Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

IQUW

Syndicate 1856

Annual Accounts

31 December 2021

Contents

Directors and administration
IQUW Syndicate Management Limited

Directors
Francois-Xavier B Boisseau (Chairman)
Nicholas J Addyman (resigned 31 July 2021)
Peter A Bilsby
Catherine Farnworth (appointed 9 December 2021)
Michele J Faull (appointed 2 August 2021)
Daniel P Flueckiger (appointed 19 May 2021)
Robert P Gullett (resigned 31 July 2021)
Martin Hall
David J Harris (appointed 16 August 2021)
Robert H Johnson (resigned 9 December 2021)
Nathan R Ott (appointed 19 May 2021)
Nicholas C T Pawson (resigned 31 December 2021)
Peter N Smith (resigned 10 May 2021)
Heather I Thomas (appointed 16 August 2021)
Ignace L G Van Waesberghe (resigned 10 May 2021)
Ryan R Warren
Christopher E Watson (resigned 10 May 2021)
Donna S Willis (resigned 9 December 2021)

Company Secretary
Renuka S Fernando (appointed 3 August 2021)
David C Turner (resigned 8 July 2021)

Managing Agent's Registered Office
21 Lombard Street
London, EC3V 9AH
Managing Agent's Registered Number
00426475

Syndicate Active Underwriter
David Message (appointed 1 May 2021)
Alex Shepherd (resigned 31 August 2021)

Bankers
Lloyds Bank plc
Citibank NA
RBC Investor and Treasury Services

Investment Managers
New England Asset Management Limited

Registered Auditor
PricewaterhouseCoopers LLP

Report of the managing agent

IQUW Syndicate Management Limited ("IQUW SML" or "the Managing Agent"), a company registered in England and Wales, the managing agent of Syndicate 1856 (the "Syndicate" or "IQUW"), presents its report for the Syndicate for the year ended 31 December 2021.

This Annual Report has been prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" or "FRS 102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103") where applicable. The Syndicate continues to adopt the going concern basis in preparing the syndicate annual accounts.

The managing agent has an agreed exemption from preparing separate underwriting year accounts for the closed 2019 year of account.

Managing Agent

Following Lloyd's approval, the managing agent responsibility for the Syndicate was novated effective 1 September 2021 from Arch Managing Agency Limited ("AMAL") to IQUW SML.

Results

The result for the Syndicate in calendar year 2021 was a loss of £9.7 million (2020: loss of £49.9 million). The 2021 result was materially impacted by losses from the 2020 underwriting year. The key drivers of these losses in the year, included winter storm Uri (£12.9 million), hurricane Ida (£1.8 million), Measat (£0.4 million) and adverse development on 2020 losses, including covid losses (£8.2 million) and the Iowa derecho (£2.3 million).

These losses more than offset the profits from the 2021 underwriting year which benefited from the remediation and repurposing of the Syndicate after its acquisition by IQUW.

The result for the 2021 underwriting year in calendar year 2021 was a profit of £6.3 million. The result for the 2020 and prior underwriting years in calendar year 2021 was a loss of £16.1 million.

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

Financial Year £'000	2021 2021 YOA Only	2021 2020 & Prior YOAs	2021 Total	2020 Total
Gross premium written	193,259	(3,268)	189,991	78,958
Gross earned premium	108,299	41,036	149,335	76,217
Net earned premium	88,955	34,521	123,476	34,115
Net incurred claims	(48,816)	(36,269)	(85,085)	(54,541)
Investment income	(4)	59	55	984
Operating expenses	(33,926)	(15,110)	(49,036)	(31,520)
Movements on foreign exchange	138	726	864	1,083
Profit/(loss) for the financial year	6,347	(16,073)	(9,726)	(49,879)
Claims ratio*	54.9%	105.1%	68.9%	159.9%
Expense ratio	38.1%	43.8%	39.7%	92.4%
Combined operating ratio	93.0%	148.9%	108.6%	252.3%

** The claims ratios are inclusive of claims handling expenses, risk margin and ULAE*

Principal activity

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business at Lloyd's and through the Lloyd's Brussels platform. However, the Syndicate was remediated and repurposed in 2021 after its acquisition by IQUW Bermuda Holdings Limited ("IQUW Group") and its subsidiaries as part of the group's strategy to expand from its core motor business and enter specialty commercial lines and reinsurance.

The capacity of the Syndicate for the 2021 underwriting year of £188.0 million (2020: £109.2 million) is backed entirely by IQUW Corporate Member Limited ("IQUW CML"). The 2020 and prior underwriting years continue to be supported by Iris Low Volatility Plus Corporate Member Limited, Iris Balanced Corporate Member Limited, and Humboldt Corporate Member Limited.

The Syndicate now underwrites a mixture of reinsurance, property, marine, energy and professional lines business, as well as a range of specialty lines including terrorism and political risks. The Syndicate trades through the Lloyd's worldwide licenses and rating. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) from Standard & Poor's, and AA- (Very strong) rating from Fitch Ratings.

The geographical and currency split of the Syndicate's business is shown below:

Geographical split of gross premium written %	**2021**	2020
UK	**0.7**	0.8
Europe	**0.3**	2.4
North America	**38.6**	82.6
Rest of the world	**60.4**	14.2
	100.0	100.0

Split of gross premium written by settlement currency %	**2021**	2020
UK Pound Sterling	**3.1**	7.4
Euro	**1.9**	2.7
US Dollar	**86.7**	82.3
Rest of the world	**8.3**	7.6
	100.0	100.0

The Syndicate's functional currency is US Dollars.

Review of the business

The result for the year was a loss of £9.7 million (2020: loss of £49.9 million). The 2021 result was materially impacted by the losses in the year from the 2020 and prior underwriting year business, which more than offset the significant improvement in underlying profitability from the re-underwritten, repurposed and more diversified portfolio.

The 2021 result for the 2020 and prior underwriting years was materially impacted by several large and catastrophe losses in the year, which were largely under the attachment points of the outwards reinsurance protections, notably losses arising from winter storm Uri and hurricane Ida. Further, there was an increase in prior year reserves including a £8.2 million increase on the COVID loss reserves, which are now at £19.1 million (2020: £10.9 million) gross of reinsurance and £19.1 million (2020: £9.8 million) net of reinsurance. The claims arise mostly from the property reinsurance account and are entirely for the 2020 and prior underwriting years.

For the 2021 underwriting year, the Syndicate was repurposed by IQUW SML to build a diversified, global specialty commercial lines and reinsurance business as part of the IQUW Group's strategy. Existing lines of business were substantially re-underwritten with the outwards reinsurance protection materially restructured. The repurposing and diversification of the Syndicate included the addition of new lines of business for marine, political risk, political violence terrorism and war, and professional lines. Gross premium income in the year was £190.0 million (2020: £79.0 million).

The 2021 result for the 2021 underwriting year was affected by losses arising from winter storm Uri, hurricane Ida, European floods, Kentucky tornadoes and several other smaller property catastrophe events.

The following table sets out the notable large losses occurring during 2021.

Notable catastrophe losses during 2021						
£ millions	Gross of reinsurance			Net of reinsurance		
	2021 YOA only	2020 & prior YOAs	Total gross	2021 YOA only	2020 & prior YOAs	Total net
Hurricane Ida	27.5	7.5	35.0	6.4	1.8	8.2
Winter Storm Uri	4.8	13.2	18.0	4.7	12.9	17.6
Covid	-	19.1	19.1	-	19.1	19.1
European floods	1.9	-	1.9	1.9	-	1.9
Kentucky tornadoes	1.5	-	1.5	1.5	-	1.5
Total	**35.7**	**39.8**	**75.5**	**14.5**	**33.8**	**48.3**

A breakdown of performance of the 2021 underwriting year business by account is shown in the table below.

Financial year results for the 2021 underwriting year business only				
£ millions	2021 Gross premium written	2021 Profit/(loss)	2020 Gross premium written	2020 Profit/(loss)
Property reinsurance	46.7	3.5	54.1	(21.3)
Energy	16.7	0.8	9.7	(0.8)
Space	-	-	8.9	(1.4)
Cyber	11.6	1.4	14.9	1.3
Property insurance	44.2	(1.0)	21.7	(5.1)
Property proportional	11.1	(0.6)	12.5	(0.9)
Marine liability	5.2	0.1	-	-
Marine cargo	6.5	0.1	-	-
Professional lines	36.2	2.1	-	-
Political risk	1.3	-	-	-
Political violence, terrorism, war	9.0	0.7	-	-
Specialty reinsurance	4.8	0.1	-	-
Unallocated income and expenses	-	(0.9)	-	(6.0)
Total	**193.3**	**6.3**	**121.8**	**(34.2)**

Property reinsurance

The property reinsurance business was materially re-underwritten in 2021 to reshape the portfolio, reduce peak exposures, and exit poor performing accounts. The portfolio is approximately 65% USA and 35% international risks. The USA account was refocussed on the super-regional and regional portfolios rather than nationwide accounts. This aimed to provide greater control of peak exposures. The international account provides reinsurance for companies in Japan, Europe, Australasia and Canada. There has been rate hardening off the back of successive years of catastrophes, including the most active hurricane season on record in 2020. These underlying improvements combined with a restructured outwards reinsurance protection programme materially increased the underlying profitability in 2021.

The 2021 underwriting year portfolio produced a profit for the financial year. Notable losses during the year arose from exposures to winter storm Uri, hurricane Ida, European floods, and Kentucky tornadoes.

Property proportional

The property proportional account was reviewed to reshape the portfolio, reduce peak exposures, and exit poor performing accounts. Only four existing accounts were renewed in 2021. This has not been a traditional quota share portfolio but a reinsurance of insurance books with cedants being primary carriers and in certain cases Managing General Agents ("MGAs"). The book is undergoing further remediation and will be expanded from being comprised solely of USA risks to a more diversified international portfolio in 2022.

Property insurance

The property insurance account was subject to the property-wide review to reshape the portfolio, reduce peak exposures, and exit poor performing accounts. The portfolio is comprised of binding authority business and from 2021 direct and facultative business covering commercial and residential risks. Both accounts have increased focus on lower hazard occupancies. These improvements and the rate hardening off the back of successive years of catastrophe losses have improved the underlying profitability of the portfolio.

Professional lines

This account comprises of directors' and officers' ("D&O"), professional indemnity ("PI") and financial institutions ("FI") liability. The D&O book, which focusses on primary and low excess layers, continues to grow well, and rating trends are positive. There have been contractions in the capacity offered and substantial rate increases for primary layers in the D&O market. The financial institutions market is also seeing hardening rates following historic losses and uncertainty including from COVID. Professional lines remain a key target class for the Syndicate, which grew the account over the course of its first year in operation.

