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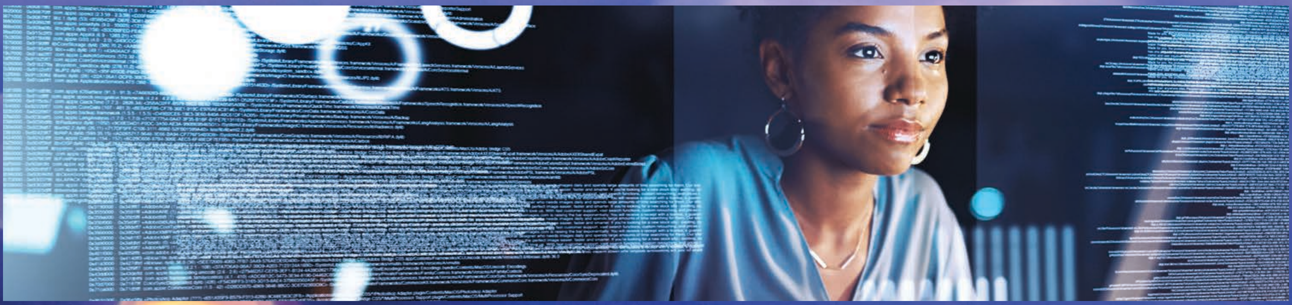
Brit Syndicate 2988

2019 Underwriting Year Accounts



BRIT

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Report of the Directors of the Managing Agent

The Directors of the Managing Agent, Brit Syndicates Limited (BSL) a company registered in England and Wales, present their report as at 31 December 2021 for the 2019 year of account for Syndicate 2988 (the Syndicate).

The Syndicate underwriting year accounts have been prepared in compliance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied. Separate annual accounts under UK GAAP on the calendar year results are also prepared and publicly available at www.lloyds.com.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2019 year of account which has been closed by way of reinsurance to close (RITC) at 31 December 2021; consequently, the balance sheet represents the assets and liabilities of the 2019 year of account and the profit and loss account reflect the transactions for that year of account during the 36 months period until closure.

Underwriter's Report

2019 Year of Account

The Syndicate participated on new and renewal business written by Brit's wholly aligned Syndicate 2987 in excess of Syndicate 2987's risk appetite. The strategy for the 2019 year of account was to continue to focus on business with a profitable track record and where there were opportunities to underwrite business that Brit leads or where Brit has a strong market presence. The final stamp capacity for the 2019 year of account was £97.7m, marginally down from £98.5m for the 2018 year of account. The planned premiums written from this stamp however increased 12.5% as the Syndicate sought to achieve market penetration across existing product lines and diversify into new products to achieve scale to broaden its portfolio. The plan for 2019 also reflected underwriting action taken to address underperforming accounts, which also included the exit from the Engineering and Contractors, Plant and Equipment (CPE) class.

The Syndicate's key performance indicators were as follows:

	2019 **£'m**
Gross premiums written	106.6
Earned premiums, net of reinsurance	93.7
Net incurred claims, net of RITC payable and receivable	(77.7)
Net operating expenses	(36.4)
Investment return	(0.2)
Foreign Exchange loss	(0.3)
Result for the closed year of account	**(20.9)**
Combined ratio	**121.8%**
Return on capacity	**(22.6%)**

The 2019 year of account closed with a loss of £20.9m representing a negative return on capacity of 22.6%. Underwriting loss before investment return was £20.4m and the combined ratio was 121.8%. Final utilisation of stamp capacity was 80.7% at constant rates of exchange for the 36 month period.

Development of Closed Years (2017 and 2018 pure years of account)

Attritional movements have been experienced across several classes on both the 2017 and 2018 years of account, though most notably on the Cyber account on the 2018 year of account, prompting a strengthening on that year.

The adverse attritional development was largely offset by favourable outcomes from subrogation on the 2018 Southern Californian wildfires. The net impact of the of the prior year claims movements was £0.2m loss.

The 2018 pure year of account also experienced a small amount of adverse premium development in the year which, together with the claims movements, results in a £0.8m loss on the 2018 and prior years of account.

