndicate's operations or financial position. As allowed by FRS 102, further disclosure has not been given as it may seriously prejudice the outcome of any legal proceedings.

Insurance receivables and payables

Insurance receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration received. They are derecognised when the obligation is settled, cancelled or expired.

Bad debt

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

Unexpired risks provision

A provision for unexpired risks may be made, if necessary, where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date exceed unearned premiums and premiums receivable, after the deduction of any deferred acquisition costs.

The assessment of whether an unexpired risk provision is required is based on information available at the statement of financial position date which may include evidence of relevant previous claims experience on similar contracts. The assessment is not required to take into account any new claims events occurring after the statement of financial position date as these are non-adjusting events.

The provision for unexpired risks is calculated by reference to all classes of business, which are all managed together on a year of account basis, after taking into account relevant future investment return. The provision for unexpired risks is included in technical provisions in the statement of financial position.

Foreign currency translation

Financial Reporting Standard 102 requires each entity to identify its functional currency and a presentational currency. The functional currency is identified as the currency of the primary economic environment in which the entity operates. The functional currency of this syndicate is US dollars as the majority of the underwriting business, cash flows and expenses are in US dollars. We have chosen to maintain our presentational currency as sterling as the syndicate is based in the UK, complies with UK reporting standards and to enable simpler comparisons to other Lloyd's insurance syndicates.

The syndicate records transactions in four settlement currencies being sterling, US dollars, Canadian dollars and Euros and when reported these currencies are translated in the income statement at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

2. Accounting Policies *continued*

Foreign currency translation continued

As permitted by FRS 103, the syndicate has continued with its existing accounting policy to treat non-monetary assets and liabilities arising from insurance contracts (which include items such as unearned premiums and deferred acquisition costs) the same as monetary assets and liabilities. Consequently, all assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date or, if appropriate, at the forward contract rate.

Exchange differences from the functional currency (US dollars) arising from the retranslation of opening balances and between average and year-end rates to the presentational currency are included in the statement of comprehensive income.

All other exchange differences are included in the general business non-technical account. The following rates of exchange have been used in the preparation of these accounts.

	2020		2019	
	Year end	**Average**	Year end	Average
USD	**1.37**	**1.28**	1.32	1.28
CAD	**1.74**	**1.72**	1.72	1.69
EUR	**1.12**	**1.13**	1.18	1.14

Investments

The syndicate does not hold any investments or derivatives.

Investment return

Investment return comprises an allocation calculated on the monthly average of the Total Funded Paid Experience balance (equivalent to the premiums received, claims paid, ceding commission, interest expenses and income). This return is equal to the rate of investment return achieved by Syndicate 2791 on its invested funds during the relevant month and is equal to the gross return on its Credit for Reinsurance Fund for US dollar denominated balances. Interest on other currency positive balances is credited at rates achieved by Syndicate 2791 on those currencies for the relevant month.

If the average balance is negative, an interest expense is calculated on the monthly average at the relevant currency six-month duration Treasury Bill rate plus 1.5%. The whole of the return is treated as investment income.

Allocation of investment return

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Operating expenses

All current and future syndicate expenses at the statement of financial position date, including audit fees, are charged to and borne by Syndicate 2791 for which the syndicate is charged a ceding commission of 5% of gross premiums written. Personal expenses (Lloyd's subscriptions and central fund), which are charged to Syndicate 2791, are covered by an overriding commission of 1% of gross premiums written.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the statement of financial position under the heading 'other debtors'.

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

Profit commission

Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause. This is charged to the syndicate on an earned basis but does not become payable until after the year of account closes, normally at 36 months. When the syndicate makes a loss, that loss will be debited by member until fully utilised reducing the following two years of account's results for the purpose of calculating profit commission.

3. Segmental Analysis

All the syndicate's business, as set out in the technical account, is classified as reinsurance accepted and all premiums were concluded in the UK. The geographical situs of the risks reinsured is principally the USA.