Energy

The energy account provides cover for downstream, midstream, power and upstream energy risks. The portfolio is comprised of new business with only one contract renewed from the existing portfolio in 2021. The upstream account consists of clients across all stages of the hydrocarbon extraction process written mostly on an open market or facultative direct basis. The downstream account includes onshore energy and power across the whole downstream chain from extraction to final product. While energy markets remain competitive, the Syndicate achieved rate increases during the year.

Cyber

The cyber account was reviewed in 2021, and only three binding authority coverholders were renewed but with reduced participations in some cases. The Syndicate exited several existing arrangements that proved unprofitable. Cyber was impacted by an industry-wide increase in ransomware losses but remains an attractive class to write.

Political violence, terrorism, war

This new account focusses on political violence, terrorism, and war risks across a broad range of occupancies and is diversified globally. The market remains very competitive reflecting its previous profitable trading. However, the combination of sustained rate deterioration over several years and an increase in political violence claims in some territories has eroded these historically profitable returns.

Political risk and contract frustration

This new account covers political risks and contract frustration risks. The Syndicate started underwriting in the latter part of the year and consequently gross premium written was below planned levels. This line is expected to grow in 2022 given it will be the first full year of trading.

Marine liability

This new account provides cover for marine liability and energy liability risks. The marine liability book has a strong USA bias, focussing on offshore and brown water sectors and the associated industries supporting their operations. It includes protection and indemnity (“P&I”), shoreside liabilities, marine employee liability, and other vessel liability risks. Market conditions are currently the strongest they have been for many years in both marine liability and energy liability.

Marine cargo

This new account provides cover for marine cargo and specie risks. The specie account focusses on fine art with elements of cash in transit, jewellers block and general specie. The cargo account consists of transit, storage/stock and excess stock. Improving conditions and hardening rates in the marine cargo market have supported the Syndicate’s premium growth in its first year of operation in this class.

Specialty reinsurance

This new account brings together several specialist lines such as aerospace, terror, marine, energy, cyber, and composite reinsurance business. The book focusses on excess of loss business to avoid clashing and competing with other IQUW accounts. Target markets have seen hardening rates over the course of the year.

2022 and the Future

IQUW SML sees opportunity for good growth in 2022, both from a first full year of trading of the repurposed Syndicate and in classes where rating is robust following material changes in market rates and terms, and conditions. The Syndicate will continue to take advantage of the improving market environment, while continuing to judiciously optimise the portfolio to build a well-balanced, diversified business.

The Syndicate is well reserved, has a strong reinsurance programme with good security, and has a conservative investment portfolio.

Outwards reinsurance

The Syndicate purchases reinsurance contracts to reduce the impact of individual large losses and the accumulation of claims that may arise from the same event.

The Syndicate purchased per occurrence and aggregate reinsurance cover to protect the property and energy lines of business from exposures to individual large losses and the accumulation of claims from the same event, such as a natural catastrophe. Separate reinsurance was purchased to protect against the potential systemic occurrence of losses across the marine, energy, political violence, and terrorism lines. Further reinsurance was purchased for other classes as appropriate and to reduce gross exposures to within net risk appetite.

Investment report

Investment income for the Syndicate was £0.1 million (2020: £1.0 million) equating to a return of 0.1% (2020: 1.5%). The Syndicate's invested assets totalled £66.9 million at 31 December 2021 (2020: £46.2 million).

Encouraged that the end of the pandemic was in sight in view of vaccine programmes, assets of the most affected sectors of the economy had surged on the expectation that economic activity would improve markedly in 2021. However, bond markets produced lower than expected returns in 2021. A market-wide sell off in fixed gilts in February 2021 and a further increase in bond yields in September, driven by inflationary concerns, reduced the returns on bonds. Interest rates remain close to zero, or negative, across the developed world.

Capital

For the 2021 year of account, capital to support the Syndicate's underwriting is provided fully by IQUW CML. The Syndicate, managing agent and corporate member are now fully aligned.

The capital to support the runoff of the 2020 and prior years of account is still provided by Low Volatility Plus Corporate Member Limited, Iris Balanced Corporate Member Limited, and Humboldt Corporate Member Limited.

Each member is required to provide capital sufficient to meet its Economic Capital Assessment ("ECA"). Lloyd's rules require each member to hold sufficient capital across the member's interests at Lloyd's in aggregate, rather than at a syndicate level. A member's capital can be held through a combination of three options. First, to be held in trust by Lloyd's, called Funds at Lloyd's ("FAL"). Second, it may be held within and managed as syndicate funds, called Funds in Syndicate ("FIS"). Third, it may be held as a member's share of the members' balances on each syndicate in which the member participates. As a result, because the capital requirement applies at an overall member level, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

Syndicate capital is determined through the submission and agreement by Lloyd's of an ultimate Solvency Capital Requirement ("SCR"), which is subject to an uplift determined by the Franchise Board to arrive at the capital required by Lloyd's. The Syndicate's SCR is currently determined by Lloyd's using the Lloyd's Benchmark Capital Model, until such time as IQUW SML has developed its own internal capital model appropriate for the repurposed Syndicate – expected in 2022.

Lloyd's unique capital structure provides excellent financial security to policyholders.

Climate change and environment matters

The IQUW Group is committed to considering sustainability in its business decisions and to intelligently use data and automation to enhance the management of risks from climate change, and to support its customers as we all move towards a low carbon economy.

The Syndicate's (re)insurance products support climate change resilience; protecting society from the physical risks from climate change through underwriting classes of business that help rebuild buildings and wider communities after natural disasters. In addition, IQUW is committed to reduce and eliminate by 2030, its exposure to thermal coal-fired power plants, thermal coal mines, oil sands and new arctic energy exploration activities across our insurance offerings and investment holdings.

Brexit

In response to the UK leaving the European Union, the Syndicate and Lloyd's made some necessary changes to its business. These will ensure continuity of cover to all its customers with European Union risks. The Syndicate is using the Lloyd's Brussels platform, Lloyd's Insurance Company ("LIC"), to transact risks domiciled within the European Economic Area ("EEA"). LIC benefits from the market's financial strength through the Central Fund and has the same financial ratings as Lloyd's. It is authorised by the National Bank of Belgium and capitalised under Solvency II rules.

Employee matters

All staff in the UK are employed by IQUW Administrative Services Limited ("IQ ASL") and the full staff cost disclosures are included in the notes to the accounts. Amounts are recharged to the Syndicate depending on the work performed and resources used.

Principal Risks and Uncertainties

A description of the principal risks and uncertainties facing the Syndicate and how it manages risks are set out in note 5. In particular, the Syndicate's exposure to underwriting risk, reserving risk, market risk, credit risk, liquidity risk, and climate change risk.

The most material risks are set out below.

Catastrophes and large losses

The predominant risk to which the Syndicate is exposed is insurance risk, which is assumed through the underwriting process. The types of policies written by the Syndicate means that it is especially exposed to the impact of losses from individual events or catastrophes and from the potential aggregation of risks exposed to the same event. The Syndicate manages its exposure through setting maximum individual and aggregated exposure limits per geographical zone and risk class, and compiling estimates of losses arising from realistic disaster events using statistical models.

COVID pandemic

The 2020 and prior underwriting years of Syndicate 1856 have material exposure to losses arising from the COVID pandemic. The ultimate amounts of these claims are subject to uncertainty, which, combined with their total size, increases the level of uncertainty in the actuarial best estimate of the 2020 underwriting year beyond a normal range of uncertainty for insurance liabilities at this stage of development.

The booked reserves for these losses at 31 December 2021 are £19.1 million (2020: £10.9 million) gross of reinsurance and £19.1 million (2020: £9.8 million) net of reinsurance.

Climate change risk

The Syndicate's underwriting performance is exposed to the physical risk of climate change from a potential increased frequency or severity of physical hazards because of global temperature increases. This impacts the property and marine classes especially. Further, there are elements of the portfolio that may be exposed to transition risk from the resulting economic transition following potential regulator or government intervention, and liability risk from potential increased litigation considering climate change in investment management practices or increases in other liability claims.

Other risks

The following summarises some of the risks to which the Syndicate is exposed and discussed in note 5.

Principal risk	Impact	Management and mitigation
Insurance risk, including underwriting risk and reserving risk	The predominant risk to which the Syndicate is exposed is insurance risk, which is assumed through the underwriting process. Fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. Categorised into (a) underwriting risk including the risk of catastrophe and systemic insurance losses, and (b) reserving risk being the risk that provisions held to cover insurance claim losses turn out to be insufficient. On underwriting risk, the Syndicate is especially exposed to the impact of losses from individual events or catastrophes and from the potential aggregation of risks exposed to the same event. On reserving risk, the 2020 and prior underwriting years of Syndicate 1856 have material exposure to losses arising from the COVID pandemic.	The Board sets the Syndicate's underwriting strategy and risk appetite, seeking to benefit from identified opportunities considering other relevant anticipated market conditions. Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures, and line of business diversification parameters are prepared and reviewed by management. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite. Estimates of losses arising from realistic disaster events using statistical models are used to manage exposures within risk appetite thresholds. The Syndicate purchases reinsurance to manage underwriting risk. The Syndicate undertakes both an internal and external, independent actuarial review of the claim provisions. The provision estimates are subject to regular and rigorous review by management and the final provision approved by the Board. Booked reserves include a net margin of £3.1 million above the best estimate to mitigate the uncertainty within the estimates.
Financial risk, including credit risk, market risk and liquidity risk	The Syndicate is exposed to financial risk such that proceeds from its financial assets and investment income generated therefrom are insufficient to fund its obligations. Categorised into (a) credit risk, (b) market risk, and (c) liquidity risk	The Syndicate's core business is to accept insurance risk, while its appetite for other risks is low. Acceptable levels of credit risk are achieved by placing limits on exposure to singular and group counterparties, and to geographical and industry segments. Within investments, counterparty

		credit risk is mitigated by concentrating debt and fixed income investments in high quality instruments. The Syndicate engages external investment managers to actively manage the market risk associated with financial investments.
Operational Risk	The Syndicate is exposed to the risk of loss from people, processes or systems, or external events with origins outside the scope of other risk categories. IQUW SML actively monitors and controls its operational risks.	The Syndicate's core business is to accept insurance risk, while its appetite for other risks is low. IQUW SML actively monitors and controls its operational risks and has an ongoing focus on safeguarding the well-being of its employees, serving its brokers and policyholders, and preserving operational continuity.

Post Balance Sheet Event

The Syndicate provides insurance cover to clients in respect of claims arising out of war events and consequently has insurance exposures relating to the events in the Ukraine and its impacts in the region. This includes property, cargo and aviation interests. In certain instances, notice of cancellation can be provided with reinstatement of cover available excluding the war exposed territory. Reinsurance cover is purchased to respond to such events and recoveries against the event aggregate for this purpose, within time limits as set out in the reinsurance contract.