Pure Year 2019

Gross premiums written fell short of expectations despite a continuation of favourable market conditions. 2019 marked a change in strategy for the Syndicate. As well as the introduction of a wider spread of classes into the Syndicate, there was a wholesale review of line size limits which, in most cases, resulted in a scaling back of the line size that the Syndicate could deploy. With the reduced line sizes, for some classes, it was challenging to write the increased volume of risks needed to make up the overall planned income. Furthermore, action taken by Brit to withdraw from or curtail underwriting in poorly performing lines of business was a material contributor to this variance.

The Syndicate scaled back capacity for International Property, and attempts to place Terrorism lines in a very competitive market proved challenging. However, growth in US Property was achieved, fuelled to an extent by double digit risk adjusted rate following two years of heightened major loss activity.

Part of the underwriting strategy for the 2019 year of account was to move away from Household High Value following performance challenges in 2017 and 2018. This capacity was redeployed to increase the Syndicate's presence in North American Household and Commercial Facilities.

The Syndicate curtailed its Marine Hull offering, a segment significantly affected by market losses and unfavourable pricing conditions. Instead, the Marine appetite was redirected to take advantage of favourable rates in Cargo, whilst also diversifying the book further with the introduction of Energy.

Both the Personal Accident and Contingency classes benefited from new business opportunities and favourable market conditions. The Syndicate planned to introduce Kidnap and Ransom to diversify the book further, however it received limited traction.

Brit has a well-established and highly respected Cyber team and forms a core part of Brit's strategy and Syndicate 2988 continued to achieve good penetration with a line offered on most risks being quoted by Syndicate 2987.

BGSU represents business sourced through a dedicated US Service Company, Brit Insurance Services Inc. BGSU Casualty lines, both Cyber US and Package liability, met planned expectations. Conversely appetite and line size were reduced in BGSU Property. A number of planned BGSU classes however were exited toward the end of the 2019 calendar year, reflecting a combination of poor performance and lack of scale.

The reinsurance strategy for 2019 was broadly consistent with 2018, being focussed on providing protection against catastrophe losses. The Syndicate purchased a catastrophe aggregate excess of loss cover which provided protection for the Syndicate's Property Direct and Reinsurance business, as well as allowing a contribution from Marine losses. The Syndicate also purchased a catastrophe excess of loss cover protecting the Property Direct books. The cover inured to the benefit of the aggregate protection thereby limiting the need to change the limit and deductible on the aggregate placement on the 2019 year of account.

With further expansion in Cyber, the Syndicate renewed its Cyber specific reinsurance protection for 2019. The protection combined both excess of loss and a stop loss, to reflect the potential for both large single risk losses as well as the accumulation of losses due to systemic events.

From an underwriting result perspective, major losses have been the defining factor and have contributed 30.9% to the overall combined ratio for the year.

A material part of this relates to losses arising from the COVID-19 pandemic. The Syndicate's Contingency book was significantly impacted and losses from this account make up a large proportion of the overall result. Losses also arose from the Casualty Treaty, Property, Property Treaty and Personal Accident classes although these were relatively modest both individually and in aggregate.

Aside from COVID-19, the Syndicate was exposed to losses from wind-related events during 2019 in both the United States (Hurricane Dorian) and Asia (Typhoons Faxai and Hagibis) but to a far lesser extent than anticipated.

Other large and major loss events occurring during 2020 and 2021 which fell back to the 2019 pure year included US weather events such as tornadoes in Tennessee, and Hurricanes Laura and Sally.

The Syndicate investment portfolio diversified over the period as its premium based increased, moving from collective investment schemes to short-term US Treasury bills and a small amount of Canadian Treasury Bills in an attempt to achieve a better rate of return. The portfolio was managed through a volatile period. Adverse movements in investment yields during 2021 gave rise to investment losses that eroded returns to date, with the year of account ending with a £0.2m loss.

The Managing Agent has conducted an assessment of the 2019 year of account reserves, in order to close the year of account by way of reinsurance to close (RITC). It was concluded that the reserves were deemed appropriate, and the Board approved the reinsurance to close of the 2019 year of account of the Syndicate into the 2020 underwriting year.

Directors

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 26.

