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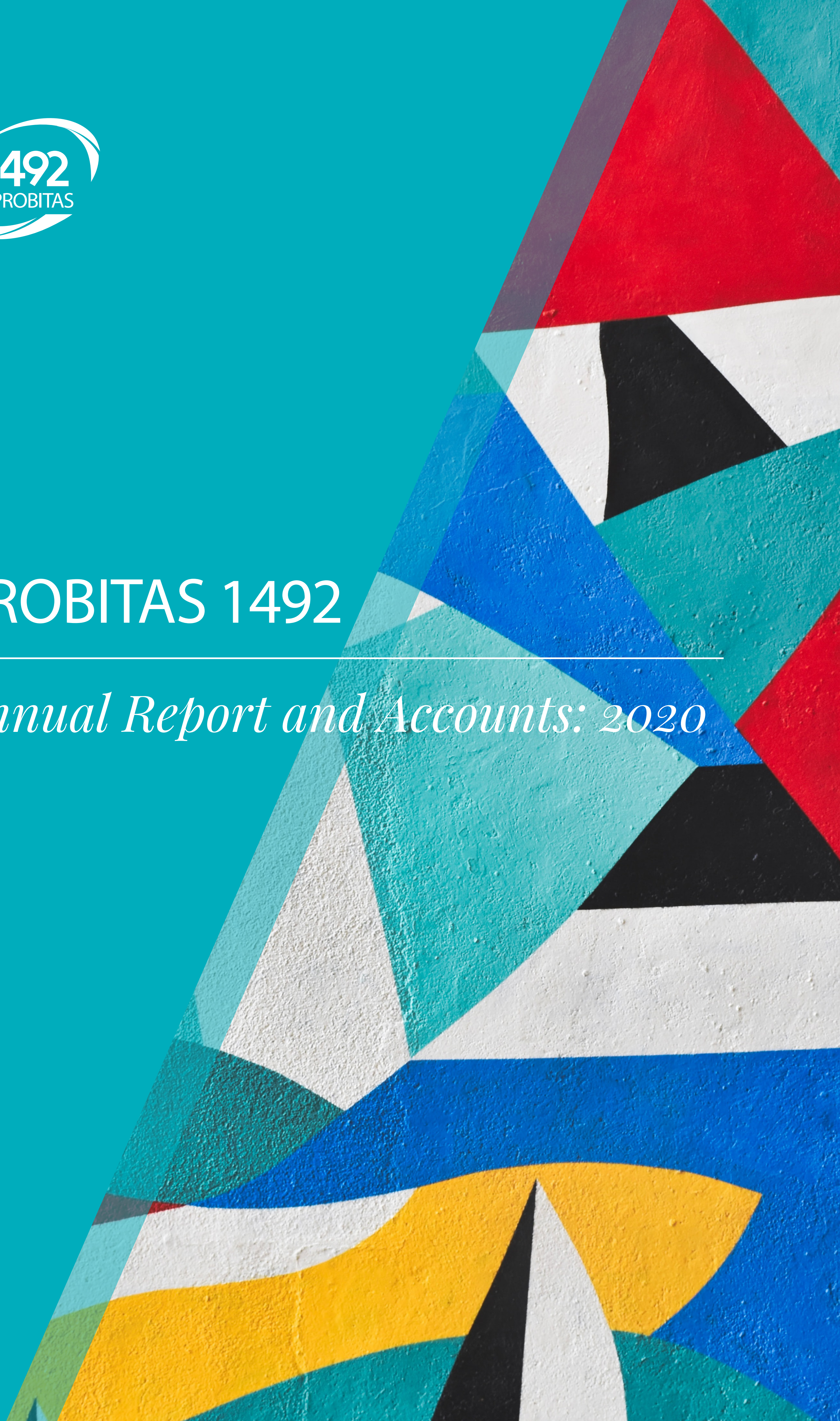
PROBITAS 1492

Annual Report and Accounts: 2020



CONTENTS

DIRECTORS AND ADMINISTRATION

Managing Agent

Managing agent

Capita Managing Agency Limited (CMA) is the managing agent of Probitas Syndicate 1492. CMA is a wholly owned subsidiary (indirectly held) of Capita plc and operates within the Group's Specialist Services division.

Directors

I J Bremner - Non-Executive Director (*appointed 1 September 2020*)
R Richardson-Bunbury – Chief Actuary (*appointed 21 January 2021*)
K Coogans - Finance Director
K D Curtis - Non-Executive Director (*appointed 6 February 2020*)
D E Hope - Non-Executive Director
J Hummerston - Director of Underwriting
P Koslover - Chief Risk Officer (*resigned 28 August 2020*)
P M Laws - Risk & Compliance Director
W Scott - Chief Executive Officer *(resigned 14 February 2020)*
P Smith - Managing Director (*appointed 4 February 2020*)
E S Stobart - Chairman, Non-Executive (*resigned 5 August 2020*)
S Sykes - Chief Executive Officer (*appointed 29 April 2020*)
S M Wilton - Chairman, Non-Executive Director *(appointed Chairman 6 April 2020)*

Company secretary

Capita Group Secretary Limited

Managing agent's registered office

65 Gresham Street
London
England
United Kingdom
EC2V 7NQ

Managing agent's registered number

03935227

DIRECTORS AND ADMINISTRATION (continued)

Syndicate

Active underwriter
A Bathia

Bankers

Barclays Bank plc	London
Citibank NA	London and New York
RBC Investor & Treasury Services	Toronto

Investment Manager
Lloyd's Treasury & Investment Managers (LTIM)

Statutory auditor
Deloitte LLP

Statement of actuarial opinion signing actuary
Deloitte LLP

REPORT OF THE ACTIVE UNDERWRITER

Overview

The Syndicate has completed its fifth full underwriting year having launched during the middle of October 2015 and continues to focus on core classes of non-US direct and facultative business: Property, Construction, General Liability and Financial Lines.

Considerable progress has been made over the past 5 years in building a high-calibre, experienced and diverse front-line underwriting and support team together with a high-profile executive team with proven track record of managing and building successful businesses. This is complemented by our applied use of market leading analytics and an actuarial capability, which sits at the front and centre of the business.

I made reference in my report last year that the improving market conditions we had witnessed, during the second half of 2018 and throughout 2019 on the back of over a decade of 'soft-market' cycle were expected to continue in 2020 following the withdrawal and / or contraction of capacity driven by a combination of: poor results, adverse prior year reserve development and a greater focus on underwriting performance. This certainly was the case throughout 2020 further exacerbated by the impact of Covid-19 related claims and the prospect of a diminishing investment performance. We expect this momentum to continue in 2021.

Probitas remains resolute in its quest to deliver strong and sustainable underwriting results. I am pleased to report that the execution of our clear remediation and underwriting strategy post 2017, together with the implementation of a robust performance monitoring and portfolio optimisation framework, continues to have a significant positive impact on the Syndicate's bottom line result. This is borne out by the actual performance of the 2018 pure underwriting year of account and also the forecast results of both the 2019 and 2020 pure underwriting years of account and also the 2020 GAAP year result, which I shall expand upon later in my report.

I am also delighted to report that Probitas was granted 'in principle' approval by Lloyd's in July 2020 to set up its own manging agency, Probitas Managing Agency Ltd (PMAL). We are now going through a process of regulatory approval by the PRA / FCA and Lloyd's which we hope to secure before end of June 2021. PMA has already recruited a full complement of high calibre resources including appointment of the Chairman designate Steven Burns and two independent non-executive directors, Mel Goddard and Hilary Weaver, subject to final regulatory approvals.

REPORT OF THE ACTIVE UNDERWRITER (continued)

Core Strategy

The Syndicate has continued to focus on its vision and strategy to build a scalable, sustainable, and profitable business underpinned by some core principles:

- Focus on core commercial classes of non-US Property, Casualty and Financial Lines.

- Limited appetite for Delegated Underwriting Authority, high conduct risk exposure and incidental mainland USA exposures.

- An emphasis on SME's and mid-market business, providing cross-class solutions as a key differentiator.

- Diverse and cost-effective distribution model: building long-term, strategic relationships with carefully selected distribution partners; going to the source of the business and capability to provide 'quote to bind' electronic trading capability.

- Embedding technology and data analytics at the front and centre of the business.

- Exemplary underwriting discipline underpinned by robust performance monitoring using real-time management information.

2020 Underwriting Year Update

Combined with strong underwriting discipline and favourable market conditions the Syndicate is on track to deliver a third successive year of market leading performance. Probitas was also granted approval for a mid-year pre-emption of approximately 7% and resulting in a revised Gross Written Premium estimated at around £146m.

The other key performance metrics to highlight are:

- Achieving a Risk Adjusted Rate Change of 23.6% on renewal business.
- Price adequacy of 154.5% of SBF benchmark on new business.
- Acquisition costs under 17%.
- Core operating expenses 12.5% of Gross Written Premium (defined as: Net operating expenses, including Personal expenses but excluding accrued profit commission).

I am, therefore, pleased to report that the current ultimate net combined operating ratio, (“ NCOR” defined as: net ultimate earned claims plus net ultimate operating expenses, excluding investment return and foreign exchange expressed as a percentage of net ultimate earned premium) for the 2020 pure year of account is forecast at 87.8%. This is on the back of the 2019 pure year of account forecast ultimate NCOR of 86.3% (including around £3.5m provision for Covid-19 related potential claims) and 2018 pure year of account NCOR at 89.8%.