4. Provision for Unearned Premiums

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2020	**2,307**	**–**	**2,307**
Premiums written in year	**32,024**	**229**	**32,253**
Premiums earned in year	**(31,098)**	**(229)**	**(31,327)**
Foreign Exchange	**(144)**	**–**	**(144)**
At 31 December 2020	**3,089**	**–**	**3,089**
At 1 January 2019	1,450	–	1,450
Premiums written in year	21,040	–	21,040
Premiums earned in year	(20,099)	–	(20,099)
Foreign Exchange	(84)	–	(84)
At 31 December 2019	2,307	–	2,307

5. Claims Outstanding

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2020	**7,252**	–	**7,252**
Claims incurred in current underwriting year	**23,645**	–	**23,645**
Claims paid during year by Syndicate 2791	**(13,837)**	–	**(13,837)**
RITC 2017 YOA commuted into Syndicate 2791	**(821)**	–	**(821)**
Foreign Exchange	**(854)**	–	**(854)**
At 31 December 2020	**15,385**	–	**15,385**
At 1 January 2019	11,009	–	11,009
Claims incurred in current underwriting year	3,225	–	3,225
Claims paid during year by Syndicate 2791	(6,618)	–	(6,618)
RITC 2016 YOA commuted into Syndicate 2791	(52)	–	(52)
Foreign Exchange	(312)	–	(312)
At 31 December 2019	7,252	–	7,252

The movement in the net provisions for claims includes a deterioration of £1.7m in respect of reserves set in prior years (2019: deterioration of £0.3m).

6. Net Operating Expenses

All syndicate expenses, including audit fees, are charged to and borne by Syndicate 2791 for which the syndicate is charged a ceding commission of 5% of gross premiums written. Personal expenses (Lloyd's subscriptions and central fund), which are charged to Syndicate 2791, are covered by an overriding commission of up to 1% of gross premiums written.

A profit commission of 15% of profits for each Underwriting Year of Account is payable to the managing agent. In the event of a loss a two year carry forward deficit clause applies by member.

The ceding commission within the administrative expenses include:	**2020 £'000**	2019 £'000
Auditors' remuneration		
Fees for the audit of the syndicate	**16**	14
Audit-related assurance	**19**	19
	35	33

Audit related assurance includes reporting required by law and regulation, reviews of interim financial information and reporting on regulatory returns. There are no taxation or non-audit services paid to our auditor.

7. Staff Numbers and Costs

All staff are employed by the managing agent. No recharge of payroll costs for staff or in respect of directors' remuneration is made specifically to the syndicate – all such charges are made to Syndicate 2791 and covered by the ceding commission as set out in note 6.

Any profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

8. Investment Income

	2020 £'000	2019 £'000
Investment income	1,393	489

9. Calendar Year Investment Yield

	2020 £'000	2019 £'000
Average syndicate funds available for investment held by Syndicate 2791	24,625	10,644
Investment return	1,393	489
Calendar year investment yield	5.7%	4.6%

Investment yield is almost entirely derived from US dollars. Other settlement currencies are immaterial.

The syndicate borrowed sterling to cover its sterling expenses and interest was paid at an average rate of 1.5% over six-month duration Treasury Bills (2019: 1.5%) during the year.

10. Exchange Gains and Losses

Exchange gains and losses arise as follows:

	2020 £'000	2019 £'000
On balances brought forward: from opening to year end rates	(465)	77
On transactions during 2020: from average to year end rates	(385)	(428)
	(850)	(351)
Represented by:		
Non-technical account foreign exchange	(13)	(6)
Exchange differences on foreign currency translation	(837)	(345)
	(850)	(351)

11. Debtors Arising Out of Insurance Operations

	2020 £'000	2019 £'000
Debtors arising out of reinsurance operations:		
Due within one year	16,693	5,146
Due after one year	49,604	37,750
	66,297	42,896

All debtors are due from Syndicate 2791.

12. Other Debtors

	2020 £'000	2019 £'000
Due within one year:		
Member's agents' fees advances	195	75
Inter-syndicate loan	266	–
Due after one year:		
Member's agents' fees advances	422	391
Inter-syndicate loan	188	–
	1,071	466

13. Creditors Arising Out of Insurance Operations

	2020 £'000	2019 £'000
Creditors arising out of reinsurance operations:		
Due within one year	**14,973**	5,316
Due after one year	**13,479**	14,606
	28,452	19,922

All creditors are payable to Syndicate 2791.