Independent Auditors

PricewaterhouseCoopers LLP remain in office as the Syndicate's Auditors.

Statement of disclosure of information to the Auditors

Each person who is a Director of the Managing Agent at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate's auditors in connection with its report, of which the Syndicate's auditors are unaware; and

- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the Managing Agent does not propose holding a Syndicate Annual General Meeting of members of Syndicate 2988. Objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members to the Compliance Officer at the Managing Agent's registered address by 19 April 2022.

On behalf of the Board

Gavin Wilkinson

Chief Financial Officer
03 March 2022

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year account are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

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

1. select suitable accounting policies and then apply them consistently and, where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
2. take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
3. make judgements and estimates that are reasonable and prudent; and
4. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the notes to these accounts.

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

The directors of the Managing Agent confirm that they have complied with the above requirement in preparing the Syndicate underwriting year accounts.

Independent auditors' report to the members of Syndicate 2988 - 2019 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 2988's syndicate underwriting year financial statements for the 2019 year of account for the 36 months ended 31 December 2021 (the "underwriting year financial statements"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its loss and cash flows for the 2019 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the 2019 Underwriting Year Accounts (the "Underwriting Year Accounts"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income, and the Statement of Cash Flows, for the 36 months then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the underwriting year financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Emphasis of matter – Basis of preparation

Without modifying our opinion, we draw attention to note 1 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the *Use of this report* paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Independent auditors' report to the members of Syndicate 2988 - 2019 closed year of account (continued)

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2019 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements

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

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.

Independent auditors' report to the members of Syndicate 2988 - 2019 closed year of account (continued)

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to the reinsurance to close premiums payable. Audit procedures performed by the engagement team included:

- discussion with the Board, management, compliance function and internal audit of the Managing Agent, including confirming there are no known or suspected frauds or non-compliance with laws and regulations;
- assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of management's investigation of such matters;
- reviewing relevant meeting minutes, including those of the Board, Risk Oversight Committee, Reserving Committee, and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including the Council of Lloyd's, the Prudential Regulatory Authority, and the Financial Conduct Authority;
- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of the reinsurance to close premiums payable;
- identification and testing of journal entries identified as potential indicators of fraud, particularly posted by unexpected users, with unusual words, post close entries, backdated entries, and those with unexpected account combinations; and
- designing audit procedures to incorporate unpredictability around the nature, timing and extent of testing.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Syndicate 2988 - 2019 closed year of account (continued)

Other required reporting

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

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Paul Pannell (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
03 March 2022

Income Statement
Technical Account – General Business
2019 Closed Year of Account for the three years ended 31 December 2021

	Note	**2019** **£'m**
Gross premiums written	3	106.6
Outward reinsurance premiums		(12.9)
Earned premiums, net of reinsurance		**93.7**
Reinsurance to close premiums received, net of reinsurance	4	**46.7**
Allocated investment return transferred from the non-technical account		(0.2)
Total technical income		**140.2**
Claims Paid		
Gross amount		(58.7)
Reinsurers' share		3.7
Net claims paid		**(55.0)**
Reinsurance to close premium payable, net of reinsurance	5	(69.4)
Claims incurred, net of reinsurance and RITC payable		**(124.4)**
Net operating expenses	6	(36.4)
Total technical charges		**(160.8)**
Balance on the technical account for general business		**(20.6)**

The accompanying notes are an integral part of these accounts.

Income Statement:
Non-Technical Account
2019 Closed Year of Account for the three years ended 31 December 2021

	Note	2019 £'m
Balance on the technical account for general business		**(20.6)**
Investment income		0.6
Realised losses on investments		(0.1)
Unrealised losses on investments		(0.7)
Net investment return	8	**(0.2)**
Allocated investment return transferred to general business technical account	8	0.2
Loss on exchange		(0.3)
Result for the closed year of account		**(20.9)**

Statement of Comprehensive Income:
2019 Closed Year of Account for the three years ended 31 December 2021

	Note	2019 £'m
Result for the closed year of account		**(20.9)**
Currency translation differences		(1.2)
Total comprehensive income for the closed year of account		**(22.1)**

The accompanying notes are an integral part of these accounts.