I am also delighted to report that the Syndicate’s UK GAAP NCOR result for year ending 2020 (2019) is 85.6% (94.4%) with a net profit of £17.97m (£7.83m) including £1.97m (£1.22m) investment return.

This has been achieved against the backdrop of living through some extraordinary and unprecedented times brought about by the Covid-19 pandemic. I am pleased to report that the Syndicate continues to meet these challenges with overall limited impact on the business as a result of:

- Effective Business Continuity Plans to ensure minimal operational disruption – the whole business successfully continues to operate remotely with regular engagement with all team members, including weekly team meetings; staff feedback surveys and 1-2-1 consultations to ensure that all employees are fully supported.
- Limited financial impact of Covid-19 claims (£3.5m of Gross and Net provision).
- Setting up of Covid-19 Taskforce Group to closely monitor developments, claims notifications, reserving and maintaining effective communication and service to brokers and our end customers, including fairness with premium payment/credit terms and exposure adjustments on premiums.

2021 Underwriting Year High Level Syndicate Business Plan

As referred to in my report earlier, I expect the positive pricing environment to be sustained throughout 2021. We are targeting a further Risk Adjusted Rate change of over 11% average across the business.

The Syndicate will remain focussed on robust performance management, continuous performance improvement and portfolio optimisation. At the same time, 1492 is resolved to deliver further operational efficiencies by investing in and building a more efficient, scalable and cost-effective operating model which will assist in the delivery of year on year material improvements in its core expense ratio.

The 2021 year of account Syndicate Business Forecast (SBF) was approved by Lloyd's at £173m Gross Written Premium. All of the existing classes of business were approved but with lower emphasis on Construction until we see further improvement in the underlying terms and conditions for this class. The overall portfolio will be broadly split: 42% short tail and 58% long tail classes. The plan net combined operating ratio is 89.4% with projected net profit including forecast investment return of £16.7m which would translate to a Return on Capital of over 18%.

Geographical Split

	2021 SBF Gross Written Premium	
Region	£000	%
UK	47,803	27.6
Latin America & Caribbean	33,071	19.1
Asia Pacific	32,289	18.7
Canada	29,002	16.8
W Europe (ex UK)	22,381	12.9
Rest of the World	8,407	4.9
Total	172,953	100.0

REPORT OF THE ACTIVE UNDERWRITER (continued)

The Impact of Brexit

During 2020, the Syndicate was able to retain its book of business from the EEA countries supported by the Lloyd's Brussels Platform. Lloyd's have recently advised that the Belgium regulators have challenged Lloyd's as to whether the current Lloyd's Brussels operating model is fully compliant with the EU regulations. Lloyd's are therefore reviewing the operating model to see how it can be adapted or explore alternative solutions to satisfy the regulators. While we can expect some additional challenges as a result of the withdrawal of UK from the European Union, we do not anticipate any material impact on the limited volume of European business written by the Syndicate which largely emanates from Ireland.

Ogden Impact

The Syndicate underwrites certain UK liability risks but notably excluding UK Motor. For reporting purposes as at 31st December 2020, I can advise that the Ogden rate has not had any impact on Syndicate's 1492's reserves. It, is, however, possible that there may be an impact if there were to be a claim arising from this book of business, and which potentially was subject to a periodic payment order.

Latin America

Our Latin American regional underwriting hub, based in Mexico City, continues to operate writing mid-market property facultative business on a highly selective and profitable basis and focussing on local businesses which cannot be accessed in the London Market. This is a long-term strategic initiative for Probitas and underlines our commitment to the region

Reinsurance

The Syndicate's gross exposures are protected by effective and efficient treaty reinsurance programs which provide significant levels of both vertical and sideways coverage with high quality security. This is further complemented by a specific reinsurance protection to significantly de-risk the Syndicate's gross exposures to Atlantic and Pacific Windstorm risks.

Capital Support

The Syndicate continues to receive strong support from both new and existing capital providers underpinned by significant support from Probitas' cornerstone equity partner. Based on the recent historical underwriting performance of the Syndicate and the future positive outlook there was very strong interest from a number of new investors in the course of the 2021 Coming into Line process. I would, again, like to take this opportunity to thank all participating capital partners for their continued support and sponsorship of Probitas.

Summary

I am delighted to report that the 1492 is on track to deliver a top tier underwriting result for the third year in succession. The Syndicate has demonstrated remarkable resilience and resolve in the face of some significant adversity in its early phase of development and in meeting the more recent and unprecedented challenges of the global pandemic. It is a great testament to the hard work, discipline and resolve of the Probitas team.

Our team is looking forward to building further on these strong foundations to deliver another positive performance in 2021 against the backdrop of favourable market conditions and establishing a high calibre managing agency with robust governance and compliance framework.

I would like to conclude my report by acknowledging the enormous impact and challenges posed by the Covid-19 global pandemic. It has truly tested the human capacity to adapt and cope with events which none of us would have witnessed before. I would like to take a moment to remember the enormous hardship which so many people and businesses, including so many of our customers, are going through; whether it be financial, being directly impacted by the debilitating virus or having to deal with the loss of their nearest and dearest. I would also like to applaud and acknowledge the dedication and commitment of our frontline workers in the UK and around the world ranging from our extraordinary National Health Service staff to public transport workers, refuse collectors to people keeping the grocery stores open. They are all taking personal risks to their health and well-being to ensure that our necessities are met.

Human resolve and resilience mean that we will get through this pandemic and come out at the other end wiser, stronger and more appreciative of some of the privileges which we enjoy but we often take for granted.

I also want to extend my huge gratitude to each and every one of my Probitas colleagues for their conscientiousness and amazing dedication to the business. It absolutely speaks volumes for their professionalism and determination and a testament to the strong ethos, values and culture which define our behaviours and the team spirit that we have built.

Ash Bathia
Active Underwriter
Syndicate 1492
19 February 2021

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of Capita Managing Agency Limited (CMA), the managing agent, present their report for Syndicate 1492 ('the Syndicate') for the year ended 31 December 2020. This report includes the strategic report.

Basis of Preparation

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

The Syndicate

On 30 September 2015, Lloyd's confirmed its approval for Probitas Syndicate 1492 to commence underwriting effective 1 October 2015. Probitas Syndicate 1492 has been formed as an exclusively Lloyd's based business, writing Property and Casualty insurance and reinsurance business, including underwriting business from the world's emerging markets. The Syndicate is backed by a broad mix of corporate member capital.

Results

The amounts disclosed for UK GAAP reporting purposes represent the combination of the 2020 calendar year movements for: the 2020 and 2019 naturally open years of accounts; and the closing 2018 & prior years of account.

The 2018 & prior years of account include the 2015 to 2017 years of account closed by Reinsurance to close into the 2018 year of account.

The result for Syndicate 1492 for the year ended 31 December 2020 is a profit of £17,969,000 (2019: £7,833,000):

Profit / (loss) attributable to underwriting years:	**2020**	2019
	£000	£000
2020 (2019)	**19**	(5,555)
2019 (2018)	**19,353**	14,806
2018 (2017) & prior	**(1,477)**	(1,418)
Total	**17,969**	7,833

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Results (continued)

The 2018 & prior years of account is closing by Reinsurance to close (RITC) after 36 months with a distributable profit of £9,800,000 (2017 & prior years of account – collectable loss £23,857,000).

The 2018 & prior years of account distributable profit of £9,800,000 consists of:

- A profit of £10,988,000 in respect of 2018 pure year of account.
- A loss of £ (1,393,000) in respect of 2017 & prior years of accounts movements in 2020.
- A net adjustment of £205,000 in respect of unearned premium.

The 2020 year of account profit arising in the year includes all administrative and operating expenses, including Names personal expenses, incurred during the year with no deferral of any underwriter or marketing expenses; only brokerage, commissions and other acquisition costs are deferred in the ordinary course of business and in accordance with UK GAAP. The profits / losses arising from the 2019 and 2018 & prior years of account, in their second and third years of development respectively, result from the underwriting.

The Syndicate's key UK GAAP financial performance indicators during the period were as follows:

	2020 **£000**	2019 £000
Gross premiums written	**144,770**	133,795
Gross premiums earned	**140,253**	134,484
Net premiums earned	**113,647**	106,447
Net claims incurred	**(50,663)**	(56,950)
Profit for the financial year	**17,969**	7,833
Net Incurred Loss Ratio	**44.58%**	53.50%

	2020		2019	
	Gross	**Net**	Gross	Net
	%	**%**	%	%
Combined operating ratios	**78.4**	**85.6**	91.9	94.4

Gross and net combined operating ratios are defined as:
Earned claims plus net operating expenses, excluding investment return and foreign exchange, before and after reinsurance respectively, expressed as a percentage of net ultimate earned premium

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Activities

The principal activity of Syndicate 1492 is the transaction of general insurance and reinsurance business.

The Syndicate underwrites a range of classes of business concentrating on Property and Casualty business written on both a direct and reinsurance basis.