14. Other Creditors

	2020 £'000	2019 £'000
Due within one year:		
Profit commissions	**–**	–
Inter-syndicate loan	**–**	106
	–	106
Due after one year:		
Profit commissions	**2,936**	2,051
Inter-syndicate loan	**–**	133
	2,936	2,184
	2,936	2,290

15. Cash and cash equivalents

The syndicate operates on a funds withheld basis and consequently there are no movements in cash, portfolio investments and financing.

16. Related Parties

The managing agency (MAP), the managed Syndicates 2791 and 6103 and the directors of MAP are all related parties.

- MAP's relationship to the syndicates is governed by a managing agent's agreement.
- The syndicates relationship to each other is governed by a reinsurance contract for each year of account.
- Some of the directors of the managing agency own shares in the managing agent and receive remuneration from the managing agent based on MAP's profitability.
- The directors also participate alongside other capital providers in the syndicate via two unrelated entities MAP Capital Limited and Nomina 208 LLP.
- An investment fund in which the syndicate formerly held investments participated in the syndicate's capital and is deemed a related party by virtue of its participation in Syndicate 2791.

MAP's relationship to the syndicates

No managing agency fees are charged from MAP to this syndicate in 2020 (2019: £nil). Profit commission of £1.0m (2019: £2.1m) is due to the managing agent in respect of the results for this calendar year.

No expenses are recharged to this syndicate from MAP. All recharges made by MAP to Syndicate 2791 are covered by the ceding commission paid by this syndicate to Syndicate 2791. There is no management compensation charged to this syndicate, see note 7. No profit related remuneration is payable by the syndicate to employees of MAP. The managing agency agreement contract setting out fees and profit commission payable to the managing agent is under standard terms set out by Lloyd's.

The syndicates relationship to each other

The underwriting business of Syndicate 6103 is derived solely under a reinsurance contract with Syndicate 2791. Under the terms of this contract:

- Syndicate 6103 is obliged to accept 30% for 2020, 2019 and 2018 years of account of all business written by Syndicate 2791 under certain categories of its property catastrophe book depending on the year of account. Syndicate 2791 retains the balance of this book net for its own account.

16. Related Parties *continued*

- Syndicate 2791 receives a ceding commission of 5% and an overriding commission of 1% of gross written premiums ceded to Syndicate 6103 to cover personal expenses of Syndicate 6103 names borne by Syndicate 2791.
- A profit commission of 15% of profits, as defined in the contract, is payable to MAP.
- All funds are retained and invested by Syndicate 2791 on behalf of Syndicate 6103 and interest is payable (or charged on negative balances) to Syndicate 6103 at rates agreed.

Under the terms of the reinsurance contract the balance owed from Syndicate 2791 to Syndicate 6103 at the end of the period is £17.5m (2019: owed from 2791 £11.6m) and will be settled through the Lloyd's distribution process. Profit commission in respect of Syndicate 6103 at the end of the period of £2.9m (2019: £2.1m) will be settled by Syndicate 2791 from funds withheld as each year of account is commuted. There are no other conditions or guarantees offered by Syndicate 2791 to Syndicate 6103 under the reinsurance contract.

During the year, the following transactions between the syndicates occurred:

	2020 £'000	2019 £'000
Premiums receivable	**32,024**	21,040
Paid claims	**(13,837)**	(6,618)
Ceding commission	**(1,552)**	(1,074)
Overriding commission	**(269)**	(75)
Net interest received	**1,393**	489
Reinsurance to close premium – 2018 (2017) year of account	**(2,055)**	(860)
Balance owed (to)/by Syndicate 2791 to/(by) Syndicate 6103 at the end of the period:		
Due within one year	**(165)**	(997)
Due after one year	**17,671**	12,588

The directors' ownership of MAP

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agent and syndicate.