At this stage, no claims have been received and any likely claims are being continually evaluated. The Syndicate has purchased reinsurance to cover the aggregation of claims. The net reinsurance retention of the relevant programme is US Dollar 5 million, plus reinstatement premium on the reinsurance cover that responds to any recoveries. The event definition within our reinsurance programme is time bound and therefore, depending on the timing of future unfolding circumstances, the Syndicate may bear multiple retentions.

The Syndicate also commenced writing a specialty reinsurance account in 2021. There are exposures to the Ukrainian war, and connected events, in this account through the reinsurance of clients war and related writings. Exposures are more limited for this part of the business and any net impact to the Syndicate will benefit from retrocessional reinsurance purchased: on marine composite reinsurance claims this would lead to a retention of US Dollar 5 million (plus reinstatements premium) and for aviation reinsurance claims a retention of US Dollar 2.5 million (plus reinstatement premium).

Directors' interests and interests in other Group Companies

The directors of IQUW SML who were in office during the year and up to the date of signing the financial statements were:

Francois-Xavier B Boisseau (Chairman)
Nicholas J Addyman (resigned 31 July 2021)
Peter A Bilsby
Catherine Farnworth (appointed 9 December 2021)
Michele J Faull (appointed 2 August 2021)
Daniel P Flueckiger (appointed 19 May 2021)
Robert P Gullett (resigned 31 July 2021)
Martin Hall
David J Harris (appointed 16 August 2021)
Robert H Johnson (resigned 9 December 2021)
Nathan R Ott (appointed 19 May 2021)
Nicholas C T Pawson (resigned 31 December 2021)
Peter N Smith (resigned 10 May 2021)
Heather I Thomas (appointed 16 August 2021)
Ignace L G Van Waesberghe (resigned 10 May 2021)
Ryan R Warren
Christopher E Watson (resigned 10 May 2021)
Donna S Willis (resigned 9 December 2021)

Disclosure of information to the auditors

The Directors of IQUW SML who held office at the date of approval of the report of the managing agent confirm that, so far as each of them is aware, there is no relevant audit information of which the Syndicate's auditors are unaware, and each Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Syndicate auditors

The Syndicate's auditors, PricewaterhouseCoopers LLP, are deemed reappointed under the provisions of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Annual general meeting ("AGM")

Notice is hereby given that the managing agent does not propose holding a Syndicate AGM this year unless objections to this proposal or the intention to reappoint the auditors are received from Syndicate members by 30 April 2022.

By order of the Board:

Peter Bilsby
Director
3 March 2022

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the managing agent's report and the annual accounts in accordance with applicable law and regulations.

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

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

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

The 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

Independent auditor's report to the members of Syndicate 1856

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1856's Syndicate Annual Accounts:

- 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 year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the Syndicate Annual Accounts included within the Annual Accounts (the "Annual Report"), which comprise: the balance sheet - assets and the balance sheet – liabilities, both as at 31 December 2021; the statement of comprehensive income – technical account for general business, the statement of comprehensive income – non-technical account, the cash flow statement, and the statement of changes in members' balances for the year then ended; and the notes to the Syndicate Annual Accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 9, we have provided no non-audit services to the Syndicate in the period under audit.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Syndicate's ability to continue as a going concern for a period of at least twelve months from when the Syndicate Annual Accounts are authorised for issue.

In auditing the Syndicate Annual Accounts, we have concluded that the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Syndicate's ability to continue as a going concern.

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

Reporting on other information

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

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

With respect to the report of the directors of the managing agent (the 'Report of the Managing Agent'), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Report of the managing agent

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Managing Agent for the year ended 31 December 2021 is consistent with the Syndicate Annual Accounts and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Managing Agent.

Responsibilities for the Syndicate Annual Accounts and the audit

Responsibilities of the managing agent for the Syndicate Annual Accounts

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the Syndicate Annual Accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of Syndicate Annual Accounts that are free from material misstatement, whether due to fraud or error.

In preparing the Syndicate Annual Accounts, the managing agent is responsible for assessing the Syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the Syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the Syndicate Annual Accounts

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

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

- Discussions with the Board, management, internal audit, and the Syndicate's compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of any matters reported on the managing agent's whistleblowing helpline and management's investigation of such matters;
- Reviewing relevant meeting minutes including those of the Board, the Audit Committee, the Risk Management Committee, the Reserving Committee, and correspondence with regulatory authorities, including Lloyd's, the Financial Conduct Authority and the Prudential Regulatory Authority;
- Challenging assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of the claims incurred but not reported included within claims outstanding and estimated premium income;

- Identifying and testing journal entries, in particular journals with specific risk characteristics including unusual account combinations, journals posted by senior management and backdated journals over specific periods; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Sean Forster (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
3 March 2022

Statement of comprehensive income – technical account for general business

	Note	2021 £000	2020 £000
Earned premium, net of reinsurance			
Gross premium written	6	**189,991**	78,958
Outward reinsurance premium		**(23,862)**	(38,332)
Net premium written		**166,129**	40,626
Change in the provision for unearned premium			
Gross amount		**(40,656)**	(2,741)
Reinsurers' share		**(1,997)**	(3,770)
Change in the net provision for unearned premium	13	**(42,653)**	(6,511)
Earned premium, net of reinsurance		**123,476**	34,115
Allocated investment return transferred from non-technical account	7	**55**	984
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(89,794)**	(88,655)
Reinsurers' share		**9,509**	24,054
Net claims paid	14	**(80,285)**	(64,601)
Change in the provision for claims:			
Gross amount		**(23,575)**	40,798
Reinsurers' share		**18,775**	(30,738)
Change in the net provision for claims	14	**(4,800)**	10,060
Claims incurred, net of reinsurance		**(85,085)**	(54,541)
Net operating expenses	8	**(49,036)**	(31,520)
Balance on the technical account for general business		**(10,590)**	(50,962)

All amounts relate to continuing operations.

The notes on pages 25 to 58 form an integral part of these annual accounts.

Statement of comprehensive income – non-technical account

	Note	2021 £000	2020 £000
Balance on the technical account for general business		**(10,590)**	(50,962)
Investment return:			
Investment income	7	**467**	846
Unrealised (losses)/gains on investments	7	**(257)**	49
Realised (losses)/gains on investments	7	**(134)**	123
Investment expenses and charges	7	**(21)**	(34)
Total investment return		**55**	984
Allocated investment return transferred to general business technical account		**(55)**	(984)
Foreign exchange gain	12	**1,841**	1,083
Loss for the financial year		**(8,749)**	(49,879)
Foreign currency translation differences		**(977)**	-
Total recognised losses in the financial year		**(9,726)**	(49,879)

The notes on pages 25 to 58 form an integral part of these annual accounts.

Balance sheet - assets

	Note	2021 £000	2020 £000
Investments			
Financial investments	11	**66,921**	46,230
Deposits with ceding undertakings		**276**	-
		67,197	46,230
Reinsurers' share of technical provisions			
Provision for unearned premium	13	**9,816**	11,685
Claims outstanding	14	**63,837**	44,201
		73,653	55,886
Debtors			
Debtors arising out of direct insurance operations	16	**37,019**	20,840
Debtors arising out of reinsurance operations	17	**32,408**	23,225
Other debtors	18	**30**	280
		69,457	44,345
Other assets			
Cash at bank and in hand		**14,619**	5,700
Overseas deposits	11	**5,328**	2,512
		19,947	8,212
Prepayments and accrued income			
Accrued interest and rent		**23**	-
Deferred acquisition costs	15	**21,536**	11,037
Other prepayments and accrued income		**1,749**	-
		23,308	11,037
Total assets		**253,562**	165,710

The notes on pages 25 to 58 form an integral part of these annual accounts.

Balance sheet – liabilities

	Note	**2021 £000**	2020 £000
Capital and reserves			
Members' balances		**(22,086)**	(51,027)
Technical provisions			
Provision for unearned premium	13	**89,149**	45,502
Claims outstanding	14	**166,393**	142,225
Unexpired risk reserve	14	**-**	2,000
		255,542	189,727
Creditors			
Creditors arising out of reinsurance operations	19	**15,378**	24,318
Other creditors	20	**4,246**	1,793
		19,624	26,111
Other creditors			
Accruals and deferred income	21	**482**	899
Total liabilities		**253,562**	165,710

The notes on pages 25 to 58 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 18 to 23 were approved by the Board on 2 March 2022 and signed on behalf of the Syndicate's managing agent by:

Ryan Warren
Finance Director

3 March 2022

Statement of changes in members' balances

	2021 £000	2020 £000
Members' balances brought forward at 1 January	**(51,027)**	(17,779)
Recognised loss for the financial year	**(9,726)**	(49,879)
Receipt of loss from members' personal reserve fund	**4,093**	6,639
Cash call	**34,574**	9,992
Total liabilities	**(22,086)**	(51,027)

Members participate in syndicates by reference to years of account and their ultimate result. Assets and liabilities are assessed with reference to policies incepting in that year of account.

The notes on pages 25 to 58 form an integral part of these annual accounts.

Cash flow statement

	Note	2021 £000	2020 £000
Net cash flows from operating activities			
Loss for the financial year		**(9,726)**	(49,879)
Adjustments for movement in general insurance unearned premium and outstanding claims	13	**65,815**	(41,214)
Movement in reinsurers' share of unearned premium and outstanding claims	13	**(17,768)**	35,185
Investment return	7	**(55)**	(984)
Movement in other assets/(liabilities)		**(42,394)**	13,062
Net cash outflows from operating activities		**(4,128)**	(43,830)
Net cash flows from investing activities			
(Purchase)/sale of equity and debt instruments		**(20,691)**	17,757
Investment income received		**339**	824
Other	22	**(5,602)**	(2,320)
Net cash (used)/generated in investing activities		**(25,954)**	16,261
Net cash flows from financing activities			
Distribution loss / open year cash calls made		**38,667**	16,631
Net cash from financing activities		**38,667**	16,631
Net increase/(decrease) in cash and cash equivalents		**8,585**	(10,938)
Cash and cash equivalents at the beginning of the year		**5,700**	16,638
Foreign exchange on cash and cash equivalents		**334**	-
Cash and cash equivalents at the end of the year		**14,619**	5,700

The notes on pages 25 to 58 form an integral part of these annual accounts.

Notes to the accounts

1. General information

IQUW Syndicate Management Limited ("IQUW SML" or the "Managing Agent") is the managing agent of Syndicate 1856 (the "Syndicate"). The principal activity of the Syndicate is the transaction of general insurance and reinsurance business at Lloyd's and through the Lloyd's Brussels platform.

2. Statement of compliance and basis of preparation

This Annual Report has been prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" or "FRS 102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103") where applicable. The Syndicate continues to adopt the going concern basis in preparing the syndicate annual accounts.