	Gross Written Premium		Gross Written Premium	
	2020	**2020**	2019	2019
	£000	**%**	£000	%
Property D&F	**59,733**	**41.3**	54,442	40.7
Contractor All Risks	**4,854**	**3.3**	6,131	4.6
Property	**64,587**	**44.6**	60,573	45.3
Financial Lines	**35,999**	**24.9**	33,370	24.9
Casualty UK	**20,028**	**13.8**	21,838	16.3
Casualty International	**24,156**	**16.7**	18,013	13.5
Casualty	**80,183**	**54.4**	73,222	54.7
Total	**144,770**	**100.0**	133,795	100.0

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Activities (continued)

Probitas Syndicate 1492 declared a UK GAAP profit for the year amounting to £17,969,000 (2019: £7,833,000). The main elements in arriving at this result included:

	2020 **£000**	2019 £000
Earned premiums, net of reinsurance	**113,647**	106,447
Claims incurred net of reinsurance	**(50,663)**	(56,950)
Net technical result	**62,984**	49,497
Net acquisition costs	**(24,396)**	(26,909)
Administration expenses	**(16,131)**	(14,849)
Syndicate operating expenses	**(40,527)**	(41,758)
Investment return	**1,978**	1,220
Foreign exchange gain / (loss)	**(385)**	635
Result before personal expenses	**24,050**	9,594
Personal expenses including Profit commission	**(6,081)**	(1,761)
Total	**17,969**	7,833

Earned reserves are assessed to reflect the experience to date.

The 2020 year of account has developed favourably to date with a Gross Earned Loss Ratio at 45.2% and the Syndicate has benefited from a benign year with minimal large loss activity.

The level of actual acquisition costs relating to gross written premium and charged in the reporting period was lower than expected when compared to that envisaged within the Syndicate business plans due to the Syndicate's proactive management of these costs in the year.

The net cash inflow during the reporting period was £31,243,000 from all operations (2019: £33,473,000 cash inflow).

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Activities (continued)

As the Syndicate continues to develop, any surplus free funds are held either in bank current accounts, interest bearing current accounts, short-term deposits or government and corporate debt securities, providing the Syndicate with ready access to working capital.

The Syndicate does not hold any off-balance sheet arrangements.

It is planned that the developing underwriting portfolio will continue to be focused on Property and Casualty classes of business.

Set out below is the planned portfolio development for the 2021 year of account, based upon the 2021 Syndicate Business Forecast (SBF):

Indicative split by Class of Business:	Gross Written Premium £000	Percentage Split %
Property D&F	69,404	40.1
Casualty UK	27,486	15.9
Professional Indemnity	18,478	10.6
Casualty International	16,914	9.8
Management Liability	15,978	9.2
Casualty Councils	14,039	8.2
Financial Institutions	7,118	4.1
Contractor All Risks	3,536	2.1
Total by Class of Business	**172,953**	100.0

Principal Risks and Uncertainties

The major risks and uncertainties that the Syndicate faces are presented below.

INSURANCE RISK:

Insurance risk can be viewed as comprising three main elements: underwriting, claims and reserving. Each of these can be defined as:

UNDERWRITING RISK:

An insurance risk includes the risk that an insurance policy might be written for insufficient premium and/or provide inappropriate cover.

The Syndicate's underwriting models, aggregation tools and policy wordings do not of themselves prevent unplanned concentrations of risk, either in geographical regions or types of policy. Consequently, various risk management and loss mitigation techniques have been developed to manage and reduce this risk.

The Syndicate competes against major international groups and there will be occasions when some of these groups may choose to underwrite for cash flow or market share purposes and at prices that sometimes fall short of the Syndicate's minimum acceptable technical price. In common with all insurers, the Syndicate is exposed to this potential price volatility. Any extended periods of low premium rating levels and/or high levels of competition in the insurance markets are likely to have a negative impact on the Syndicate's ability to write business profitably and consequently its financial performance. Therefore, the Syndicate monitors pricing levels and is committed to rejecting any business that is unlikely to generate a positive underwriting result.

CLAIMS AND RESERVING, GROSS AND NET OF REINSURANCES, RISK:

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

Principal Risks and Uncertainties (continued)

OPERATIONAL RISK:

This is the risk that errors caused by people, processes and/or systems might lead to financial losses to the Syndicate. CMA manages this risk by reference to and use of a risk register, including a regular review process with those executives who have authority and responsibility for identifying, assessing and controlling operational risks effectively.

CMA has developed and implemented a risk reporting and risk governance system to ensure that effective risk management of operational risk is embedded. Management receives regular operational risk updates and the Risk & Capital Committee reviews the operational risk dashboard at least on a quarterly basis.

CMA has entered into a number of outsourcing arrangements, the performance of which are overseen by the Outsource Committee.

It is critical for the Syndicate that the key resources required to support its underwriting and other essential business activities continue to be available. Contingency plans are in place to mitigate against any loss of key resources from disrupting the ongoing operations of the Syndicate.

MARKET RISK (including interest rate and currency):

This is the risk of financial loss which arises from any fluctuations in market factors, including:

1. The value of investment holdings themselves.
2. Movements in interest rates.
3. Movements in foreign exchange rates.

As the Syndicate develops, its exposure is likely to increase in respect of each of the above. CMA will seek to mitigate any such exposure and therefore reduce any associated risk by reviewing as and when appropriate investment performance and seeking to reduce as far as is practicable any currency assets / liabilities mismatches which might arise.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Risks and Uncertainties (continued)

CREDIT RISK:

This is the risk of financial loss if another party fails to honour its financial obligations, including failing to meet them in a timely manner. Credit risk can arise from the failure to receive inwards premium and the failure to collect outwards reinsurance claims recoveries. All Syndicate premium receivable balances are reported on an ongoing basis to enable the Syndicate Monitoring Committee to assess their recoverability.

The Syndicate purchases reinsurance protection to contain exposure from single claims and the aggregation of claims from catastrophic events. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore regularly reviewed throughout the year. The Syndicate currently has no actual or direct experience of bad debt losses arising from its reinsurance arrangements. The Syndicate makes active use of CMA's 'Broker Vetting & Reinsurance Security Group' (BVRSG).

Other areas of exposure to credit risk include:

1. Amounts due from insurance intermediaries; and
2. Counterparty risk with respect to investments and other deposits.

CMA seeks to actively manage and reduce the Syndicate's exposure to this risk by introducing limits on its exposure to either a single counterparty, or groups of counterparties, and to geographical and industry segments wherever practicable or considered appropriate. Such limits will be subject to an annual or more frequent review as appropriate. It is considered that the current levels of concentration of credit risk are acceptable given the Syndicate's short period of operation. This area of risk will continue to be monitored closely.

LIQUIDITY RISK:

Liquidity risk arises where cash may not be available to enable the Syndicate to pay its obligations as they fall due and at a reasonable cost. The Syndicate is exposed to daily cash demands on its available cash resources, including the settlement of claims, the payment of reinsurance premiums and also various operating and Names' personal expenses. The current approach has been to hold cash at either no or short notice thereby minimising any risk of significant capital loss. During 2020 the Syndicate held various Canadian government and corporate debt thereby providing liquidity while seeking to enhance the overall investment return. These funds are monitored by management on a regular basis. The directors do not consider that there is a significant risk of a material loss arising from liquidity risk.

Principal Risks and Uncertainties (continued)

REGULATORY AND COMPLIANCE RISK:

This is the risk of there being a financial loss owing to a breach of regulatory requirements and/or a failure to respond to a regulatory change. Management receives frequent regulatory and compliance risk updates and the Risk & Capital Committee reviews and monitors these risks on a quarterly basis.

The Syndicate is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US and Canadian Situs business.

Future Developments

Probitas Syndicate 1492 has been managed by CMA since its inception under what is known as a 'turn-key" arrangement.

At last year end we reported that consistent with the ambitions of all connected parties and subject to final agreement with Lloyd's it was planned that the management of Syndicate 1492 will transfer from CMA to Probitas' Lloyd's managing agency at a future date.

On 9 October 2020 Probitas Managing Agency Limited filed an application with the PRA and FCA to set up its own managing agency. Probitas has commenced a migration project with CMA in order to facilitate this ambition.

The Syndicate sought independent legal advice following the Supreme Court's ruling against insurers on the FCA's business interruption insurance test case on 15 January 2021.
The Supreme Court decision is less favourable and the Syndicate recognises that there is a potential for some additional exposure combined with the potential for additional defence costs.

Syndicate 1492 continues to be supported by a diverse underwriting capital base.

Rating Agencies

Syndicate 1492 does not have its own security rating; however, it does benefit from the Lloyd's global A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard and Poor's and AA- (Very Strong) from Fitch. Ratings were confirmed as at 15 December 2020.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Working Capital

CMA monitors the Syndicate's actual cash flow against projections to help identify any potential future working capital strain and thereby assist in actively managing any such occurrence.

Directors

The directors set out in the table below have held office for the whole period from 1 January 2020 to the date of this report unless stated otherwise.

I J Bremner - Non-Executive Director (*appointed 1 September 2020*)
R Richardson-Bunbury - Chief Actuary (*appointed 21 January 2021*)
K Coogans - Finance Director
K D Curtis - Non-Executive Director (*appointed 6 February 2020*)
D E Hope - Non-Executive Director
J Hummerston - Director of Underwriting
P Koslover - Chief Risk Officer (*resigned 28 August 2020*)
P M Laws - Risk & Compliance Director
W Scott - Chief Executive Officer *(resigned 14 February 2020)*
P Smith - Managing Director (*appointed 4 February 2020*)
E S Stobart - Chairman, Non-Executive (*resigned 5 August 2020*)
S Sykes - Chief Executive Officer (*appointed 29 April 2020*)
S M Wilton - Chairman, Non-Executive Director *(appointed Chairman 6 April 2020)*

Brexit – Lloyd’s Europe & Lloyd’s Part VII Transfer

As a consequence of Brexit, EEA passporting ceased at the end of the transition period on 31 December 2020. On 25 November 2020 the English High Court sanctioned a Part VII transfer of all policies (or parts of policies) insuring EEA risks from the Syndicates to Lloyd’s Insurance Company S.A. (“Lloyd’s Brussels”). Therefore, on behalf of the Members, Lloyd’s has transferred certain policies from the Members to Lloyd’s Brussels.