Statement of Financial Position
Assets
2019 Closed Year of Account as at 31 December 2021

	Note	2019 £'m
Assets		
Investments:		
Financial investments	9	57.9
Deposits with ceding undertakings		0.1
		58.0
Reinsurers' share of technical provisions:		
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	5	7.2
		7.2
Debtors:		
Debtors due within one year:		
Debtors arising out of direct insurance operations		4.4
Debtors arising out of reinsurance operations		0.6
Other debtors	12	0.8
		5.8
Other assets:		
Cash at bank and in hand	10	0.2
Other	11	5.0
		5.2
Prepayments and accrued income		0.1
Total assets		**76.3**

The accompanying notes are an integral part of these accounts.

Statement of Financial Position
Liabilities
2019 Closed Year of Account as at 31 December 2021

	Note	2019 £'m
Members' balances and liabilities		
Members' balances		(22.1)
		(22.1)
Technical provisions:		
Reinsurance to close premiums payable to close the account - gross amount	5	76.6
		76.6
Creditors:		
Creditors arising out of direct insurance operations		0.3
Creditors arising out of reinsurance operations		0.8
Inter - year loans	13	20.6
		21.7
Accruals and deferred income		0.1
Total liabilities		**98.4**
Total members' balances and liabilities		**76.3**

The financial statements on page 10 to 25 were approved by the Board of Brit Syndicates Limited on the 03 March 2022 and signed on its behalf by:

Gavin Wilkinson
Chief Financial Officer

Christiern Dart
Director

Statement of Cashflow

2019 Closed Year of Account for the three years ended 31 December 2021

	Note	2019 £'m
Cash flows from operating activities		
Result for the 2019 year of account		(20.9)
Adjustments for:		
Movement in gross technical provisions		76.6
Movement in reinsurers' share of technical provisions		(7.2)
Increase in debtors		(6.0)
Increase in creditors		21.5
Movement in other assets/liabilities		(5.0)
Foreign exchange on operating activities		1.1
Investment return		0.2
Net cash flows from operating activities		**60.3**
Cash flows from investing activities		
Purchase of equity and debt instruments		(106.2)
Sale of equity and debt instruments		50.2
Investment income received		0.5
Net cash flows used in investing activities		**(55.5)**
Net increase in cash and cash equivalents		**4.8**
Cash and cash equivalents at the beginning of three years		-
Cash and cash equivalents at the end of three years	10	**4.8**

1 Accounting policies, statement of compliance and basis of preparation

1.1 Statement of compliance and basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 'The Financial Reporting Standard' applicable in the United Kingdom and the Republic of Ireland (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103).

The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires the aggregation of movements in each of the three calendar years for any Underwriting Year of account. For 2019's Underwriting Year Account each calendar year result is aggregated using the relevant years average rates of exchange for each item in the income statements. The reinsurance to close received by 2020 from 2019 is presented as both a premium and as part of the reinsurance to close payable at the same rates, which are the rates at 31 December 2021. Any changes made to the opening reinsurance to close are accounted for at the rates prevailing at the end of calendar year 2021.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2019 year of account which has been closed by reinsurance to close at 31 December 2021; consequently, the statement of financial position represents the assets and liabilities of the 2019 year of account and the income statement and the statement of cash flows reflect the transactions for that year of account during the three year period until closure.

The functional currency of the Syndicate is the United States dollar (US$). The financial statements are reported in Sterling £'m, which is the presentational currency of the Syndicate, and rounded to one decimal place, unless otherwise stated.

1.1.1 Reinsurance to close

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

Effective at each year-end 31 December, the RITC process means that all assets and liabilities have been transferred to a reinsuring year of account. To this extent, the risks that the syndicate is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the syndicate Annual Accounts. Accordingly, these underwriting year accounts do not include the associated risk disclosures required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the main Annual Accounts of the Syndicate. In addition, certain other disclosure requirements under FRS 102 and FRS 103, such as the disclosure of a Statement of Changes in Members' Balances, have not been provided as it is believed that they are not required for a proper understanding of the underwriting year accounts.

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

The following accounting policies have been applied consistently from when the year of account was opened in dealing with items which are considered material in relation to the syndicate underwriting year accounts.