These annual accounts have been prepared on a going concern basis, under the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

These annual accounts are presented in UK pounds sterling. The Syndicate's functional currency is US Dollars, which changed from UK pounds sterling as from 1 January 2021 because that is the currency of the primary economic environment in which the Syndicate now operates under the IQUW Group strategy. All amounts have been rounded to the nearest thousand, unless otherwise indicated. US Dollar amounts are converted at the closing rate at 31 December 2021.

3. Summary of significant accounting policies

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

(i) Gross premium written

Gross premium written comprises premiums on contracts incepted during the financial year as well as adjustments made in the year to premium written in prior accounting periods. Premium are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premium written include an estimate of gross premium written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, use is made of information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy, and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts, or other policy amendments. Such adjustments are recorded in the period in which they are determined, and impact gross premium written in the income statements and premium received from insureds and cedants recorded on the balance sheet.

(ii) Unearned premium

Written premium is recognised as earned according to the risk profile of the policy. The provision for unearned premium comprises the proportion of gross and outwards reinsurance premium written, which is estimated to be earned in the following or subsequent financial years, computed using the daily pro-rata method weighted by the risk profile of the underlying policies.

(iii) Reinsurance premium ceded

Outwards reinsurance premium comprises premium on contracts incepted during the financial year. Outwards reinsurance premium is also disclosed gross of commissions and profit participations recoverable from reinsurers. Written outwards reinsurance premium are recognised as earned according to the coverage period and in line with the risk profile to which the inwards business being protected relates.

(iv) Investment return

Investment return comprises interest, realised and unrealised gains and losses on assets held at fair value through profit or loss.

Fair value realised gains and losses are calculated as the difference between net sales proceeds and fair value at acquisition.

Fair value unrealised gains and losses are calculated as the difference between the current fair value at the balance sheet date and the fair value at acquisition or at previous remeasurement date, adjusted for by excluding previously recognised unrealised gains and losses of those financial assets disposed of in the accounting period.

The returns on pooled investments arising in each calendar year are apportioned to years of account open during the calendar year in proportion to average funds available for investment on each year of account.

Investment return is initially recorded in the statement of comprehensive income – non technical account. A transfer is made from the statement of comprehensive income non-technical account to the statement of comprehensive income-technical account for general business. Investment return has been wholly allocated to the technical account as all investments relate to underwriting activities.

(v) Operating expenses

Where expenses are incurred by, or on behalf of, the managing agent for the administration of the Syndicate, these expenses are apportioned appropriately based on type of expense. Expenses that are incurred jointly are apportioned between IQUW SML and the Syndicate on bases depending on the amount of work performed, resources used, and the volume of business transacted. While Syndicate operating expenses are normally allocated to the year of account for which they are incurred, an agreement made in December 2020 between the corporate members requires syndicate operating expenses, including for the run-off of the prior underwriting years, to be allocated to the 2021 underwriting year except for some defined expenses which include employees' bonus costs, bona fide redundancy costs, claims handling costs, and managing agency fees and profit commission.

(vi) 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 during the year are included in the balance sheet under the heading 'Members' balances'. No provision has been made for any overseas tax payable by members on underwriting results.

(vii) Foreign currency

The functional currency of the Syndicate is US Dollars which is the currency of the primary economic environment in which the Syndicate operates. This was changed from UK pounds sterling from 1 January 2021 following the repurposing of the Syndicate to support the IQUW Group strategy.

Transactions denominated in foreign currencies are translated into US Dollars at the rates of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities are translated at the year-end rates of exchange. For foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

These annual accounts are presented in UK pounds sterling for which US Dollar amounts are converted at the closing rate at 31 December 2021.

Differences arising on translation of foreign currency amounts relating to insurance operations of the Syndicate are recognised in the profit/(loss) on financial exchange in the statement of comprehensive income - non-technical account. The translation of foreign currency transactions are included in the "foreign exchange gain" and translation of presentational currency, where the translation of profits or losses at average rates are recognised in "currency translation differences".

(viii) Financial instruments

The managing agent has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial instruments are recognised in the balance sheet at such time as the Syndicate becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Syndicate's obligations specified in the contract expire, are discharged or cancelled.

Purchases and sales of financial assets are recognised on the trade date, which is the date the Syndicate commits to purchase or sell the assets.

Financial assets

The Syndicate has classified these assets into the following categories: financial assets at fair value through profit or loss, and loans and receivables.

Financial investments

Financial investment assets are designated at fair value through profit or loss on initial recognition where it is the Syndicate's strategy to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are also on a fair value basis. Note 11 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Investments carried at fair value through profit or loss are initially recognised at fair value with any associated transactions costs being expensed through the statement of comprehensive income – non-technical account.

If the market for an investment is not active, the valuation is based upon the net asset values of underlying holdings, which are independently sourced. The fair value of listed equity and debt securities is determined by reference to their quoted bid price at the balance sheet date.

Fair values for unlisted debt securities are estimated at the present value of their future cash flows, discounted at the market rate of interest at the reporting date.

Derivative financial instruments

Derivative financial instruments can be used to hedge the Syndicate's exposure to foreign exchange risk and the interest rate risk arising from investing activities. The investment managers use futures and option derivatives for investing activities. Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised in the statement of comprehensive income – non-technical account.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

Loans and receivables

Loans and receivables are recognised at amortised cost, being the fair value of consideration paid plus incremental direct transaction costs less any provision for impairments.

(ix) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(x) Deferred acquisition costs

The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. All other costs are expensed when they are incurred.

In respect of insurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts. Deferred acquisition costs are amortised over the life of the policy in line with the recognition of earned premium.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged through the profit and loss account.

(xi) Claims provision and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims incurred from previous years.

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 a provision for related claims handling costs. The provision also includes an estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience 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 premium rating and other pricing models of business accepted, together with assessments of underwriting conditions.

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

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

(xii) Unexpired risks provision

A provision for unexpired risks is made where claims, related claims handling costs and other related expenses arising after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums on these contracts, after the deduction of any deferred acquisition costs.

The provision for unexpired risks is calculated by reference to classes of business that are managed together. No account is taken of the relevant investment return arising from investments supporting the unexpired premiums and unexpired risk provisions.

(xiii) Reinsurance assets and liabilities

Amounts due to and from reinsurers are accounted for in a manner consistent with the insured policies and in accordance with the relevant reinsurance contract. Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, because of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. Objective factors that are considered when determining whether a reinsurance asset or group of reinsurance assets may be impaired include, but are not limited to the following:

- Negative rating agency announcements of reinsurers;
- Significant reported financial difficulties of reinsurers;
- Actual breaches of credit terms such as persistent late payment or actual default; and
- Adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability.

Impairment losses on reinsurance assets are recognised in the profit and loss account.

(xiv) Bad debts

Bad debts are provided for only where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Syndicate. The provision is calculated on a case-by-case basis.

Bad debt provisions are recognised in the profit and loss account.

(xv) Pension costs

IQUW Administration Services Limited ("IQUW ASL") operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and are included within net operating expenses.

(xvi) Profit commission

No profit commission is charged by the managing agent. However, the previous managing agent, AMAL is entitled to a profit commission at a rate of 5% of the profit on the 2021 year of account.

(xvii) Deposit components of reinsurance contracts

Where a deposit component exists in a reinsurance contract it is not unbundled and is recorded as part of the reinsurance assets. Any interest payable on the deposit component is accrued annually at the effective interest rate.

4. Judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

The following judgements, estimations and assumptions have had the most significant effect on amounts recognised in the financial statements.

(i) Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. The carrying amount of the liability is disclosed in note 14. For general insurance contracts, estimates are made for the expected ultimate cost of claims notified at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided. The estimation of these claims is based on historical experience projected forward. The Syndicate's estimate of claims and related claims handling costs is mainly achieved through the application of several commonly accepted actuarial projection methodologies based on the following:

- paid claims development, where payments to date are extrapolated based upon observed development of earlier years;
- the development of claims based on seasonally adjusted exposure curves;
- estimates based upon a projection of claims numbers and average burning cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected ultimate loss ratios.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from all the Syndicate's reinsurance arrangements, having due regard to collectability. Claims provisions are subject to regular review, both within the Syndicate and externally.

The Syndicate's management discusses and challenges the actuarial best estimate and selected booked claims provisions at the quarterly Finance Committee ("FC") and at the Audit Committee ("AC"), whose membership includes non-executive directors with significant insurance experience. External actuaries are also engaged to calculate an independent best estimate of the ultimate cost of claims as at each 31 December and present a Statement of Actuarial Opinion ("SAO") against which the Syndicate's best estimate is assessed.

(ii) Premium recognition

Gross premium written is initially based on estimated premium income ("EPI") of each contract. EPI estimates are based on information provided by the brokers, policyholders, coverholders, past underwriting experience, and the contractual terms of the policy. The EPI estimates are reviewed on a regular basis. Except for the 2020 underwriting year of the energy and cyber lines of business where there are several binding authorities, premium for the 2020 and prior underwriting years has been adjusted to match the actual signed premium. Premium in respect of insurance contracts underwritten under binding authorities are booked as the underlying contracts incept. Premium are earned on a pro-rata basis that is seasonally adjusted for the risk exposure of the policy. The carrying value amount of the unearned premium is disclosed in note 13.

Gross premium written includes an estimation for reinstatement premium which is determined based on incurred losses held in the technical provisions.

(iii) Outward reinsurance contracts from related parties

The Syndicate purchased several outwards quota share reinsurance contracts with Humboldt Re Limited and Kelvin Re Limited across the 2016 to 2020 underwriting years. These are related counterparties because Humboldt Re Limited is part of the same corporate group as Humboldt Corporate Member Limited that is a member, and Kelvin Re Limited is a material provider of capital to a Credit Suisse Insurance Linked Strategies Ltd managed fund that is a member. The following table summarises the balances owed to and from these related counterparties.

Outwards reinsurance balances held at 31 December for Humboldt Re Limited and Kelvin Re Limited	
£ millions	**2021**
Ceded premium unpaid	(8.4)
Outstanding on gross paid claims	8.1
Outstanding on gross outstanding claims	3.2
Outstanding on gross IBNR claims	3.1
Total	**6.0**

5. Risk Management

The Syndicate's overall appetite for accepting and managing varying classes of risk is defined by the IQUW SML Board. The Board has developed a governance framework and has set risk management policies and procedures which include risk identification, risk measurement, risk management and mitigation, and risk reporting. The objective of these policies and procedures is to protect the Syndicate's members, policyholders and other stakeholders from negative events that could hinder the Syndicate's delivery of its contractual obligations and its achievement of sustainable profitable performance.

The Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Risk and Compliance Committee ("RCC"). Ongoing compliance is monitored through the Internal Audit function, which is shared with other IQUW entities, and which has operational independence, a charter and clear upwards reporting structures back into the Audit Committee and Board. The Risk Management Function ("RMF") coordinates the risk management policies and procedures and supports the Board and the RCC. The executive Risk Management Committee ("RMC") provides monthly oversight of the RMF activities.