The transfer does not change the terms and conditions of any policy, except that Lloyd’s Brussels becomes the Insurer and Data Controller in respect of Transferring Policies.
The transfer has been carefully designed to ensure that it will not change how policies operate. Policyholders will see no direct administrative change as a result of the proposed transfer and the process for making claims and any payments that may be due as settlement of a valid claim is unaffected by the proposed transfer.
The transfer took effect on 30 December 2020.

As Lloyd’s Brussels is wholly reinsured by the Syndicates in respect of the transferred business, one innovation in the scheme is to convert the applicable Syndicates’ external reinsurance into retrocessions of the Syndicates that reinsure Lloyd’s Brussels with the intention of preserving reinsurance cover for the transferred risks.

Lloyd’s Brussels is an insurance company incorporated and regulated in Belgium and is a wholly owned subsidiary of Lloyd’s. Lloyd’s Brussels registered office is at Bastion Tower (14th floor), Marsveldplein / Place du Champ de Mars 5, 1050 Brussels.

Covid-19

In response to the Covid-19 outbreak, governments around the world have announced a number of measures to combat its spread. Certain aspects of these measures have and potentially will continue to significantly reduce business activity both globally and in the UK for a yet undetermined period. While there has been and continues to be a negative impact on overall global business activity, it remains unclear what the full, future economic impacts will be. However, the agency currently considers the Syndicate’s underwriting portfolio and operations together with its working and solvency capital resources are sufficiently strong to enable the directors to be confident that it will not be significantly affected in the immediate term. Furthermore, given the current level of assessed Covid-19 exposure, the Syndicate is well positioned once some stability returns to the UK and wider global economy and insurance markets.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Climate Change

Climate change is driving unprecedented physical impacts, with increased frequency of extreme weather events and rising sea levels resulting in business disruption. At the same time, global policy and technology changes that seek to limit warming and reduce the associated physical impacts can also cause disruption to business. As with any form of disruption, climate change is creating and will continue to create risks and opportunities for business in a diverse number of ways. As prompted by the Paris Agreement, the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), the heightened awareness of physical impacts and risks detailed in the Special Report of the Intergovernmental Panel on Climate Change (IPCC) on Global Warming 1.5°C, the impact of climate change, risk management and its integration into business are key to long term resilience.

The Syndicate recognises the financial risks presented by climate change and the areas most exposed are understood to be actuarial in nature, being pricing, reserving and capital modelling. As part of the risk management strategy of the agency the impact of climate change is considered through business continuity planning, underwriting strategy formulation, exposure modelling, scenario analysis and risk assessment presentations from the Risk Officer to the Executive Directors. Further work continues to promote effective governance surrounding climate risk and opportunity. This endeavour will be ongoing, with review and development to quantify the financial impact, while devising and implementing appropriate measures to mitigate downside risk where possible.

Ogden Rate

The managing agent's actuaries have conducted analyses regarding the potential impact of the Ogden rate, currently negative (0.25)% and have concluded that the impact to the Syndicate's reserves as at this year-end is not material.

Syndicate Annual General Meeting

Capita Managing Agency Limited (CMA) does not propose to hold an annual general meeting of members of the Syndicate. Members are asked to note that any objections to this proposal should be submitted, in writing, to the CMA Compliance Director within 21 days of this notice.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Related Party Transactions

The Syndicate did not enter into any related party transactions which were not concluded under normal market conditions. For a full listing of related party transactions please refer to note 19 of the accounts.

Disclosure of Information to the Auditor

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditor

The managing agent proposes the re-appointment of Deloitte LLP as the Syndicate auditor.

Approved by the Board of Directors.

Simon Sykes
Director
19 February 2021

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare Syndicate annual accounts for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the result or loss of the Syndicate for that period.

In preparing those Syndicate annual accounts, the managing agent is required to:

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

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492

Report on the Audit of the Syndicate Annual Financial Statements

Opinion

In our opinion the Syndicate annual financial statements of Syndicate 1492 (the 'Syndicate'):

1. 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;
2. 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
3. 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 financial position;
- the statement of changes in members' balances;
- the statement of cash flow statement;
- the statement of accounting policies; and
- the related notes 1 to 20.

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.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

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 report and accounts, 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

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, internal audit and the audit committee about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework[s] 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 specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

Extent to which the Audit was considered capable of detecting irregularities, including Fraud (continued)

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

- there is significant management judgement in the manual adjustments to premiums on delegated authority business. In response to this risk we have selected a sample of adjustments and the agreed total premium recognised on the contract since inception to bordereaux or other third-party evidence received. We also performed tests on a number of delegated authority facilities where no adjustment had been made by management to ensure that a materially complete population of adjustments had been identified.

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 and internal audit concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations.
- Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with Lloyd's and the PRA.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

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.
- 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;
- 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.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

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 (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 February 2021

INCOME STATEMENT
TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Gross premiums written	2	**144,770**	133,795
Outward reinsurance premiums		**(24,120)**	(26,075)
Net premiums written		**120,650**	107,720
Change in the provision for unearned premiums:			
Gross amount		**(4,517)**	689
Reinsurers' share		**(2,486)**	(1,962)
Change in the net provision for unearned premiums		**(7,003)**	(1,273)
Earned premiums, net of reinsurance		**113,647**	106,447
Allocated investment return transferred from the non-technical account		**1,978**	1,220
Claims paid:			
Gross amount		**(33,285)**	(35,292)
Reinsurers' share		**4,532**	9,956
Net claims paid		**(28,753)**	(25,336)
Change in claims outstanding:			
Gross amount		**(30,113)**	(42,379)
Reinsurers' share		**8,203**	10,765
Change in the net provision for claims	3	**(21,910)**	(31,614)
Claims incurred net of reinsurance		**(50,663)**	(56,950)
Net Syndicate operating expenses	4	**(46,608)**	(41,758)
Balance on the technical account for general business		**18,354**	7,198

INCOME STATEMENT
NON-TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	**2020 £000**	2019 £000
Balance on the technical account – general business		**18,354**	7,198
Investment income		**1978**	1220
Allocated investment return transferred to general business technical account		**(1,978)**	(1,220)
Exchange gains / (losses)		**(385)**	635
Profit for the financial period		**17,969**	7,833

All operations relate to continuing activities. There is no other comprehensive income.

STATEMENT OF FINANCIAL POSITION – ASSETS
AS AT 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Investments			
Other financial investments	8	**54,374**	37,123
Reinsurers' share of technical provisions			
Claims outstanding	9	**45,533**	37,731
Provision for unearned premium	9	**11,028**	13,792
		56,561	51,523
Debtors			
Debtors arising out of direct insurance operations	10	**34,921**	27,536
Debtors arising out of reinsurance operations	11	**10,720**	8,671
Other debtors	12	**1,324**	678
		46,965	36,885
Other assets			
Cash and cash equivalents		**80,561**	40,585
Overseas deposits		**27,133**	21,441
		107,694	62,026
Prepayments and accrued income			
Deferred acquisition costs	13	**9,733**	10,401
Other prepayments and accrued income		**627**	783
		10,360	11,184
Total assets		**275,954**	198,741

The notes on pages 37 to 80 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION – MEMBERS' BALANCES & LIABILITIES
AS AT 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Capital and reserves			
Total members' balances		**23,479**	(18,753)
Technical provisions			
Provision for unearned premium		**67,682**	62,607
Claims outstanding		**164,889**	134,858
		232,571	197,465
Creditors			
Creditors arising out of direct insurance operations		**105**	97
Creditors arising out of reinsurance operations	14	**14,065**	18,305
Other creditors		**110**	167
		14,280	18,569
Accruals and deferred income	15	**5,624**	1,460
Total members' balances & liabilities		**275,954**	198,741

The financial statements on pages 37 to 80 were approved by the board of Capita Managing Agency Limited on 18 February 2021 and were signed on its behalf by:

Simon Sykes
Director
19 February 2021

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 £000	2019 £000
Operating Activities			
Profit for the financial year		**17,969**	7,833
Adjustments for:			
Increase in gross technical provisions		**35,106**	37,300
(Increase) reinsurers share of gross technical provisions		**(5,038)**	(7,391)
(Increase) / decrease in debtors		**(9,687)**	1,083
Increase / (decrease) in creditors		**(125)**	4,836
Movement in other assets / liabilities		**(4,144)**	(9,749)
Investment return		**(1,978)**	(1,220)
Foreign Exchange		**(860)**	781
Net cash flow from operating activities		**31,243**	33,473
Cash flow from investing activities			
Purchase of debt instruments		**(18,245)**	(32,475)
Sale of debt instruments		**1,931**	16,724
Investment income received		**420**	893
Net cash flow from investing activities		**(15,894)**	(14,858)
Cash flow from Financing activities			
Transfer from Members in respect of underwriting participations		**23,868**	10,447
Net cash flow from financing activities		**23,868**	10,447
Net increase in cash and cash equivalents		**39,217**	29,062
Cash and cash equivalents at beginning of period		**40,825**	12,566
Foreign exchange gains / (losses) on cash and cash equivalents		**927**	(803)
Cash and cash equivalents at the end of the period		**80,969**	40,825
Cash and cash equivalents consist of:			
Cash at bank and in hand		**80,561**	40,585
Short term deposits with credit institutions		**408**	240
Cash and cash equivalents at end of period		**80,969**	40,825

STATEMENT OF CHANGES IN MEMBERS' BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 £000	2019 £000
Members' balances brought forward	**(18,753)**	(37,143)
Profit for the period	**17,969**	7,833
Collectible loss from Members'	**24,260**	10,557
Non-standard personal expenses	**3**	-
Members' balances carried forward	**23,479**	(18,753)

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2020

1. Accounting Policies

STATEMENT OF COMPLIANCE

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

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

BASIS OF PREPARATION

The financial statements for the year ended 31 December 2020 were approved by the Board of Directors on 18 February 2021.