1 Accounting policies, statement of compliance and basis of preparation (continued)

1.2 Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder. 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.

1.3 Significant accounting policies

1.3.1 Insurance Contracts

The results for all classes of business have been determined on an annual basis, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium written, net of reinsurance, as follows. These annual results have then been aggregated for the purposes of the underwriting accounts.

a. Premiums written

Premiums written relate to business incepted during the period and include estimates of premiums due but not yet received or notified, less an allowance for cancellations. Premiums are accreted to the technical account on a pro rata basis over the term of the related policy, except for those contracts where the period of the risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the technical account on a pro rata basis over the term of the original policy to which it relates. Premiums are stated gross of commissions, but net of premium taxes and other duties levied on premiums.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

b. Acquisitions costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

c. Claims

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims and unearned premiums, net of deferred acquisition costs and unexpired risk) relating to the closed year. Although this estimate of net outstanding technical provisions is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities may be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

1 Accounting policies, statement of compliance and basis of preparation (continued)

Claims incurred comprise claims and claims handling costs paid during the period and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

Outstanding claims represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including IBNR, less any amounts paid in respect of those claims.

While the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events.

d. Reinsurance to close premium payable

The RITC premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims IBNR), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein. The estimate of claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs. It also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

e. Expenses and other income receivable

The Managing Agent has charged the Syndicate a fixed fee and has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

The Managing Agent also charges the Syndicate profit commission equal to a fixed percentage of profit for each year of account, subject to a deficit clause. An accrual is recognised as and when the year of account becomes profitable, with payment crystallising on closure of the year of account after three years. Given the loss position of the 2019 year of account after 36 months, no profit commission was accrued for or charged.

f. Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Fair value is normally determined by reference to the fair value of the proceeds received. Any difference between the initial carrying amount and the redemption value is recognised in the income statement over the period of the borrowing using the effective interest rate method.

1.3.2 Investments

a. Financial investments

The Syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of the Managing Agent and management personnel on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) are based on quoted market bid and ask price for both financial assets and financial liabilities respectively. The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques which include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the

1 Accounting policies, statement of compliance and basis of preparation (continued)

same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement. Interest income from investments in short-term investments is recognised at the effective interest rate.

b. Overseas deposits

Overseas deposits lodged as a condition of conducting underwriting business in certain countries in compliance with Lloyd's licences are stated at the market value, based on a bid price, ruling at the statement of financial position date.

c. Investment return

Investment return comprises all investment income, interest receivable, dividend income, and overseas deposit income, and realised and unrealised investment gains and losses. Interest income is recognised using the effective interest rate method.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the date of the statement of financial position and their purchase price.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Investment return and associated investment management charges are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

1.3.3 Measurement of other financial assets and financial liabilities

Other financial assets and financial liabilities are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest rate method.

1.3.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Syndicate becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred, and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled, or expired.

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

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge in the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1 Accounting policies, statement of compliance and basis of preparation (continued)

1.3.5 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.

No provision has been made for any overseas tax payable by members on underwriting results. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue and Customs. Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

1.3.6 Pension costs

Brit Group Services Limited operates a defined contribution pension scheme on behalf of the Managing Agent. Contributions are charged to the Syndicate within the fixed fee.

1.3.7 Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the Syndicate operates. The functional currency for Syndicate 2988 is the United States dollar (US$). The underwriting year's accounts are presented in Sterling. Foreign exchange resulting from translating balances from the functional currency to the presentational currency is reported in other comprehensive income.

Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated into the functional currency at average rates of exchange. Transactions in foreign currencies other than Sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities in currencies other than the functional currency are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within the non-technical account as prescribed by FRS 103.