The risk appetites and tolerances are set considering risk capacity, prevailing regulatory and legislative requirements, risks associated with target markets, and the fair treatment and protection of customer and stakeholder interests. Risk metrics and measures of the business are monitored against the risk appetites and tolerances and reported to the RMC monthly, and to the RCC and Board quarterly.

The risk management and control framework reflects the three lines of defence approach, summarised as follows:

- Line 1: Business units operating within a framework of internal controls underpinned by policies, procedures, and senior management oversight have direct responsibility for risk management and controls;

- Line 2: Risk Management, Conduct Risk, Governance and Compliance functions, supported by the RMC, ensure that the risk management framework is effective and that the Syndicate operates within its legal and regulatory boundaries. Employees in the second line coordinate, facilitate and oversee the effectiveness and integrity of the risk management framework. As a key input to decision making, the risk management framework focusses on assuring the Board where the risk profile is in line with expectations, escalating all material risk and capital issues to the Board, and providing input to, challenge and oversight of first line decision making; and
- Line 3: Internal Audit providing independent assurance to the Board via the AC as to the effectiveness of the internal control environment. Employees in the third line provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the framework.

The activity of the three lines of defence is outlined in an annual assurance plan, which is Board-approved and tracked for its adherence quarterly through the RCC and monthly through the RMC.

The Syndicate's cash flows are funded mainly through advance premium collections and the timing of such premium inflows is reasonably predictable.

In addition, most material cash outflows are typically triggered by the occurrence of insured events non-correlated to financial markets, and not by the inclination or will of policyholders.

IQUW SML continues to monitor and respond to COVID, especially the impact on operations, insurance risks, reinsurance assets and on capital and liquidity positions.

The principal sources of risk relevant to the Syndicate fall into four broad categories: insurance risk, financial risk, regulatory risk, and operational risk.

Insurance risk

The predominant risk to which the Syndicate is exposed is insurance risk, which is assumed through the underwriting process. Insurance risk is defined as the risk of fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. Insurance risk can be subcategorised into: (a) underwriting risk including the risk of catastrophe and systemic insurance losses, and the insurance cycle and competition; and (b) reserving risk.

(a) Underwriting risk

Underwriting risk is defined as the risk that insurance premiums will not be sufficient to cover future insurance losses and associated expenses. Underwriting risk also encompasses people, process and system risks directly related to underwriting.

The Board sets the Syndicate's underwriting strategy and risk appetite, seeking to benefit from identified opportunities considering other relevant anticipated market conditions.

The Syndicate aims to manage underwriting risk:

- to achieve acceptable profits and return on equity by ensuring that insurance risks are carefully selected in accordance with the underwriting strategy and risk appetite tolerances, underwritten in accordance with risk strategy and priced to reflect the underlying risk; and
- to mitigate insurance risk using optimal reinsurance arrangements.

(a)(i) Underwriting strategy

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures, and line of business diversification parameters are prepared and reviewed by the IQUW SML management team to translate the Board's underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved in advance of the underwriting year. The Board continually reviews its underwriting strategy throughout the course of each underwriting year considering evolving market pricing and loss conditions, and as opportunities present themselves.

The Syndicate's underwriters and IQUW SML management consider underwriting risk at an individual contract level and from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated considering historical portfolio experience and prospective factors.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular review. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as maximum sums insured per insurance contract, maximum gross premiums written, and maximum aggregated exposures per geographical zone and risk class. All delegations are strictly controlled through these underwriting guidelines and limits, and extensive monitoring, review, and auditing of the agencies.

The Syndicate compiles estimates of losses arising from realistic disaster events using statistical models alongside input from the underwriters. They also reflect the areas that represent significant exposures for the Syndicate. The events are extreme and yet untested, and estimates may prove inadequate because of incorrect assumptions, model deficiencies, or losses from unmodelled risks. This means that should a disaster occur, then the Syndicate's final ultimate losses could materially differ from those estimates modelled by management.

Property reinsurance

The property reinsurance inwards acceptances are primarily focussed on large property risk portfolios held by other insurance companies in the USA, Japan, Europe, Australasia, and Canada. This business is characterised by large claims arising from individual events or catastrophes, rather than the high-frequency, low-severity attritional losses associated with other business lines. Multiple insured losses can periodically arise out of a single natural or man-made occurrence. The main circumstances that result in claims against the property reinsurance inwards book are conventional catastrophes, such as earthquakes or storms, and other events including fires and explosions. The occurrence and impact of these events are difficult to model over the short term which complicates attempts to anticipate loss frequencies on an annual basis. In those years where there is a low incidence of severe catastrophes, loss frequencies on the property reinsurance inwards book can be relatively low. Consequently, the frequency and severity of property reinsurance inwards claims are related not only to the number of significant insured events that occur but also to their individual magnitude. If numerous catastrophes occurred in any one year but the cedant's individual loss on each was below the minimum stated, then the Syndicate would have no liability under such contracts. Maximum gross line sizes and aggregate exposures are set for each type of programme.

During 2021, the maximum gross line size was US Dollar 50 million.

Property proportional

The property proportional inwards acceptances have been focussed on quota share reinsurance of insurance books with cedants being primary carriers and in certain cases MGAs. This business is exposed to large losses and catastrophes in a similar manner to the property reinsurance division.

During 2021, the maximum gross line size was US Dollar 15 million.

Property insurance

The property insurance portfolio is comprised of binding authority business and, from 2021, direct and facultative business covering commercial and residential risks predominantly in North America. The portfolio is exposed to natural and man-made catastrophes, large loss events or attritional claims arising from conventional hazards such as fire and flooding.

During 2021, the maximum gross line size was US Dollar 15 million.

Professional lines

This division focusses on D&O, PI and FI liability. The D&O account focusses on primary and low excess layers for publicly traded companies, predominantly those listed in the USA. The FI account provides cover to financial institutions, including bond and crime, professional indemnity, directors' and officers', and investment managers' insurance for financial institutions. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence, improper management, and actual or alleged wrongful acts.

During 2021, the maximum gross line size was US Dollar 10 million.

Energy

The energy division provides cover for downstream energy and upstream energy risks. The upstream account consists of clients across all stages of the hydrocarbon extraction process written mostly on an open market or facultative direct basis. The downstream account includes onshore energy and power across the whole downstream chain from extraction to final product. The products cover fixed and moveable assets such as energy platforms and installations, refineries and plants, pipelines, and other infrastructure. These assets are typically exposed to natural catastrophes, large loss events, or attritional claims arising from conventional hazards such as collision, flooding, and fire.

During 2021, the maximum gross line size was US Dollar 40 million.

Cyber

The cyber division provides cover for specific losses suffered from data breaches and other cyber events. During 2021, the Syndicate provided cover via a single binding authority, being the only one renewed, and exited existing arrangements that proved unprofitable to reduce exposures while it developed its capabilities in this line. Claims typically arise from losses suffered because of data breaches, including compensation to third parties in the event of a cyber attack or if personal data is lost because of a data breach, and other cyber events, including ransomware, phishing, malware, viruses, and other malicious

During 2021, the maximum gross line size was US Dollar 15 million.

Political violence, terrorism, war

This division focusses on political violence, terrorism, and war risks across a broad range of occupancies and diversified globally. Claims may arise from losses suffered from the seizure of ships, aircraft, and other vessels and stock in transit, hijacking, piracy, physical damage during war, and liability to passengers and third parties. Political violence insurance covers the loss or damage to fixed and moveable property from terrorist acts, acts of sabotage, riots, strikes, civil commotion, malicious damage, insurrection, revolution, civil war, or counterinsurgency.

During 2021, the maximum gross line size was US Dollar 50 million.

Political risk and contract frustration

The political risks and contract frustration products provide cover for the financial losses arising because of adverse political events affecting the insured's interests. This business is exposed to changes of government or other adverse political events that could mean the insured is deprived of the use or benefit of their assets or investments, including because of confiscation, expropriation, nationalisation and deprivation, and contract cancellation. The period of risk exposure on such contracts could be up to 15 years, but the portfolio average is expected to be four years.

During 2021, the maximum gross line size was US Dollar 25 million.

Marine liability

The Syndicate's marine liability and energy liability offerings provide cover to protect shipping-related and energy-related businesses against physical loss or damage to third parties or injury to crew. The marine liability book has a strong USA bias, focussing on offshore and brown water sectors and the associated industries supporting their operations. These risks are typically exposed to natural catastrophe, large loss events or attritional claims arising from conventional hazards such as collision, fire, and flooding.

During 2021, the maximum gross line size was US Dollar 35 million.

Marine cargo

The Syndicate provides cover for marine cargo and specie risks. The specie account focusses on fine art with elements of cash in transit, jewellers block and general specie. The cargo account consists of transit, storage/stock and excess stock. These risks are typically exposed to natural catastrophe, large loss events or attritional claims arising from conventional hazards such as collision, fire, and flooding.

During 2021, the maximum gross line size was US Dollar 20 million.

Specialty reinsurance

This new division brings together several specialist lines such as aerospace, terror, marine, energy, and composite reinsurance business. The book focusses on excess of loss business to avoid clashing and competing with other IQUW divisions. The business is characterised more by large claims arising out of individual events than high-frequency, low-severity attritional losses.

During 2021, the maximum gross line size was US Dollar 10 million.

(a)(ii) Outwards reinsurance

The Syndicate also manages underwriting risk by purchasing reinsurance. The classes of business expose the Syndicate to claims not only at individual risk level, but also at event level. The Syndicate therefore reinsures a portion of the risks that it underwrites to control its exposure to claims and to protect its capital resources. Reinsurance protection, such as excess of loss cover, is purchased to mitigate the effect of catastrophes and unexpected concentrations of risk. The scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market.

(b) Reserving risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle these claims and associated expenses. This definition also applies to reserves which were set previously. The Syndicate's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 4(i).

The Syndicate aims to manage reserving risk:

- to minimise reserve volatility through robust reserving and application of actuarial modelling approaches; and
- to monitor reserve adequacy and performance on an ongoing basis

The Syndicate undertakes both an internal and external actuarial review of the claims' provisions, independent of the underwriting teams. The Statement of Actuarial Opinion ("SAO") on claims reserve adequacy, required by Lloyd's, is provided by an independent external actuarial firm.

The Syndicate's provision estimates are subject to regular and rigorous review by senior management from all areas of the business including independent actuaries. The final provision is approved by the IQUW SML Board.

Booked reserves include a net margin of £3.1 million. This is the margin above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy.

(b)(i) Sources of uncertainty in the estimation of future claim payments

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimation of case reserves and reporting to the Syndicate. The Syndicate works closely with the reinsured to ensure timely reporting and analyses industry loss data to verify the reported reserves.