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

Having considered the risks and uncertainties, including those relating to the impact of Covid-19, and the performance of the Syndicate as disclosed in the report of the directors and making enquiries, the managing agent has a reasonable expectation that the Syndicate will continue to write business for the foreseeable future. Moreover, the managing agent expects that continued capital support will be in place to do so. Accordingly, the financial statements have been prepared on the going concern basis.

JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the carry value of assets and liabilities that are not readily available from other sources. Estimates and underlying assumptions are regularly reviewed and revisions to these are recognised in the period in which the change in estimate is recognised and all future periods affected. The following are the Syndicate's key sources of estimation uncertainty, where a risk of causing material misstatement to the carrying value of assets and liabilities within the next financial year may exist.

1. Accounting Policies (continued)

JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty: *insurance contract, claims provisions*

For insurance contracts, estimates are made both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported (IBNR), at the reporting date. It can take a significant period before the ultimate claims cost can be established with certainty.

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

The main assumption underlying these standard actuarial claims projection 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 balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the balance sheet 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 rating and other models of the business accepted and assessments of underwriting conditions. Managerial judgement is applied when setting the initial expected loss ratio, gross claims' development patterns and the proportion of reinsurance recoverable thereon. These judgements are based on a combination of Syndicate specific and market benchmarks where available. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset. Further details are provided in Note 20 (c).

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

1. Accounting Policies (continued)

JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Critical accounting judgement: accounting of binding authority premiums

For contracts written under binding authorities, premium is recognised on a written declaration received basis. Where material, a premium accrual is made to account for delays in receipt of bordereaux at year end. Management consider that a declaration basis rather than an ultimate estimated basis is a more accurate representation of the underlying portfolio and removes a degree of estimation uncertainty.

SIGNIFICANT ACCOUNTING POLICIES

Insurance contracts: product classification

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

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

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with IAS 39 unless the embedded derivative is itself an insurance contract (ie the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Gross premiums

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

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

Reinsurance premiums

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

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

Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured.

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Profit commission

Profit commission is charged by the managing agent at a rate of 22.5% on profits and is subject to a one-year deficit clause. This amount is shared between the managing agent and Probitas 1492 Services Limited in accordance with the Third-Party Management Services Agreement (TPSMA).

Profit commission is charged to the Syndicate as incurred and is presented in within Members' Personal expenses

Any amount due in respect of the managing agent becomes payable after the appropriate year of account closes, normally at 36 months.

Reinstatement premiums

Reinstatement premiums may arise on both inwards and outwards policies when a loss has been incurred on a policy and there is a clause which requires the reinstatement of the policy with the payment of a further premium by the policyholder. These amounts are generally recognised as written and earned in full, at the date of the event giving rise to the reinstatement premium. Outwards reinstatement premiums payable, in the event of a claim being made, are generally charged to year of account in the same proportions as that to which the recovery is credited.

Claims

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

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

Technical provisions

Technical provisions comprise claims outstanding and provisions for unearned premiums.

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Claims outstanding

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

Provisions for unearned premiums

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

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

Deferred acquisition costs

Acquisition costs can comprise costs arising from the conclusion of insurance contracts, including direct costs, such as intermediary commissions and indirect costs, such as the administrative expenses connected with the processing of proposals and the issuing of policies. Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement. Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight-line basis over the term of the expected premiums payable.

1. Accounting Policies ((continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Reinsurance assets

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

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

Insurance receivables

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

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

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

Financial investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial investments (continued)

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss or loans and receivables or available for sale. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis.

Purchases and sales of financial assets are recognised on the trade date, i.e. the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market-place.

Financial assets at fair value through profit or loss has two sub-categories, namely financial assets held for trading and those designated at fair value through the profit and loss at inception. All the Syndicate's financial assets are held for trading. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Derivative financial instruments

The Syndicate does not use derivative financial instruments.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short-term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above. Overdrafts are reported separately in creditors.

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value of financial assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

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

Analysis of the fair value of the Syndicate's investments is contained in note 20 *fair value estimation.*

Impairment of financial assets

For financial assets not held at fair value through profit or loss, the Syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The Syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment. If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income in members' balance to the income statement. Impairment losses recognised in the income statement in respect of an equity instrument are not subsequently reversed through the income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the income statement, if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

De-recognition of financial assets

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are off-set and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Financial liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings and insurance payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

***Investment* return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the Balance Sheet date and their valuation at the previous Balance Sheet date, or purchase price, if acquired during the financial year, together with the reversal of unrealised gains and losses recognised in earlier financial years in respect of investment disposals in the current financial year.

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

Foreign currencies

The Syndicate’s functional and also reporting currency is £ Sterling.

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

1. Accounting Policies (continued)

SIGNIFICANT ACCOUNTING POLICIES (continued)

Exchange differences are recorded in the non-technical account

The following rates of exchange have been used in producing this annual report:

		US$	Can$	Euro	Au$
Closing rate of exchange	**31 December 2020**	**1.37**	**1.74**	**1.12**	**1.77**
Average rate of exchange	**Calendar year 2020**	**1.28**	**1.72**	**1.13**	**1.86**
Closing rate of exchange	31 December 2019	1.32	1.72	1.18	1.88
Average rate of exchange	Calendar year 2019	1.28	1.69	1.14	1.84

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. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate 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.

Pension costs

Capita Managing Agency Limited and Probitas 1492 Services Limited each operate their own defined benefit schemes. Pension contributions relating to staff who act on behalf of the Syndicate are charged to the Syndicate and included within net operating expenses.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

2. Segmental Analysis

An analysis of the underwriting result before investment return and foreign exchange gains and losses is set out below:

2020	**Gross premiums written £000**	**Gross premiums earned £000**	**Gross claims incurred £000**	**Net operating expenses £000**	**Reinsurance balance £000**	**Total £000**
Direct Insurance:						
Energy	**373**	**374**	**(93)**	**(97)**	**18**	**203**
Fire and other damage to property	**44,503**	**43,485**	**(13,212)**	**(15,105)**	**(5,559)**	**9,609**
Third party liability	**57,655**	**53,890**	**(33,929)**	**(17,159)**	**(1,457)**	**1,345**
	102,531	**97,749**	**(47,234)**	**(32,361)**	**(6,998)**	**11,157**
Reinsurance	**42,239**	**42,504**	**(16,165)**	**(14,247)**	**(6,873)**	**5,220**
Total	**144,770**	**140,253**	**(63,399)**	**(46,608)**	**(13,871)**	**16,376**

2019	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance:						
Energy	119	381	(169)	22	113	347
Fire and other damage to property	38,491	34,958	(20,075)	(13,259)	(10,079)	(8,455)
Third party liability	51,997	59,285	(41,386)	(19,259)	1,636	276
	90,607	94,624	(61,630)	(32,496)	(8,330)	(7,832)
Reinsurance	43,188	39,860	(16,041)	(11,023)	1,014	13,810
Total	133,795	134,484	(77,671)	(43,519)	(7,316)	5,978

All the £144,770,000 (2019: £133,795,000) gross premiums written were underwritten in the UK.

The geographical analysis of gross premiums written by location of risk is as follows:

	Gross Written Premium			
	2020 £000	**2020 %**	2019 £000	2019 %
UK	**44,398**	**30.6**	28,764	21.5
Asia Pacific	**35,458**	**24.5**	30,075	22.5
W Europe (ex UK)	**21,820**	**15.1**	22,650	16.9
Latin America & Caribbean	**13,063**	**9.0**	23,712	17.7
Canada	**19,816**	**13.7**	18,135	13.6
Rest of the World	**10,215**	**7.1**	10,459	7.8
Total	**144,770**	**100.0**	133,795	100.0

2. Segmental Analysis (continued)

Lloyd's Part VII Transfer

On 30 December 2020, the members and former members of the Syndicate, composed of the relevant years of account between 2015 April 2019, or October 2020 in the case of German reinsurance, transferred all relevant policies, and related liabilities, underwritten by them for those years of account to Lloyds Insurance Company S.A. ('Lloyd's Brussels'), in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the members of the Syndicate entered into a 100% Quota Share reinsurance arrangement whereby Lloyd's Brussels reinsured all risks on the same policies back to the relevant open years of account of the Syndicate which wrote the transferring policies and / or inherited liabilities on transferring policies through reinsurance to close of earlier years of account.