1.3.8 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2 Critical accounting estimates and judgements in applying accounting policies

Various assumptions are made that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

2.1 Estimation and judgement in relation to determining the ultimate liability arising from claims made under insurance contracts (reinsurance to close premium payable)

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Syndicate will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the Initial Expected Loss Ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate. Given the early stage of development for the Syndicate, these methods have typically relied on benchmark information e.g. from similar business written by BSL into Syndicate 2987;
- In the event of catastrophe losses, claims provision estimates are compiled using a combination of detailed reviews of contracts exposed to the event in question, benchmarking to industry loss estimates and standard actuarial techniques.
- The initial ultimate selections derived by the actuarial department, along with the underlying key assumptions and methodology, are discussed with class underwriters, divisional underwriting directors and the claims team at 'pre-committee' meetings. The actuarial department may make adjustments to the initial ultimates following these meetings;
- Following the completion of the 'pre-committee' meetings and peer review process within the actuarial department, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Reserving Committee for discussion and debate; and
- Following review of the actuarial estimate, the Reserving Committee recommends the committee estimates to be adopted in the financial statements.

The results of the external audit work conducted in relation to reserves are presented to both the BSL Reserving Committee and the Audit Committee with key assumptions, methodologies and uncertainties also highlighted. This provides both committees with an independent view of reserves compared to the recommendations of the internal actuarial department.

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A £0.1m reserve risk margin has been applied to the closing year of account to allow for the uncertainty on this closing year of account from long-tailed liabilities and risk of reinsurance bad debt. The inclusion of this reserve risk margin is consistent with a fair value transfer approach ensuring equity between the names either side of the RITC transaction.

2 Critical accounting estimates and judgements in applying accounting policies (continued)

Brit has adopted a comprehensive approach to reserving for COVID-19 related losses, in line with its policy of reserving on a ‘conservative best estimate’ basis and carrying an explicit risk margin above that ‘conservative best estimate’. There remains uncertainty around losses from the COVID-19. The level of uncertainty around Contingency is expected to reduce overtime, however, within areas of the account such as Casualty Treaty, Property Treaty and Open Market Property the ultimate loss outcome is still to emerge and will be influenced by factors such as coverage issues and the interpretation of contract wording.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third-party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Syndicate is aware.

3 Analysis of underwriting result

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

	Gross premiums Written	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£'m	£'m	£'m	£'m	£'m
For 3 years ended 31 December 2019					
Accident and health	2.0	(1.6)	(0.9)	-	(0.5)
Marine aviation and transport	6.1	(4.6)	(2.2)	-	(0.7)
Fire and other damage to property	27.4	(13.9)	(10.4)	(5.3)	(2.2)
Third party liability	24.5	(19.7)	(8.4)	0.5	(3.1)
Credit and suretyship	2.8	(14.9)	(1.1)	-	(13.2)
Legal Expenses	1.7	(0.9)	(0.7)	-	0.1
Total Direct Insurance	**64.5**	**(55.6)**	**(23.7)**	**(4.8)**	**(19.6)**
Reinsurance	42.1	(27.1)	(12.7)	(5.4)	(3.1)
FX to Balance Sheet Rates Adjustment	-	2.2	-	0.1	2.3
Total	**106.6**	**(80.5)**	**(36.4)**	**(10.1)**	**(20.4)**

a. Gross premiums earned are identical to gross premiums written.
b. Gross claims incurred comprise gross claims paid and movement in gross technical provisions.
c. All premiums are concluded in the UK.
d. All 2018 and prior years of account movements during 2021 are reflected in the above figures.
e. The business class split is a statutory reporting requirement, however the business is managed by its own business classes and hence an element of allocation is used.

On 25 November 2020 the High Court sanctioned the transfer to Lloyd’s Insurance Company S.A. (LIC) of syndicates’ European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000. The scheme took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the Syndicate for years of account between 2017 (syndicate commenced) and April 2019 (or October 2020 in the case of German reinsurance) were transferred to LIC. On the same date, a 100% Quota Share Reinsurance Agreement was entered into whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the syndicates that wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

3 Analysis of underwriting result (continued)

Subsequent to the year-end, on 4 January 2021, under the 100% Quota Share Reinsurance Agreement between the Syndicate and LIC, the Syndicate was required to set up advanced funds in segregated Part VII settlement accounts managed by the Managing Agent on behalf of LIC from which claims with respect to transferred liabilities will be settled. These accounts are reported in the Statement of Financial Position under deposits with ceding undertakings and amount to £41.4k.