The directors' interests in the ordinary share capital of MAP Equity Limited, which has an issued share capital of 250,000 £1 shares, during the year, were as follows:

	A Shares (voting)	B Shares (non-voting)
R K Trubshaw	33,000	–
A Kong	22,000	–
J D Denoon Duncan	–	8,333
P Langridge	–	2,500
C J Smelt	5,000	2,500
R J Sumner	–	10,000

The directors' participations in the syndicate

Messrs. Shipley, Denoon Duncan, Kong, Trubshaw, Sumner, Smelt and Foote, or their related parties, participate on Syndicate 6103 via a dedicated, but unaligned to the managing agent, corporate member MAP Capital Limited and a corporate member Nomina 208 LLP.

For the 2020 year of account MAP Capital Limited provided £2.7m (2019: £2.6m) of capacity on Syndicate 6103 representing 5.4% (2019: 5.5%) of capacity.

For the 2020 year of account Nomina No 208 LLP has provided £1.8m (2019: £1.6m) of capacity representing 3.6% (2019: 3.3%).

MAP has no direct or indirect interest in MAP Capital Limited or Nomina 208 LLP.

All capital is provided on an arm's length basis.

There are no other transactions or arrangements requiring disclosure.

17. Funds at Lloyd's

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

18. Events After the Reporting Period

In accordance with the reinsurance contract with Syndicate 2791, the 2018 year of account will be commuted. An RITC will be effected with Syndicate 2791 and the reserves carried for the 2018 year of account (amounting to £2.3m) transferred to that syndicate in 2019.

19. Items not Disclosed in the Statement of Financial Position

The syndicate has not been party to any arrangement which is not reflected in its statement of financial position.

20. Risk Management of Insurance Risk

This syndicate is a Special Purpose Arrangement writing a single line of business, property catastrophe reinsurance on United States risks (excluding terrorism and retrocession business). Its insurance risk is principally related to pricing and the measurement of catastrophe losses which have occurred and those to which the syndicate is currently exposed.

The syndicate uses its own proprietary pricing models which set a technical price for each risk based on a required profitability margin. To mitigate against the potential for under-pricing of insurance risk these models are actively back tested against underwriting performance and by checking actual exposure to losses versus predicted loss exposure.

The other principal insurance risk the syndicate is subject to is that actual claims and benefit payments, or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims and actual claims paid. Therefore, the objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities. The most significant claim risks arise from natural disasters. The claim risk exposure is mitigated by strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims.

The syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Claim inflation risk for a short tail property catastrophe insurance syndicate such as Syndicate 6103 is mainly generated by "demand inflation" when following a loss demand for certain assets or trades results in higher pricing; this is mitigated by taking expected demand inflation into account when estimating insurance contract liabilities.

Risks written usually cover twelve months duration.

The syndicate limits its exposure to uncertain loss by imposing maximum claim amounts on certain contracts as well as allowing the potential use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the syndicate's risk appetite as decided by management. The syndicate has not purchased reinsurance protection for the 2018 or 2019 years of account but did so for the 2020 year of account. No claims have been made against previously purchased reinsurance.

The overall risk appetite aim is to limit the downside risk to a 125% ultimate loss on Stamp capacity following any one of the Lloyd's prescribed Realistic Disaster Scenarios (RDS). The downside risk takes into account the net of any reinsurance RDS loss and reinstatement premiums.

The syndicate uses its own proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an event not modelled are greater than those arising from a modelled event.

20. Risk Management of Insurance Risk *continued*

As a further guide to the level of catastrophe exposure written by the syndicate, the following table shows hypothetical claims arising for various realistic disaster scenarios based on the syndicate's risk exposures at 1 January 2021:

RDS	Market Loss (insured) £m	Estimated Gross Claims £m	Estimated Net Claims £m
Miami Dade	141,371	52	46
Pinellas (West Coast Florida Windstorm)	134,453	66	59
Gulf of Mexico	111,563	68	62
North East USA Hurricane	80,025	64	59
San Andreas (San Francisco)	45,364	46	43
Elsinore (Los Angeles)	39,824	39	37

Estimated net claims are net of reinstatement premiums. The syndicate has no reinsurance at this date.