Following the sanction of the scheme by the English High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the members and former members of the Syndicate transferred the impacted EEA policies and related liabilities to Lloyd's Brussels, together with cash of US$40,031,000. On the same date, under the Quota Share reinsurance arrangement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of US$40,031,000. The combined effect of the two transactions had no economic impact for the Syndicate and accordingly there is no impact on the Syndicate's income statement or balance sheet.

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

3. Change in Net Provision for Claims

The change in net provision for claims is made up of the following:

	2020 £000	2019 £000
Gross claims incurred	**(29,449)**	(41,913)
Provision for unallocated loss adjustment expenses	**(664)**	(466)
Reinsurers' share of claims incurred	**8,203**	10,765
Total	**(21,910)**	(31,614)

4. Net Syndicate Operating Expenses

	2020 £000	2019 £000
Brokerage and commissions	**22,012**	23,929
Other acquisition costs	**1,765**	2,179
Gross acquisition costs	**23,777**	26,108
Change in net deferred acquisition costs	**734**	1,270
Earned acquisition costs	**24,511**	27,378
Reinsurers' commissions and profit participations	**(115)**	(469)
Net acquisition costs	**24,396**	26,909
Administrative expenses – other	**22,212**	16,610
Total	**46,608**	43,519

Brokerage and commissions in respect of gross earned premium, derived from direct & facultative business amounted to £14,775,000 (2019: £16,185,000).

Administrative expenses – other' includes members' personal expenses of £6,081,000 (2019: £1,761,000).

	2020 £000	2019 £000
Managing agent's fee	**910**	794
Central Fund	**534**	568
Lloyd's Subscriptions	**562**	441
PPL rebate of Lloyd's Subscriptions	**42**	(42)
Profit commission	**4,033**	0
Total	**6,081**	1,761

For 2020 Central Fund contributions are levied at 0.35% of Gross Written Premium (GWP) (2019: 0.35%). Members' subscriptions charged at 0.36% of GWP (2019: 0.36%). Placing Platform Limited (PPL) is a not for profit company set up in 2016 to create a single market solution for electronic placing that would allow brokers and insurers to quote, negotiate and bind business electronically.

No interest was payable to any related party (2019: Nil).

4. Net Syndicate Operating Expenses (continued)

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT)	**2020 £000**	2019 £000
An analysis of the auditor's remuneration is as follows:		
Audit fees:		
Fees payable to the Syndicate's auditor for the audit of these financial statements	**144**	98
Non-audit fees:		
Other services pursuant to legislation	**100**	75
Statement of actuarial opinion	**83**	79
Total fees	**327**	252

Other services pursuant to legislation include fees for the Syndicate year end audit of Solvency II balance sheet and Lloyd's half year reviews.

5. Staff Numbers and Costs

The average number of employees employed by CMA and who worked either in part or whole for the Syndicate during the period was as follows:

	2020	2019
Administration and Finance	**26**	19
Underwriting	**1**	1
Total	**27**	20

The reference to Underwriting relates to the role of Director of Underwriting. This role is supported by staff with underwriting experience included within “Administrative and Finance”.

CMA received a Managing Agent’s fee of £910,000 (2019: £794,000) which was charged to the Syndicate. These amounts include estimated amounts for directors and staff related costs. No emoluments of the directors of CMA were directly charged to the Syndicate and consequently no meaningful disclosure can be made.

CMA has also recharged various expenses which have been properly incurred on Syndicate 1492’s behalf; these amounted to £1,734,000 for the year ended 31 December 2020 (2019: £2,078,000).

6. Active Underwriter’s Emoluments

Ash Bathia, Syndicate 1492’s Active Underwriter, is engaged by way of a secondment deed between Capita Managing Agency Limited and Probitas 1492 Services Limited and himself.

The amount recharged to the Syndicate in respect of his total emoluments for the year ended 31 December 2020 was £526,000 (2019: £526,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2020

7. Investment Return

	2020 £000	2019 £000
Income from financial investments	**1,978**	1,220

Average amount of funds available for investment during the year:

	2020 £000	2019 £000
Sterling	**29,781**	10,931
United States Dollars	**26,354**	11,527
Canadian Dollars	**41,408**	28,778
Euros	**8,004**	8.832
Australian Dollars	**24,546**	12,218
Mexican Pesos	**19**	11
Total	**130,112**	72,297

	2020 %	2019 %
Gross calendar year investment yield	**1.55**	1.69

Analysis of calendar year investment yield by fund	**2020 %**	2019 %
Sterling	**0.58**	2.62
United States Dollars	**1.06**	2.26
Canadian Dollars	**3.07**	1.68
Euros	**0.00**	0.00
Australian Dollars	**1.19**	1.56
Mexican Pesos	**0.00**	0.00

The calendar year investment yield is shown gross before deducting any investment manager fees and is 1.55% (2019: 1.69%).

8. Financial Investments

	Market value	**Cost**	Market value	Cost
	2020	**2020**	2019	2019
	£000	**£000**	£000	£000
Shares and other variable securities and units in unit trusts:				
Designated at fair value through profit and loss	**4,997**	**4,983**	5,216	5216
Debt securities and other fixed income securities	**49,377**	**49,459**	31,907	31,580
Total	**54,374**	**54,442**	37,123	36,796

Included within Shares and Other Variable Securities is the loan to the Central Fund amounting to £1,994,000 (2019 £382,000). Debt securities and other fixed income securities which are listed total £47,917,000 (2019: £31,907,000). Where a valuation is used the Syndicate's investment managers select the most reliable source of data.

The difference between the preceding table and that contained within note 21, fair value estimation, is due to the inclusion of overseas deposits of £27,133,000 (2019: £21,441,000). Definitions of the fair value levels are contained within note 1.

9. Reconciliation of Insurance Balances

The reconciliation between the opening and closing balance of *unearned premium* is made up of the following:

	2020		2019	
	Gross	**Reinsurers' Share**	Gross	Reinsurers' share
	£000	**£000**	£000	£000
Brought forward	**62,607**	**(13,792)**	64,596	(16,226)
Premiums written	**144,770**	**(24,120)**	133,795	(26,075)
Premiums earned	**(140,253)**	**26,606**	(134,484)	28,037
Premium provision movement	**4,517**	**2,486**	(689)	1,962
Foreign exchange	**(558)**	**278**	(1,300)	472
Carried forward	**67,682**	**(11,028)**	62,607	(13,792)

The reconciliation between the opening and closing balance of *claims outstanding* is made up of the following:

	2020		2019	
	Gross	**Reinsurers' Share**	Gross	Reinsurers' share
	£000	**£000**	£000	£000
Brought forward	**(134,858)**	**37,731**	(95,568)	27,906
Change in claims provision	**(29,449)**	**8,203**	(41,913)	10,765
Change in provision for unallocated loss adjustment expenses	**(664)**	**-**	(466)	-
	(30,113)	**8,203**	(42,379)	10,765
Foreign exchange	**82**	**(401)**	3,089	(940)
Carried forward	**(164,889)**	**45,533**	(134,858)	37,731

10. Debtors Arising Out of Direct Insurance Operations

	2020 £000	2019 £000
Amounts due from policyholders - within one year	**34,921**	27,536

11. Debtors Arising Out of Reinsurance Operations

	2020 £000	2019 £000
Amounts due from intermediaries - within one year	**10,720**	8,671

12. Other Debtors

	2020 £000	2019 £000
Amounts due - within one year	**1,324**	678

13. Reconciliation of Gross Deferred Acquisition Costs

The reconciliation between the opening and closing balance of deferred acquisition costs is made up of the following:

	2020 £000	2019 £000
Brought forward	**10,401**	11,938
Change in gross deferred acquisition costs	**(781)**	(1,309)
	9,620	10,629
Foreign exchange	**113**	(228)
Carried forward	**9,733**	10,401

14. Creditors Arising Out of Reinsurance Operations

	2020 £000	2019 £000
Amounts due to intermediaries - within one year	**14,065**	18,305

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

15. Accruals and Deferred Income

	2020 £000	2019 £000
Amounts due within one year	**5,601**	1,460

The balance above relates to various operating expenses.

16. Ultimate Parent Company of the Managing Agent

Capita Managing Agency Limited (CMA), incorporated in England and Wales, is the Managing Agent for Syndicate 1492.

The accounts of CMA are available from the registered office at 65 Gresham Street, London, EC2V 7NQ.

CMA's immediate parent undertaking is Capita Insurance Services Holdings Limited, a company incorporated in England and Wales.

CMA's ultimate parent undertaking is Capita plc, a company incorporated in England and Wales. The accounts of Capita plc are available from the registered office at 30 Berners Street, London, W1T 3LR.

17. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. Generally, 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 annual accounts by way of such capital resources. However, the managing agent can make a call on the member's FAL to meet liquidity requirements or to settle losses.

18. Post Balance Sheet Events

The Supreme Court's ruling on the FCA's business interruption insurance test case on 15 January 2021 is deemed to be an adjusting post balance sheet event for purpose of reporting as at 31 December 2020. Accordingly, this ruling has been considered in assessing the valuation of Syndicate 1492's gross and net reserves for business interruption claims as at 31 December 2020.

The managing agent is considering the solvency surplus position on the 2019 year of account with the intention of making an open year profit transfer to members. The actual amount of the transfer will be determined by reference to the final audited solvency return. Such transfers are at the discretion of the managing agent subject to it being reasonably satisfied in making its decision that the Syndicate's retained assets will allow it to meet all liabilities as they are expected to fall due and that no material adverse development has occurred since the 31 December 2020 year end.