4 Reinsurance to close premium receivable

	2019
	£'m
Gross reinsurance to close premium receivable	54.8
Reinsurance recoveries anticipated	(8.1)
Reinsurance to close premium receivable, net of reinsurance	**46.7**

5 Reinsurance to close premium payable

	2019
	£'m
Gross outstanding claims	(27.8)
Reinsurance recoveries anticipated	3.1
Net outstanding claims	**(24.7)**
Provision for gross claims incurred but not reported	(48.0)
Reinsurance recoveries anticipated	4.1
Provision for net claims incurred but not reported	**(43.9)**
Claims handling expenses provision	(0.8)
Net premium for reinsurance to close	**(69.4)**

6 Net operating expenses

The cumulative Syndicate expenses charged to the 2019 closed year of account comprise the following:

	2019
	£'m
Acquisition costs	24.2
Change in deferred acquisition costs	(0.1)
Administrative expenses	12.3
Total	**36.4**

The auditor's renumeration and audit services charged to the Syndicate within the fixed fee charged by the Managing Agent are as follows:

	2019
	£'m
Audit of the Syndicate 2019 underwriting year accounts	0.1
Total	**0.1**

7 Staff numbers and costs

All staff in the UK are employed by the Brit Group service company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

8 Investment return

	2019 **£'m**
Income from investments	0.6
Gains on investments	0.1
Losses on investments	(0.9)
Total net investment return	**(0.2)**

Investment management fees of £30.3k were charged during the period and included within the income reported above. All investment return was attributable to the technical account.

9 Financial investments

	Market Value	**Cost**
2019 year of account	**£'m**	**£'m**
Shares and other variable yield securities and units in unit trusts	4.9	5.7
Debt Securities	53.0	53.6
Total	**57.9**	**59.3**

Shares and other variable yield securities and unit trusts comprise of short-term deposits that are highly liquid cash equivalents, all of which are not listed.

10 Cash and cash equivalents

	2019 **£'m**
Cash at bank and in hand	0.2
Short-term deposits	4.6
Total	**4.8**

Short term deposits are presented within financial investments on the Statement of Financial Position.

11 Other assets

Other assets comprise of only overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

12 Other Debtors

Included within other debtors is an amount due from other Brit entities amounting to £0.8m and is due after one year.

13 Borrowings

The Syndicate had access to a revolving credit facility. During the 2021 financial year, the facility was rearranged such that the total amount available was reduced from US$50.0m to US$30.0m, (or £36.6m to £22.1m at the 31 December 2021 balance sheet rate). The revolving credit facility expired 30 September 2021 and was not renewed. The Syndicate also repaid its utilisation of the facility in full at that point in time.

Additionally, an inter-year loan between the 2019 year of account and other open years of account of the Syndicate has been drawn upon, amounting to £20.6m. The interest has been charged at a rate appropriate to an arm's length transaction. All interest charges are reported within net operating expenses.

14 Summary of closed years of account

	2019	2018	2017
	£'m	£'m	£'m
Syndicate allocated capacity	97.7	98.5	55.0
Number of Underwriting members	515.0	587.0	719.0
Aggregate net premiums	93.7	100.3	69.2

Results for illustrative share of £10,000	%	%	%
Gross premiums written (%age of illustrative share)	109.1%	112.4%	135.1%
Net premium written (%age of illustrative share)	95.9%	101.9%	125.8%
Result (%age of gross premiums)	(20.7%)	(16.7%)	(35.1%)

Results for illustrative share of £10,000		£	£	£
Gross premiums	a	10,910	11,237	13,511
Net premiums		9,592	10,186	12,582
Reinsurance to close from an earlier year of account	b	4,780	2,167	-
Net claims		(5,629)	(5,792)	(9,010)
Reinsurance to close		(7,103)	(4,738)	(3,880)
Underwriting result		**1,640**	**1,823**	**(308)**
Acquisition costs	a	(2,467)	(2,640)	(3,126)
Other syndicate operating expenses, excluding personal expenses		(1,044)	(1,065)	(1,281)
Exchange movement on foreign currency translation		(154)	(21)	(30)
Net investment income		(10)	167	163
Illustrative personal expenses:				
Managing agent's fee		(100)	(100)	(100)
Other personal expenses	c	(115)	(43)	(61)
Result after illustrative personal expenses and illustrative profit commission		**(2,250)**	**(1,879)**	**(4,743)**

a. Gross premiums and syndicate operating expenses have been grossed up for brokerage costs.
b. Reinsurance to close is stated at relevant average rates applicable or when reserves were first set for the year of account.
c. Other personal expenses include Lloyd's subscriptions and central fund contributions.