Professional lines claims may not be established for several years after the event where legal complexities occasionally develop regarding the insured's alleged omission or negligence. The length of time required to obtain definitive legal judgements and make eventual settlements exposes the Syndicate to a degree of reserving risk in an inflationary environment.

The estimated cost of claims includes direct expenses to be incurred in settling claims. All reasonable steps are taken to ensure that appropriate information regarding claims exposures is available. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for

IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, where information about the claim event is available. In estimating the liability of the cost of reported claims not yet paid, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods is considered. Large claims are assessed on a case-by-case basis and projected separately to allow for the possible distortive effect of the development and incidence on the rest of the portfolio. Consideration is given to the operational and systems changes that occur within the business, which would distort the information of how claims have developed and settled across different periods of time.

Where possible, multiple statistical methods are used to estimate the required level of claims provisions. This provides a greater understanding of the trends inherent in the claims experience being projected. These claims projections derived by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation method is selected considering the characteristics of the risk and the extent of the development each year. Being able to explain the differences in the methods develops and evidences the understanding of the underlying claims estimation processes.

The calculation of claims provisions is performed internally on a best estimate basis, meaning that the provisions are intended to represent the probability-weighted average of all possible payment outcomes, and a net margin of 3.0% (2020: 0%) is added to help mitigate the uncertainty within the reserve estimates. Independent calculations are performed by an external actuary, who also provides the Lloyd's SAO. The booked net claims reserves for business earned at 31 December 2021 exceeds the external actuary's SAO valuation by £3.3 million (2020: £3.3 million), representing 3.2% (2020: 3.4%) of net booked reserves.

(b)(ii) Development of claims provision

Historical claims development information is disclosed to illustrate the uncertainty inherent in the estimation of future claims payments. The tables below show the estimated ultimate cumulative claims, being incurred claims plus IBNR and claims handling costs, for each successive underwriting year at each balance sheet date.

The Syndicate seeks to set robust reserves and to minimise volatility in those reserves over time to mitigate the risk that reserves will be insufficient to meet future claims payments and related expenses. The tables below show the development of the estimated ultimate claims costs over an extended period to provide an illustration of the Syndicate's ability to accurately estimate the ultimate level of claims.

While the information in the tables below provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies seen in the past on current unpaid loss provisions. IQUW SML management believes the booked reserves are adequate at the balance sheet date. This is especially relevant considering the material repurposing of the Syndicate in 2021 and the numerous new lines of business with potentially quite different claims development patterns.

Analysis of claims development- gross of reinsurance

Underwriting year	2016	2017	2018	2019	2020	2021	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Estimate of ultimate gross claims costs*:							
At end of reporting year	32,286	65,463	63,268	51,920	74,946	71,887	359,770
One year later	56,269	89,863	93,830	82,463	132,202	-	454,627
Two years later	61,985	93,452	100,121	84,745	-	-	340,303
Three years later	63,584	78,230	88,135	-	-	-	229,949
Four years later	45,400	72,892	-	-	-	-	118,292
Five years later	44,256	-	-	-	-	-	44,256
Current estimate of cumulative claims	44,256	72,892	88,135	84,745	132,202	71,887	494,117
Cumulative payments to date	(43,294)	(68,475)	(76,100)	(60,133)	(59,344)	(20,378)	(327,724)
Total gross provision included in the balance sheet	**962**	**4,417**	**12,035**	**24,612**	**72,858**	**51,509**	**166,393**

Analysis of claims development- net of reinsurance

Underwriting year	2016	2017	2018	2019	2020	2021	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Estimate of ultimate net claims costs*:							
At end of reporting year	21,255	35,792	27,302	24,605	68,296	49,463	226,713
One year later	39,504	53,297	42,947	50,587	112,327	-	298,662
Two years later	43,539	56,451	48,952	55,496	-	-	204,438
Three years later	43,477	43,372	37,127	-	-	-	123,976
Four years later	34,310	42,216	-	-	-	-	76,526
Five years later	32,979	-	-	-	-	-	32,979
Current estimate of cumulative claims	32,979	42,216	37,127	55,496	112,327	49,463	329,608
Cumulative payments to date	(32,062)	(40,643)	(33,199)	(43,430)	(57,341)	(20,377)	(227,052)
Total net provision included in the balance sheet	**917**	**1,573**	**3,928**	**12,066**	**54,986**	**29,086**	**102,556**

*the initial estimate of gross and net provision at the end of the reporting year is on an earned basis.

(b)(iii) Sensitivity analysis of reserve estimates

Assumptions about future developments, outcomes or events underpin the setting of the Syndicate's booked reserves. The sources of estimation uncertainty are discussed in note 5(a)(ii). Sensitivity analysis of the key assumptions provides an illustration of the inherent uncertainty in the reserves as shown below.

The following illustrates the sensitivity of some of the key assumptions.

The Syndicate has material exposure to winter storm Uri, hurricane Ida and the Kentucky tornadoes on the 2021 year of account. This increases the uncertainty of the Syndicate's total reserves but not beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing a sensitivity analysis on the 2021 Uri and Ida catastrophe losses, the Syndicate determined that a reasonable range of estimates may imply costs that are £19.5 million (38%) higher, gross of reinsurance or £1.8 million (15%) higher net of reinsurance.

The Syndicate also has material exposure to winter storm Uri and hurricane Ida on the 2020 year of account. This increases the uncertainty of the Syndicate's total reserves, but not beyond the normal range of uncertainty for insurance liabilities at this stage of development.

Property losses occurring during the 2021 calendar year on the 2020 and 2021 years of account are protected by the property outwards reinsurance programme. This contract includes a US Dollar 25 million aggregate deductible such that losses occurring during the year first need to exceed this amount in aggregate before recoveries can be made. Losses are allocated to the programme in the order of occurrence. Winter storm Uri occurred early in the year and because the 2020 underwriting year had a larger exposure to this loss, it has contributed more to the erosion of the aggregate deductible than the 2021 underwriting year. The way outstanding property claims develop in the future may therefore lead to a reallocation of reinsurance recoveries between the 2020 and 2021 years of account.

The Syndicate has exposure on the 2019 and 2020 underwriting years to losses arising out of COVID and currently has reserved £19.1 million gross of reinsurance and £19.1 million net of reinsurance (2020: £10.9million gross and £9.8 million net). These losses primarily arose in the property reinsurance division from contingency exposures. COVID is an unprecedented event for the insurance industry and the effects of it as a loss event remain ongoing and uncertain. The ultimate amounts of these claims are subject to a high degree of uncertainty. A 10% increase in this gross reserve would lead to a £1.9m net reserve increase.

Financial risk

The Syndicate is exposed to financial risk through its ownership of financial instruments including financial liabilities. The Syndicate invests in financial assets to fund obligations arising from its insurance contracts and other liabilities.

The key financial risk for the Syndicate is that the proceeds from its financial assets and investment result generated therefrom are not sufficient to fund the obligations. The most important variables that could result in such an outcome relate to credit risk, market risk, and liquidity risk.

(c) Credit risk

Credit risk is the risk that a counterparty will suffer a deterioration in solvency or be unable to pay amounts in full when due. The primary sources of credit risk for the Syndicate are:

- Brokers and intermediaries – whereby counterparties fail to pass on premiums collected or claims paid on behalf of the Syndicate.
- Reinsurers – whereby reinsurers may fail to pay valid claims against a reinsurance contract.
- Investments – where issuer default results in the Syndicate losing all or part of the value of a financial instrument.

The Syndicate's core business is to accept significant insurance risk while the appetite for other risks is low. This protects the Syndicate's capital from erosion so that it can meet its insurance liabilities. The Syndicate structures the acceptable levels of credit risk by placing limits on its exposure to singular and group counterparties, and to geographical and industry segments. Such risk limits are subject to regular review.

The concentrations of credit risk exposures held by insurers could be material because of the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Syndicate interacts with several counterparties that are engaged in similar activities with similar customer profiles, and often in the same geographies and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of several counterparties to meet the Syndicate's contractual terms and conditions.

The economic disruption caused by COVID, with many businesses and individuals forced to alter, reduce, or cease business activity because of government lockdowns, has increased the risk that counterparties fail to meet their financial obligations as they fall due.

(c)(i) Brokers and intermediaries

Exposures to brokers and insurance intermediaries are managed via a stringent credit policy. The IQUW SML credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties.

(c)(ii) Reinsurers

Reinsurance is used to contain insurance risk. This does not, however, discharge the Syndicate's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for its payment to the policyholder. The creditworthiness of reinsurers is therefore continually reviewed throughout the year.

The credit worthiness of all reinsurers is assessed by reviewing credit grades provided by rating agencies and other publicly available financial information detailing their financial strength and performance. The financial analysis of reinsurers produces an assessment categorised by S&P rating (or equivalent when not available from S&P). IQUW SML also considers the reputation of its reinsurance partners and details of recent payment history. This is used to update the reinsurance purchasing strategy.

(c)(iii) Investments

The Syndicate is exposed to counterparty risk with respect to cash and cash equivalents, and investments and other deposits.

The Syndicate mitigates counterparty credit risk by concentrating debt and fixed income investments in high-quality instruments, including an emphasis on government bonds. Investments are primarily only in liquid securities and with counterparties that have a credit rating equal to investment grade or better.

The Syndicate imposes guidelines on its external investment managers in relation to the constituents of the investment portfolios. These guidelines specify the acceptable asset classes, duration, and credit ratings. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

(c)(iv) Analysis of counterparty credit risk

The following table summarises the Syndicate's significant credit risk for impacted assets:

2021	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	34,894	-	32,027	-	-	-	**66,921**
Cash at bank and in hand	-	-	14,619	-	-	-	**14,619**
Overseas deposits	1,956	333	529	327	775	1,408	**5,328**
Reinsurers' share of claims outstanding	-	41,364	22,473	-	-	-	**63,837**
Debtors arising out of reinsurance operations	-	-	3,832	87	-	28,489	**32,408**
Total	**36,850**	**41,697**	**73,480**	**414**	**775**	**29,897**	**183,113**

2020	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	9,893	19,094	8,130	-	-	9,113	46,230
Cash at bank and in hand	-	-	5,700	-	-	-	5,700
Overseas deposits	997	208	1,142	-	-	165	2,512
Reinsurers' share of claims outstanding	-	25,784	4,911	-	-	13,506	44,201
Debtors arising out of reinsurance operations	-	3,226	12,903	-	-	7,096	23,225
Total	10,890	48,312	32,786	-	-	29,880	121,868

At 31 December 2021 and 2020, the Syndicate had assets that were past due.