19. Related Parties

The following entities are referred to by their abbreviation throughout this note:

	Entity's legal name	**Abbreviation**
Capita and subsidiaries:		
1	Capita plc	Capita
2	Capita Insurance Services Holdings Limited	CISH
3	Capita Commercial Insurance Services Limited	CCIS
4	Capita Managing Agency Limited	CMA
Probitas and subsidiaries:		
5	Probitas Corporate Capital Limited	Probitas Corporate
6	Probitas 1492 Services Limited	Probitas
7	Probitas Holdings (Bermuda) Limited	PHBL
8	Probitas Holdings (UK) Limited	PHUK
9	Probitas 1492 Services Mexico SA De CV	PMex
10	Probitas Managing Agency Limited	PMAL

19. Related Parties (continued)

Interests of the Managing Agent

CMA managed Syndicates 1492 and 1110 throughout 2020. Syndicate 1492 has been managed by CMA since its inception under what is known as a “turn-key” arrangement.

CMA has charged a managing agency fee of £910,000 to Syndicate 1492 during the reporting period (2019: £794,000).

CMA has recharged various expenses which have been properly incurred on Syndicate 1492's behalf amounting to £1,734,000 during the reporting period (2019: £2,078,000). Amounts outstanding at each reporting period end were £186,000 and £479,500 respectively.

Interests and Arrangements of any Related Companies

Disclosed below are those transactions or arrangements entered into on behalf of, or otherwise concerning the member of, the Syndicate in which any related company of CMA has, directly or indirectly, a material interest:

CMA's immediate direct holding company is CISH. CMA and CCIS are wholly owned subsidiaries of Capita.

CMA entered into an agreement with CCIS on 5 October 2015 for the provision of outsourced underwriting support and other related administration services for Syndicate 1492.

During the reporting period £1,848,000 was charged to Syndicate 1492 in respect of services provided by CCIS (2019: £1,940,000). Amounts outstanding at each reporting period end were £221,000 and £nil respectively.

CMA entered into a Delegated Authority Agreement with Probitas on 5 October 2015 for the provision of underwriting and other related administration services for Probitas Syndicate 1492.

Ash Bathia is Syndicate 1492's Active Underwriter and is engaged by way of a secondment deed entered into between CMA, Probitas and himself on 5 October 2015.

20. Risk Management

GOVERNANCE FRAMEWORK

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

The Managing Agent has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees, and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory, and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate business plan, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'. The Syndicate regularly undertakes a process known as 'Own Risk & Solvency Assessment' (ORSA) which is reviewed by the Risk Committee and finally approved by the board.

20. Risk Management (continued)

CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND APPROACH

Capital framework at Lloyd's

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

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency I figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirement of the Syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 1492 is not disclosed in these financial statements.

Lloyd's capital setting process

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

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

20. Risk Management (continued)

CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND APPROACH (continued)

Lloyd's capital setting process (continued)

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 and 2019 was 35% of the members' SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a Syndicate (Funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

INSURANCE RISK

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

The risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

20. Risk Management (continued)

INSURANCE RISK (continued)

The Syndicate purchases reinsurance as part of its risks' mitigation programme. Reinsurance ceded may be placed on both a proportional and non–proportional basis. The majority of any proportional reinsurance which might be ceded is likely to be quota–share reinsurance which would be taken out to reduce the overall exposure to certain classes of business. Non–proportional reinsurance is primarily excess of loss reinsurance and is usually designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance will vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The Syndicate principally issues the following types of general insurance contracts: Property and Casualty risks usually cover twelve months' duration.

The Syndicate's most significant risks arise from natural disasters. For longer tail casualty claims that take some years to settle, there is also inflation risk.

Variability in claims and hence profits is a significant risk to the Syndicate. This is mitigated by writing a diverse range of products including diversification by industry sector and geography.
The Syndicate has an agreed maximum and normal line size for each underwriting team. It also has a reinsurance strategy and purchasing plan to mitigate the effects of individual large losses and events. The pricing of the business includes the consideration of inflation and other economic factors. Operational risk can also increase the volatility of profits. This risk is mitigated by strict claim handling procedures and frequent investigation of possible fraudulent claims.

20. Risk Management (continued)

INSURANCE RISK (continued)

The Syndicate has an overarching risk appetite expressed in terms of the Solvency Capital Requirement on an ultimate basis which is not to exceed this figure by more than 15% on an ongoing basis. (This is consistent with the definition of a ‘major change’ which would require an updated plan to be submitted and approved by Lloyd’s). The Syndicate also has a subsidiary risk appetite for natural catastrophe exposure which is primarily to limit exhaustion of the reinsurance programme to be less than a 1 in 200 level on an occurrence basis.

The Syndicate uses commercially available 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 un-modelled event are greater than those arising from a modelled event.

The Property D&F account written during 2020 is exposed to catastrophe type major losses:

Major Loss	Estimated gross ultimate claims £000	Estimated net ultimate claims £000
31 December 2020:		
Fort McMurray flood, Canada	**1,427**	**1,427**
Outbreak of novel coronavirus (2019-nCov)	**3,541**	**3,541**
Hurricane Delta (US$ 1.37 - £1.00)	**349**	**349**
Hurricane Zeta (US$ 1.37 - £1.00)	**99**	**99**
31 December 2019:		
Australian Wildfires	997	997
Storm Dorian	757	757

Reserves have been assessed across the whole underwriting portfolio on an entirely assumed basis using the Lloyd’s approved Syndicate business plan loss ratios.

NOTES TO THE FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2020

20. Risk Management (continued)

INSURANCE RISK (continued)

The geographical analysis of the risks underwritten shown below illustrates to how the claims might settle if the reserves were to crystallise and settle as actual claims in an equivalent manner.

	Gross Claims Reserves			
	2020 £000	**2020 %**	2019 £000	2019 %
UK	42,593	25.9	19,057	14.1
Asia Pacific	35,116	21.3	28,476	21.1
Rest of the World	23,747	14.4	20,730	15.4
Canada	23,300	14.1	13,933	10.3
W Europe (ex UK)	20,770	12.6	22,249	16.5
Latin America & Caribbean	19,363	11.7	30,413	22.6
Total	164,889	100.0	134,858	100.0

The following table sets out the concentration of outstanding claims liabilities by class:

Class	**2020 £000**	**2020 %**	2019	2019 %
Property D & F	**30,221**	**18.6**	33,059	24.8
Contractor All Risks	**5,449**	**3.4**	5,356	4.0
Property	**35,670**	**22.0**	35,415	28.8
Financial Lines	**52,429**	**32.1**	37,355	28.0
Casualty International	**37,837**	**23.3**	31,841	23.9
Casualty UK	**36,690**	**22.6**	25,647	19.3
Casualty	**126,956**	**78.0**	94,843	71.2
Total	**162,626**	**100.0**	133,258	100.0

The above excludes the provision for Unallocated Loss Adjustment Expenses (ULAE) 2020 - £2,263,000 (2019 - £1,600,000).

20. Risk Management (continued)

INSURANCE RISK (continued)

Key assumptions

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

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

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 Syndicate has limited historical experience on which to base statistical projections particularly in respect of the longer-tail lines of business. Benchmark data has therefore been used on a selective basis in the reserving process.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

20. Risk Management (continued)

INSURANCE RISK (continued)

Sensitivities (continued)

For illustrative purposes the following table indicates the impact of various percentage changes to the booked reserves. The calculations have been carried out on a linear basis and without any actuarial adjustments or application of expert judgement.

Change in assumption + / (-) %	Impact on Gross Liabilities £000		Impact on Net Liabilities £000		Impact on Result £000		Impact on Members' Balance £000	
Dec 2020:								
10 / (10)	**16,489 /**	**(16,489)**	**11,936 /**	**(11,936)**	**11,936 /**	**(11,936)**	**11,936 /**	**(11,936)**
50 / (50)	**82,445 /**	**(82,445)**	**59,678 /**	**(59,678)**	**59,678 /**	**(59,678)**	**59,678 /**	**(59,678)**
100 / (100)	**164,889 /**	**(164,889)**	**119,356 /**	**(119,356)**	**119,356 /**	**(119,356)**	**119,356 /**	**(119,356)**
200 / (200)	**329,778 /**	**(329,778)**	**238,712 /**	**(238,712)**	**238,712 /**	**(238,712)**	**238,712 /**	**(238,712)**
Dec 2019:								
10 / (10)	13,486 /	(13,486)	9,713 /	(9,713)	9,713 /	(9,713)	9,713 /	(9,713)
50 / (50)	67,429 /	(67,429)	48,564 /	(48,564)	48,564 /	(48,564)	48,564 /	(48,564)
100 / (100)	134,858 /	(134,858)	97,127 /	(97,127)	97,127 /	(97,127)	97,127 /	(97,127)
200 / (200)	269,716 /	(269,716)	194,254 /	(194,254)	194,254 /	(194,254)	194,254 /	(194,254)

Positive changes in assumptions represent a decrease of the liability; negative changes in assumptions represent an increase in the liability.

20. Risk Management (continued)

INSURANCE RISK (continued)

Claims development table

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claim estimates and cumulative payments are translated to £ Sterling at the rate of exchange that applied at the end of the underwriting year. The impact of exchange differences is shown at the bottom of the table.