15 Related parties

a. Brit Syndicates Limited (BSL or the Managing Agent)

The Managing Agent is a wholly-owned subsidiary of Brit Insurance Holdings Limited, which in turn is a subsidiary of Brit Limited. During the period, the 2019 Year of Account paid £8.3m to BSL in respect of management fees and a further £1.0m in managing agency fees. As at 31 December 2021, there were no amounts outstanding. The Syndicate also participates on various Lloyd's consortia managed by BSL. During the period, the Syndicate paid no management fee and no technical advisor fees or profit commission to Brit Syndicates Limited in respect of the consortia agreements.

b. Brit Insurance Services USA, LLC

During the period, the Syndicate paid commissions to Brit Insurance Services USA, LLC, a service company within the Brit Limited group. The amounts in the Income Statement relating to trading with Brit Insurance Services USA, LLC for the period included commission for introducing insurance business of £2.3m. As at 31 December 2021, no amounts of commission were outstanding. As at 31 December 2021, Brit Insurance Services USA, LLC owed £0.1m of premiums to the Syndicate.

c. Syndicate 2987

BSL also manages Syndicate 2987, a wholly-aligned syndicate of the Brit Limited group. No commissions or fees are paid or payable between the two syndicate entities.

d. Directors of Brit Syndicates Limited

There are no related party director disclosures to note for the 36 months period ended 31 December 2021.

e. Ambridge Partners LLC

On 19 April 2020 Ambridge Partners LLC (Ambridge) became a 100% subsidiary of the Brit Group. Ambridge is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including entities within the Brit Limited group.

Trading with Ambridge is undertaken on an arm's-length basis and is settled in cash. The amounts in the Income Statement relating to trading with Ambridge for the period included commission for introducing insurance business of £1.9m. As at 31 December 2021, no amounts of commission were outstanding. As at 31 December 2021, Ambridge Partners LLC owed no premiums to the Syndicate.

Directors of the Managing Agent

Executive
Martin John Thompson (appointed 18 November 2021)
Gavin Wilkinson (appointed 27 July 2021)
Matthew Dominic Wilson
Mark Andrew Allan
Christiern Robert James Dart

Non-Executive
Simon Philip Guy Lee
Anthony John Medniuk
Caroline Frances Ramsay
Andrea Caroline Natascha Welsch
Pinar Yetgin

Secretary
Tim James Harmer

Active Underwriter
Simon Bird

Registered Office
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Independent Auditors
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Chartered Accountants and Statutory Auditors
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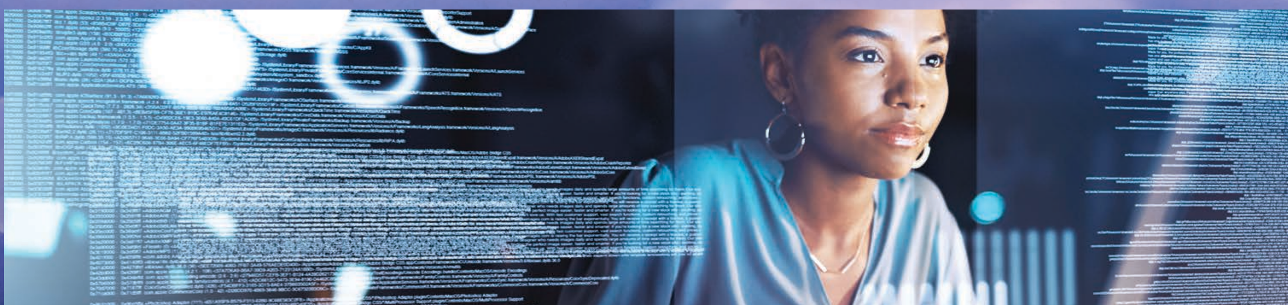

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