The tables below provide information regarding the maximum credit risk exposure to these assets, together with the extent to which they are due, past due and impaired. Assets are classified as past due when the contractual payment is in arrears. An assessment is performed on all assets, based on the ageing maturity of these assets, which may result in an impairment charge in the statement of comprehensive income if the Syndicate considers this to be appropriate

2021	Neither due nor impaired £000	Past due up to 3 months £000	Past due 3 to 6 months £000	Past due 6 months to 1 year £000	Past due greater than 1 year £000	Past due and impaired £000	Total £000
Financial investments	66,921	-	-	-	-	-	**66,921**
Overseas deposits	5,328	-	-	-	-	-	**5,328**
Cash at bank and in hand	14,619	-	-	-	-	-	**14,619**
Insurance debtors	31,983	1,457	1,487	1,147	-	945	**37,019**
Reinsurers' share of claims outstanding	55,039	-	-	-	8,064	734	**63,837**
Debtors arising out of reinsurance operations	31,680	107	326	295	-	-	**32,408**
Other assets	32,679	111	337	303	-	-	**33,430**
Total	**238,249**	**1,675**	**2,150**	**1,745**	**8,064**	**1,679**	**253,562**

2020	Neither due nor impaired £000	Past due up to 3 months £000	Past due 3 to 6 months £000	Past due 6 months to 1 year £000	Past due greater than 1 year £000	Past due and impaired £000	Total £000
Financial investments	46,230	-	-	-	-	-	46,230
Overseas deposits	2,512	-	-	-	-	-	2,512
Cash at bank and in hand	5,700	-	-	-	-	-	5,700
Insurance debtors	19,080	-	1,760	-	-	-	20,840
Reinsurers' share of claims outstanding	44,201	-	-	-	-	-	44,201
Debtors arising out of reinsurance operations	12,371	2,052	992	7,810	-	-	23,225
Other assets	23,002	-	-	-	-	-	23,002
Total	153,096	2,052	2,752	7,810	-	-	165,710

(d) Market risk

Market risk is the risk of a variation in the value of financial institution deposits and financial investments, relative to the variation in the value of liabilities due to market movements. Market risk arises where the value of assets less liabilities changes because of movements in foreign exchange rates, interest rates, inflation rates and/or market prices.

The Syndicate engages external investment managers to actively manage the market risk associated with financial investments. Detailed guidelines imposed on the investment managers are in place and the IQUW SML Board and its investment committee regularly monitor performance and risk metrics.

(d)(i) Foreign currency risk

Most of the Syndicate's gross premium written is in US Dollars. Consequently movements in the UK Pound Sterling against US Dollar exchange rate may have a material impact on its presented financial performance and position. The Syndicate's financial assets are denominated in the same currencies as its insurance liabilities to reduce currency exchange volatility. This profit and loss is distributed in line with Lloyd's rules using a combination of UK Pound Sterling and US Dollars.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

2021	GBP £000	USD £000	CAD £000	EUR £000	Other £000	Total £000
Reinsurers' share of technical provisions	96	70,525	108	2,802	122	**73,653**
Insurance and reinsurance receivables	756	64,147	718	498	3,308	**69,427**
Financial investments	1,566	53,914	11,441	-	-	**66,921**
Cash in hand and at bank	4,171	-	-	2,658	7,790	**14,619**
Overseas deposits	1,702	634	1,571	-	1,421	**5,328**
Other assets	(59,131)	62,191	(4,436)	8,953	16,037	**23,614**
Total assets	(50,840)	251,411	9,402	14,911	28,678	**253,562**
Technical provisions	(8,101)	(222,618)	(5,343)	(7,568)	(11,912)	**(255,542)**
Insurance and reinsurance payables	1,553	(12,952)	-	(3,986)	7	**(15,378)**
Other creditors	(4,728)	-	-	-	-	**(4,728)**
Total liabilities	(11,276)	(235,570)	(5,343)	(11,554)	(11,905)	**(275,648)**
Currency Adjustments	60,094	(17,813)	4,375	(7,853)	(38,803)	-
Members' balances by currency	**(2,022)**	**(1,972)**	**8,434**	**(4,496)**	**(22,030)**	**(22,086)**

2020	GBP £000	USD £000	CAD £000	EUR £000	Other £000	Total £000
Reinsurers' share of technical provisions	-	53,555	2,335	(4)	-	**55,886**
Insurance and reinsurance receivables	9,864	39,347	(4,224)	(1,543)	621	**44,065**
Financial investments	1,566	38,893	-	5,771	-	**46,230**
Cash in hand and at bank	1,061	-	2,362	-	2,277	**5,700**
Overseas deposits	621	382	-	674	836	**2,512**
Other assets	(15,283)	(4,126)	9,273	(2,657)	24,110	**11,317**
Total assets	(2,171)	128,051	9,746	2,241	27,843	**165,710**
Technical provisions	(13,548)	(138,539)	(4,782)	(6,144)	(26,715)	**(189,727)**
Insurance and reinsurance payables	478	(21,807)	(3,333)	-	343	**(24,318)**
Other creditors	(2,675)	(2)	(14)	-	-	**(2,692)**
Total liabilities	(15,744)	(160,348)	(8,129)	(6,144)	(26,371)	**(216,737)**
Currency Adjustments	(17,664)	(12,863)	9,166	(2,665)	24,005	-
Members' balances by currency	**(35,559)**	**(45,159)**	**10,783**	**(6,568)**	**25,477**	**(51,027)**

At 31 December 2021, the Syndicate used closing rates of exchange of £1: $1.35 and £1: €1.19 (2020: £1: $1.37 and £1: €1.12).

The Syndicate performs sensitivity analysis on a 10% strengthening or weakening of the presentational currency, UK pounds sterling, against the Euro and US Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities. A 10% strengthening (weakening) of the following currencies at 31 December would have increased (decreased) members' balances for the financial year by the amounts shown below:

(Decrease)/increase on members' balances	2021 £000	2020 £000
10% strengthening of the US Dollar	**(2,080)**	684
10% weakening of the US Dollar	**1,702**	(736)
10% strengthening of the Euro	**373**	323
10% weakening of the Euro	**(305)**	(353)

(d)(ii) Interest rate risk

The Syndicate undertakes a sensitivity analysis for interest rate risk to illustrate how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase or decrease of 50 basis points in interest yields would result in a charge or credit to members' balances as set out on the next page.

	Impact on profit/(loss) for the year		Increase/(decrease) on members' balances	
£ 000	**2021**	2020	**2021**	2020
Shift in yield (basis points):				
50 basis points decrease	**177**	58	**177**	58
50 basis points increase	**(227)**	(142)	**(227)**	(142)

This is applied to the position at 31 December 2021 and considers the full effect of mark to market movements, but without recognising any running yield benefit.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are discounted and contractually non-interest-bearing.

(e) Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Syndicate is exposed to daily cash calls on its available cash resources, mostly for the settlement of claims arising from insurance contracts. Limits on the minimum level of cash and maturing funds available to meet such calls are set to cover unexpected levels of claims and other cash demands. A sizeable proportion of the Syndicate's investments is in highly liquid assets that can be converted to cash at short notice without any significant capital loss or material expense. These funds are monitored by management daily.

2021	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	> 5 years £000	Total £000
Gross claims outstanding	-	92,185	61,127	11,182	1,899	**166,393**
Reinsurance creditors	-	15,378	-	-	-	**15,378**
Other creditors	-	4,246	-	-	-	**4,246**
Accruals and deferred income	-	482	-	-	-	**482**
Total	**-**	**112,291**	**61,127**	**11,182**	**1,899**	**186,499**

2020	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	> 5 years £000	Total £000
Gross claims outstanding	-	93,750	41,681	8,123	671	**144,225**
Reinsurance creditors	1,471	22,847	-	-	-	**24,318**
Other creditors	-	1,793	-	-	-	**-**
Accruals and deferred income	-	899	-	-	-	**899**
Total	**1,471**	**119,289**	**41,681**	**8,123**	**671**	**171,235**

(f) Climate change risk

The Syndicate's underwriting performance is exposed to the physical risk of climate change from a potential increased frequency or severity of physical hazards because of global temperature increases of 1.5 degrees or more. This impacts the property and marine classes especially. Further, there are elements of the portfolio that may be exposed to transition risk from the resulting economic transition following potential regulator or government intervention, and liability risk from potential increased litigation considering climate change in investment management practices or increases in other liability claims.

(f)(i) Climate change risk profile of investments

The Syndicate monitors the financial risk of climate change on its investment portfolio. The Sustainalytics ESG ratings and carbon intensity are used where available to measure an assets resilience to long-term, industry material ESG risks. The Syndicate's portfolio is in a strong position in terms of both carbon intensity and preparedness for transition risk. Work is ongoing to further develop our insights on the impacts of climate change.

The table below shows the Syndicate portfolio's risk score. Where ratings are available, the Syndicate has good rated assets with an overall risk score of 17.4.

2021	Portfolio market value £000	% of account measured %	Environment risk score	Social risk score	Governance risk score	**Total ESG risk score**
Syndicate 1856	**66,886**	**44.5**	**2.2**	**8.0**	**7.2**	**17.4**

The below table shows that the Syndicate's portfolio has a high proportion of A rated assets, with 98.3% being A rated and above.

Proportion of portfolio by Sustainability ESG risk rating		Syndicate 1856 %
Leader	AAA	5.4
	AA	27.0
	A	65.9
Average	BBB	0.0
	BB	1.7
	B	0.0
Laggard	CCC	0.0
Total		100.0

The Syndicate's portfolio has 81.6% of assets where the rating is available that produce less than 50 tons CO2/$million.

Proportion of portfolio by carbon intensity	Syndicate 1856 %
0-10	30.4
10-50	51.2
50-100	0.0
100-500	14.2
500-1,000	0.0
1,000-10,000	4.2
Total	100.0

(g) Operational risk

Operational risk is the risk of loss from people, processes or systems, or external events with origins outside the scope of other risk categories. IQUW SML actively monitors and controls its operational risks. Examples of key operational risks for the Syndicate include IT performance and stability, cyber security, and the delivery of major projects.

COVID has required IQUW SML's ongoing focus on safeguarding the well-being of its employees, serving its brokers and policyholders, and preserving operational continuity.

(h) Capital Management

The syndicate's objectives, policies, and processes for managing capital are disclosed in the Report of the Managing Agent.