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 necessary 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 should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

20. Risk Management (continued)

INSURANCE RISK (continued)

Claims development table (continued)

Insurance contract outstanding claims provision by year of account as at 31 December 2020:

Analysis of claims development by year of account

	2020	2019	2018	2017	2016	2015
Estimate of cumulative gross claims incurred:	£000	£000	£000	£000	£000	£000
At end of underwriting year	26,024	26,188	19,456	53,557	21,722	137
After one year	-	53,118	58,582	101,181	48,691	3,804
After two years	-	-	63,454	112,678	54,871	3,377
After three years	-	-	-	113,894	54,091	3,205
After four years	-	-	-	-	57,159	3,173
After five years	-	-	-	-	-	3,103
Cumulative gross payments to date	744	9,361	20,100	78,741	40,034	2,882
Outstanding gross claims provision at 31 December 2020	25,280	43,757	43,354	35,153	17,125	221
Estimate of cumulative net claims incurred:						
At end of underwriting year	20,415	20,096	14,639	27,636	9,007	137
After one year	-	41,493	42,884	60,582	29,805	3,801
After two years	-	-	48,584	68,746	32,075	3,376
After three years	-	-	-	70,547	31,422	3,205
After four years	-	-	-	-	31,797	3,173
After five years	-	-	-	-	-	3,103
Cumulative net payments to date	744	9,201	16,864	43,932	22,959	2,882
Outstanding net claims provision at 31 December 2020	19,671	32,292	31,720	26,615	8,838	221

The figures above are stated at closing rates of exchange.

20. Risk Management (continued)

FINANCIAL RISK

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. A credit risk policy describes the assessment and determination of what constitutes credit risk for the Syndicate. Compliance with the policy is monitored and exposures and any breaches are reported initially to the Syndicate Monitoring Committee. Emphasis is currently placed on reinsurer security premium receivable from intermediaries. The policy is reviewed at least annually.

Management performs an assessment of creditworthiness of both reinsurers and brokers and updates the reinsurance purchase strategy, while also considering suitable allowance for impairment.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by CMA's 'Broker Vetting & Reinsurance Security Group' (BVRSG) and are subject to regular reviews.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

20. Risk Management (continued)

FINANCIAL RISK (continued)

Credit risk (continued)

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

	Neither past due nor impaired £000	Past due £000	Impaired £000	Total £000
31 December 2020:				
Shares and other variable yield securities and unit trusts	**4,997**	**-**	**-**	**4,997**
Debt securities and other fixed income securities	**49,377**	**-**	**-**	**49,377**
Overseas deposits	**27,133**	**-**	**-**	**27,133**
Reinsurer' share of claims outstanding	**45,533**	**-**	**-**	**45,533**
Cash at bank and in hand	**80,561**	**-**	**-**	**80,561**
Insurance debtors	**29,674**	**5,247**	**-**	**34,921**
Other debtors	**32,778**	**654**	**-**	**33,432**
Total credit risk	**270,053**	**5,901**	**-**	**275,954**
31 December 2019:				
Shares and other variable yield securities and unit trusts	5,216	-	-	5,216
Debt securities and other fixed income securities	31,907	-	-	31,907
Overseas deposits	21,441	-	-	21,441
Reinsurer' share of claims outstanding	37,731	-	-	37,731
Cash at bank and in hand	40,585	-	-	40,585
Insurance debtors	26,715	13,778	-	40,493
Other debtors	13,525	1,894	-	15,419
Total credit risk	177,120	15,672	-	192,792

20. Risk Management (continued)

FINANCIAL RISK (continued)

Credit risk (continued)

Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date. The table below provides information regarding the credit risk exposure of the Syndicate at 31 December by classifying assets per Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

	AAA £000	AA £000	A £000	BBB £000	Less than BBB £000	Not rated £000	Total £000
31 December 2020:							
Shares and other variable yield securities	**774**	**-**	**3,825**	**-**	**-**	**398**	**4,997**
Debt securities and other fixed income securities	**30,556**	**7,063**	**7,209**	**4,196**	**-**	**352**	**49,376**
Overseas deposits	**17,441**	**2,909**	**2,391**	**1,786**	**1,782**	**824**	**27,133**
Reinsurer' share of claims outstanding	**-**	**8,900**	**36,633**	**-**	**-**	**-**	**45,533**
Reinsurance debtors							
Cash & cash equivalents	**-**	**-**	**80,561**	**-**	**-**	**-**	**80,561**
Total credit risk	**48,771**	**18,872**	**130,619**	**5,982**	**1,782**	**1,574**	**207,600**
31 December 2019:							
Shares and other variable yield securities	970	-	3,647	-	-	599	5,216
Debt securities and other fixed income securities	18,647	6,983	3,434	2,238	-	605	31,907
Overseas deposits	12,180	2,742	2,005	926	2,106	1,482	21,441
Reinsurer' share of claims outstanding	-	7,564	30,167	-	-	-	37,731
Reinsurance debtors							
Cash & cash equivalents	-	-	40,585	-	-	-	40,585
Total credit risk	31,797	17,289	79,838	3,164	2,106	2,686	136,880

20. Risk Management (continued)

FINANCIAL RISK (continued)

Credit risk (continued)

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

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.

A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy will be monitored as the Syndicate develops and any exposures and breaches which might arise will be reported to the Investment committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2020

20. Risk Management (continued)

FINANCIAL RISK (continued)

Liquidity risk (continued)

Maturity profiles

	No maturity stated £000	0-1 year £000	1-3 year £000	3-5 year £000	>5 year £000	Total £000
31 December 2020:						
Claims outstanding	**-**	**41,503**	**65,103**	**37,112**	**21,171**	**164,889**
Creditors	**-**	**14,280**	**-**	**-**	**-**	**14,280**
Total credit risk	**-**	**55,783**	**65,103**	**37,112**	**21,171**	**179,169**
31 December 2019:						
Claims outstanding	-	33,074	45,502	26,343	29,939	134,858
Creditors	-	18,569	-	-	-	18,569
Total credit risk	-	51,643	45,502	26,343	29,939	153,427

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes:

a. Currency risk
b. Interest rate risk
c. Fair value estimation

20. Risk Management (continued)

FINANCIAL RISK (continued)

Market risk (continued)

a. *Currency risk*

A market risk policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. As the Syndicate develops, compliance with the policy will be monitored and any exposures and breaches arising will be reported to the Investment committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in US, Canadian and Australian Dollars and Euros. The Syndicate seeks to mitigate the risk by looking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.

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

Converted £000	**UK £STG**	**US$**	**Euro €**	**Can$**	**Au$**	**Total CNV £**
31 December 2020						
Total assets	**67,459**	**62,278**	**52,127**	**46,503**	**47,587**	**275,954**
Total liabilities	**(87,374)**	**(67,544)**	**(35,631)**	**(32,570)**	**(29,356)**	**(252,475)**
Net assets / (liabilities)	**(19,915)**	**(5,266)**	**16,496**	**13,933**	**18,231**	**23,479**
31 December 2019						
Total assets	44,650	48,470	41,050	35,102	29,466	198,738
Total liabilities	(69,965)	(67,830)	(27,595)	(28,395)	(23,708)	(217,494)
Net assets / (liabilities)	(25,315)	(19,360)	13,455	6,707	5,758	(18,756)

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

20. Risk Management (continued)

FINANCIAL RISK (continued)

Market risk (continued)

a. *Currency risk (continued)*

The non-Sterling denominated net assets of the Syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should Sterling strengthen against these currencies. Conversely, reported gains may arise should Sterling weaken.

The Syndicate will look to match its currency position wherever practicable and so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies to protect the solvency of the Syndicate against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currencies.

Illustrative impact on result and member's balances if, relative to the year-end rates:	**2020 £000**	2019 £000
Sterling were to strengthen against other settlement currencies by:		
5%	**(2,170)**	(328)
10%	**(4,339)**	(656)
20%	**(8,679)**	(1,312)
Sterling were to weaken against other settlement currencies by:		
(5)%	**2,170**	328
(10)%	**4,339**	656
(20)%	**8,679**	1,312

20. Risk Management (continued)

FINANCIAL RISK (continued)

Market risk (continued)

b. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate holds no financial assets whose values might be impacted by a change in interest rates nor does it have any other significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

As a result of the Syndicate's current situation, no analysis has been disclosed to illustrate possible movements in interest rates with all other variables held constant, which would show the impact on the result and members' balance of the effects of changes in interest rates since the Syndicate has only immaterial financial assets and liabilities. The Syndicate is not exposed to equity price risk.

c. Fair value estimation

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Managing Agent applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data; in some cases, management estimates as well as observable market inputs are used within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker. These inputs and outputs are provided to us by our investment managers who derive them through a formal valuation committee.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2020

20. Risk Management (continued)

FINANCIAL RISK (continued)

Market risk (continued)

c. Fair value estimation (continued)

The table below shows financial assets and liabilities carried at fair value through profit or loss (as disclosed in note 8) grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
December 2020:				
Shares and other variable securities and units in unit trusts	**-**	**3,003**	**1,994**	**4,997**
Debt securities and other fixed income securities	**352**	**49,025**	**-**	**49,377**
Overseas deposits	**756**	**26,377**	**-**	**27,133**
Total	**1,108**	**78,405**	**1,994**	**81,507**
December 2019:				
Shares and other variable securities and units in unit trusts	-	4,834	382	5,216
Debt securities and other fixed income securities	201	31,707	-	31,908
Overseas deposits	1,439	20,002	-	21,441
Total	1,640	56,543	382	58,565

Definitions of the fair value levels are contained within note 1.