All of the syndicate's claims are geographically generated from the United States and the vast majority are payable in US dollars.

Key assumptions

The principal assumption underlying the claim estimates is that future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of individual and average claim costs, claim handling costs, claim inflation factors and underwriting year. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, judicial judgements, and legal delays in settlement. All business is in US dollars and therefore changes in currency may affect reported claims when converted to sterling but do not affect the payments in underlying currency.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' balances.

The underlying sensitivity analysis is performed by underwriting year. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes, the assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are not necessarily linear.

	2020 £'000	2019 £'000
Gross and net outstanding claims (note 5)	**15,385**	7,252
Impact of 10% increase in gross and net outstanding claims	**1,539**	725
Impact of 10% increase in ultimate gross and net 2020 (2018) CAT losses	**1,874**	1,877

The impact on both profit and members' balances are those 10% impact figures above less profit commission at 15% (allowing for any applicable deficit clause) by year.

2020 losses

The syndicate has exposure to 2020 events, Hurricane Laura and the COVID-19 pandemic loss. The current ultimate estimated losses for Hurricane Laura are gross and net $13.4m, this loss is protected by both surplus reinsurance and excess of loss covers. Hurricane Laura remains covered within the excess of loss programme which offers some protection for deterioration to the net ultimate loss.

The syndicate is also exposed to COVID-19 pandemic losses mainly on known actively written business interruption covers. The current ultimate gross and net loss is $0.8m. Due to the nature of the COVID-19 loss there may be areas where active contract exclusions exist, it is possible these may be disputed by clients or where cover is granted following legal rulings. The syndicate has and will seek to defend exclusions where appropriate.

For both Hurricane Laura and COVID-19 loss reserves the uncertainty around their ultimate outcome is increased but is not increased beyond the normal range of uncertainty for insurance reserves at this stage of development.

20. Risk Management of Insurance Risk *continued*

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

Claims development table

The following table shows the estimates of ultimate claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The ultimate claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied to the statement of financial position at the reporting date. Each prior year is restated at current exchange rates to provide a consistent view of changes to ultimate claims reserves.

In setting claims provisions the syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the confidence in the provision's adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained may decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

This syndicate has reinsured to close all liabilities on 2017 and prior underwriting years to Syndicate 2791 and therefore Syndicate 6103's estimate of ultimate claims cease to change after three years for any year of account.

Syndicate 6103 no longer has any exposure to liabilities reinsured out by reinsurance to close. Consequently, in accordance with FRS 103, the claims development information disclosed is only for the most recent three years because there is no future uncertainty on reinsured prior years of account.

The ultimate claims are adjusted for the unearned proportion of claims, any unallocated future expense claims costs and cumulative payments to date to provide the reconciliation to the syndicate's gross and net statement of financial position reserves and are also shown in note 5.

Gross and net claim triangles by year of account as at 31 December 2020

	2018 £'000	2019 £'000	2020 £'000	Total £'000
Estimate of Gross and Net Ultimate Claims				
12 months	16,882	3,955	20,900	
24 months	15,861	5,367	–	
36 months	16,489	–	–	
Total Ultimate losses	**16,489**	**5,367**	**20,900**	**42,756**
Less cumulative paid claims	(14,142)	(3,393)	(7,654)	(25,189)
Less unearned portion of ultimate losses	–	–	(2,182)	(2,182)
Gross and Net claims liabilities	**2,347**	**1,974**	**11,064**	**15,385**

In 2020, there has been an overall deficit in ultimate claims of £2.0m (2019: surplus of £0.4m) due primarily to an increase in claims estimates.

21. Risk Management of Currency Risk

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

Although its reporting currency is sterling, the syndicate's functional currency is US dollars and so its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, sterling and Canadian dollars. The exchange exposure is further limited by the syndicate making profit distributions in both sterling and US dollars resulting in the actual exchange risk to members being between just those currencies converted to sterling to make profit distributions.

In the case of Syndicate 6103 these currencies are Euro and Canadian dollars and, as shown in the table below, the quantum of Euro and Canadian dollar assets and liabilities is not significant.

21. Risk Management of Currency Risk *continued*

The tables below set out the underlying currency exposure to the syndicate although it should be noted that profits are only paid out in sterling and US dollars:

2020	**GBP £'000**	**USD £'000**	**EUR £'000**	**CAD £'000**	**Total £'000**
Insurance and reinsurance receivables	67	66,230	–	–	66,297
Other assets	(290)	1,361	–	–	1,071
Total assets	**(223)**	**67,591**	–	–	**67,368**
Technical provisions	(22)	(18,452)	–	–	(18,474)
Insurance and reinsurance payables	(3)	(28,449)	–	–	(28,452)
Other creditors	–	(2,936)	–	–	(2,936)
Total liabilities	**(25)**	**(49,837)**	–	–	**(49,862)**
Members' balances by currency	**(248)**	**17,754**	–	–	**17,506**

The syndicate has negative net assets in GBP. This liability is to Syndicate 2791 and will be settled out of the profit distribution on closure of the relevant year of account.

If sterling was to weaken against other reporting currencies by 10% and 20%, the impact on the above total converted sterling profit would be an increase of £2.0m and £4.4m respectively.

2019	GBP £'000	USD £'000	EUR £'000	CAD £'000	Total £'000
Insurance and reinsurance receivables	–	42,896	–	–	42,896
Other assets	456	10	–	–	466
Total assets	456	42,906	–	–	43,362
Technical provisions	–	(9,559)	–	–	(9,559)
Insurance and reinsurance payables	–	(19,922)	–	–	(19,922)
Other creditors	(625)	(1,665)	–	–	(2,290)
Total liabilities	(625)	(31,146)	–	–	(31,771)
Members' balances by currency	(169)	11,760	–	–	11,591

If sterling had weakened against other reporting currencies by 10% and 20%, the impact on the above comparative total converted sterling profit would have been an increase of £1.3m and £2.9m respectively.

22. Other Risk Management Matters

Interest rate risk	**2020 £'000**	2019 £'000
Impact of 50 basis point increase in interest rates on result	**(376)**	(352)
Impact of 50 basis points decrease in interest rates on result	**319**	352

The impact of the above interest rate sensitivity is within our investment parameter guidelines and management tolerance.

Interest rate risk is the risk that arises for bond owners from fluctuating interest rates. The sensitivity depends on two things, the bond's time to maturity, and the coupon rate of the bond. As interest rates rise, bond prices fall and vice versa, a bonds sensitivity to an increase in interest rates is magnified by its time to maturity.

Although the syndicate holds no investments, it is exposed to interest rate risk by way of its share of the investment portfolio managed by Syndicate 2791.

22. Other Risk Management Matters *continued*

For Syndicate 6103's investments held within Syndicate 2791 all are fixed income and are recorded at fair value. A sensitivity analysis is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balances of the effects of changes in interest rates on:

– Fixed rate financial assets; and

– Variable rate financial assets.

The first of these measures the impact on profit or loss for the year (for items recorded at fair value through the income statement) and on members' balances (for available for sale investments) that would arise in a reasonably possible change in interest rates at the reporting date on financial instruments at the period end. The second of these measures the change in interest income or expense over the period of the year attributable to a reasonably possible change in interest rates, based on floating rate assets and liabilities held at the reporting date.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis.

It should be noted that movements in these variables are non-linear.

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

The syndicate has no significant concentration of interest rate risk.

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

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Syndicate 6103 does not have exposure to price risk as there are no equities in the element of funds held by Syndicate 2791 on behalf of Syndicate 6103.

Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

However, the syndicate has no cash or investments and operates on a funds withheld basis with Syndicate 2791. Therefore, its liquidity risk is that Syndicate 2791 is unable to pay its debts as they fall due.

All of the syndicate's assets and liabilities are netted off as part of the commutation settlement when each year of account closes at 36 months.

Credit risk

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

All insurance debtors are balances with A rated Syndicate 2791 and therefore its liquidity risk is that Syndicate 2791 is unable to pay its debts as they fall due.

There are no reinsurance recovery assets at the statement of financial position date.

MAP

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