6. Segmental Analysis

An analysis of the technical account balance before investment return is set out below:

2021	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Marine	1,719	963	(554)	(302)	(0)	107
Aviation	622	1,367	(1,659)	(366)	199	(459)
Transport	215	121	(69)	(38)	(0)	14
Energy-Marine	2,653	1,470	(264)	(659)	(317)	230
Energy Non-Marine	943	476	1,555	(773)	(997)	261
Fire and Other damage to Property	51,026	43,003	(34,854)	(13,361)	1,581	(3,631)
Third party liability	51,199	33,560	(21,101)	(11,039)	(368)	1,052
Pecuniary Loss	196	110	(63)	(34)	(0)	13
Total Direct	108,573	81,070	(57,009)	(26,572)	98	(2,413)
Reinsurance	81,418	68,265	(56,360)	(22,464)	2,327	(8,232)
Total	**189,991**	**149,335**	**(113,369)**	**(49,036)**	**2,425**	**(10,645)**

2020	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Marine	-	-	-	-	-	-
Aviation	13,116	10,161	(9,532)	(2,575)	(2,339)	(4,285)
Transport	-	-	-	-	-	-
Energy-Marine	438	1,443	(1,072)	(309)	(331)	(269)
Energy Non-Marine	498	4,402	(3,521)	(999)	(1,093)	(1,211)
Fire and other damage to property	35,346	28,347	(26,391)	(7,168)	(6,576)	(11,788)
Third party liability	18,136	15,607	(14,349)	(3,897)	(3,613)	(6,252)
Pecuniary Loss	-	-	-	-	-	-
Total Direct	67,534	59,960	(54,865)	(14,948)	(13,952)	(23,805)
Reinsurance	11,424	16,257	7,008	(16,572)	(34,834)	(28,141)
Total	78,958	76,217	(47,857)	(31,520)	(48,786)	(51,946)

The reinsurance balance is the aggregate total of reinsurance outwards balances included in the technical account.

The geographical analysis of gross premiums by destination as a proxy for risk location is as follows:

	2021 £000	2020 £000
UK	**1,295**	657
European Union member states	**537**	1,894
United States of America	**73,387**	65,207
Rest of the world	**114,772**	11,200
Gross premium written	**189,991**	78,958

7. Investment Return

All the Syndicate's investments are recognised at fair value through the profit and loss.

Investment income	2021 £000	2020 £000
Income from investments, cash, and other deposits	**467**	846
(Loss)/gain on realisation of investments	**(134)**	123
Total Investment Income	**333**	969
Unrealised gains on investments at fair value through profit or loss	**(257)**	49
Investment management expenses, including interest	**(21)**	(34)
Net investment income	**55**	984

The tables below present the average amounts of funds in the year per currency and the average investment return yields in the year.

Average amount of Syndicate funds available for investment during the year:	2021 £000	2020 £000
Sterling	**5,344**	7,997
Euro	**2,440**	4,462
US Dollar	**47,202**	44,297
Canadian Dollar	**9,785**	4,578
Australian Dollar	**2,590**	2,432
Japanese Yen	**3,452**	3,231
Total Syndicate funds available for investment	**70,813**	66,997

Annual investment yield	2021 %	2020 %
Sterling	**1.79**	1.37
Euro	**(0.97)**	(0.76)
US Dollar	**(0.04)**	1.92
Canadian Dollar	**0.07**	0.73
Australian Dollar	**(0.24)**	1.06
Japanese Yen	**(0.53)**	-
Total annual investment yield percentage	**0.08**	1.47

Syndicate funds include investments and cash.

Syndicate funds are held in trust fund and short-term deposit accounts. On 31 December 2021 these were £86.7 million (2020: £51.9 million).

8. Net Operating Expenses

	2021 £000	2020 £000
Brokerage, commissions & other acquisition costs	**46,794**	26,898
Change in deferred acquisition costs	**(10,076)**	(1,768)
Administrative expenses	**10,192**	2,965
Members' standard personal expenses	**2,126**	3,425
Total	**49,036**	31,520

Brokerage and commission on direct business written was £26.8 million (2020: £14.1 million).

No profit commission is charged by IQUW SML as the managing agent. However, profit commission was charged by Arch Managing Agency Limited of £0.3 million (2020: £nil million)

The gain on the translation of monetary assets and liabilities at the reporting date of 31 December 2021 was £1.8 million (2020: £1.08 million). Included in administrative expenses are staff costs of £15.2 million (2020: £3.5 million), which is analysed in note 10.

Administrative expenses include fees payable to the auditors and its associates (note 9).

9. Auditors' Remuneration

During the year the syndicate, obtained the following services	2021 £000	2020 £000
Fees payable to the auditors and its associates for the audit of the syndicate annual accounts and Lloyd's returns	**310**	101
Fees payable to the auditors and its associates for other services pursuant to legislation	**85**	48
Total	**395**	149

The above represents the Syndicate's share of the total audit fee. Fees payable to the auditors and its associates are included in administrative expenses (note 8).

10. Staff Costs

The Syndicate and the managing agent have no employees. Staff are employed by IQUW ASL.

The Syndicate did not directly incur staff costs during the year (2020: nil). The following salary and related costs were recharged to the syndicate during the year:

	2021 £000	2020 £000
Wages and salaries	**14,101**	3,061
Social security costs	**903**	291
Other pension costs	**210**	147
Total	**15,214**	3,499

The average number of staff employed by IQUW ASL and recharged to the Syndicate during the year was as follows:

	2021 FTE	2020 FTE
Administration and finance	**53**	10
Underwriting	**33**	8
Total	**86**	18

The Directors of IQUW SML received the following aggregate remuneration recharged to the Syndicate and included in net operating expenses:

	2021 £000	2020 £000
Directors' emoluments	**164**	-
Pension contributions	**3**	-
Total	**167**	-

The active underwriter received the following remuneration charged as Syndicate expense:

	2021 £000	2020 £000
Underwriter's emoluments	**262**	-
Total	**262**	-

Key management includes directors and senior management. The following emoluments were charged to the Syndicate:

	2021 £000	2020 £000
Salaries and other short-term benefits	**871**	-
Pension contributions	**24**	-
Total	**895**	-

11. Financial Investments

	Fair Value 2021 £000	Fair Value 2020 £000	Cost 2021 £000	Cost 2020 £000
Debt securities and other fixed income securities	**20,739**	16,395	**20,739**	16,395
Shares and other variable yield securities	**46,182**	29,835	**47,396**	27,615
Total	**66,921**	46,230	**68,135**	44,010

All financial investments in the current and prior financial year were carried at fair value through profit or loss. No financial assets in the current or prior financial year were classified as 'held for trading' under FRS 102.

Fair value hierarchy

The Syndicate has classified its financial investments using the fair value hierarchy in accordance with the FRS 102 amendments to "Fair value hierarchy disclosures" issued by the Financial Reporting Council on 8 March 2016.

The fair value hierarchy classifies financial instruments into Levels 1 through 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The classifications within the fair value hierarchy are defined as follows:

- Level 1 – Quoted price for an identical asset in an active market. This includes securities and financial investments that are priced based on unadjusted quoted prices in an active market for identical assets that can be accessed at the measurement date.
- Level 2 – Price of a recent transaction for an identical asset and valuation technique using observable market data. This includes securities and financial investments that are priced using valuation techniques based on direct or indirect observable market data, including market prices from recognised exchanges, broker-dealers, recognised indices, or pricing vendors.
- Level 3 – Valuation technique using unobservable market data. This includes securities and financial investments which are priced using valuation techniques incorporating unobservable market data.

2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	**19,173**	**-**	**1,566**	**20,739**
Debt securities and other fixed income securities	**15,089**	**31,093**	**-**	**46,182**
Overseas deposits	**1,198**	**4,130**	**-**	**5,328**
Total	**35,460**	**35,223**	**1,566**	**72,249**

2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	14,829	-	1,566	16,395
Debt securities and other fixed income securities	8,652	21,183	-	29,835
Overseas deposits	-	2,512	-	2,512
Total	23,481	23,695	1,566	48,742

Level 3 investments include loans made to the Lloyd's Central Fund which have been valued at cost because the assessed fair value is not materially different. The table below sets out a reconciliation of the opening and closing balances for financial instruments classified under level 3 of the fair value hierarchy:

	2021 £000	2020 £000
Balance at 1 January	**1,566**	345
Purchases	**-**	1,221
Balance at 31 December	**1,566**	1,566
Unrealised gains and (losses) in the year on securities held at the end of the year	**-**	-

The Syndicate measures the fair value of its financial assets based on prices provided by custodians who obtain market data from numerous independent pricing services. The pricing services used by the custodians obtain actual transaction prices for securities that have quoted prices in active markets.

For those securities which are not actively traded, the pricing service uses common market valuation pricing models. Observable inputs used in common market valuation pricing models including, but are not limited to, broker quotes, credit ratings, interest rates, and yield curves, prepayment speeds, default rates, and other such inputs which are available from market sources.

Cash and cash equivalents in the annual accounts comprise cash at banks and in hand and shares and other variable yield securities 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, net of outstanding bank overdrafts.

12. Foreign exchange gain

	2021 £000	2020 £000
Non-technical account foreign exchange gain	**1,841**	1,083
Foreign exchange translation differences	**(977)**	-
Total	**864**	1,083

13. Technical Provisions – Unearned Premium

2021	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2021	**45,502**	**(11,685)**	**33,817**
Premium written in the year	**189,991**	**(23,862)**	**166,129**
Premium earned in the year	**(149,335)**	**25,859**	**(123,476)**
Effect of movements in exchange rates	**2,991**	**(128)**	**2,863**
At 31 December 2021	**89,149**	**(9,816)**	**79,333**

2020	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2020	46,268	(15,778)	30,490
Premium written in the year	78,958	(38,332)	40,626
Premium earned in the year	(76,217)	42,102	(34,115)
Effect of movements in exchange rates	(3,507)	323	(3,184)
At 31 December 2020	45,502	(11,685)	33,817

14. Technical Provisions - Claims Outstanding

2021	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2021	**144,225**	**(44,201)**	**100,024**
Claims incurred in the year	**113,369**	**(28,284)**	**85,085**
Claims paid during the year	**(89,794)**	**9,509**	**(80,285)**
Unexpired risk provision	**-**	**-**	**-**
Foreign exchange	**(1,407)**	**(861)**	**(2,268)**
At 31 December 2021	**166,393**	**(63,837)**	**102,556**

2020	Gross £000	Reinsurer's share £000	Net £000
At 1 January 2020	184,673	(75,293)	109,380
Claims incurred in the year	47,856	6,684	54,540
Claims paid during the year	(86,655)	24,054	(62,601)
Unexpired risk provision	(2,000)	-	(2,000)
Foreign exchange	351	354	705
At 31 December 2020	144,225	(44,201)	100,024

An unexpired risk reserve was not required at 31 December 2021. At 31 December 2020 an unexpired risk reserve was included for property insurance and space classes of business amounting to £2.0 million because the unearned premium available were deemed to be insufficient to cover the estimated future losses from these classes.

15. Deferred Acquisition Costs

	2021 £000	2020 £000
At 1 January 2021	**11,037**	9,098
Change in deferred acquisition costs	**10,076**	1,768
Foreign exchange	**423**	171
At 31 December 2021	**21,536**	11,037

16. Debtors arising out of direct insurance operations

	2021 £000	2020 £000
Amounts due from intermediaries		
Due within one year	**37,019**	20,840
Due after one year	**-**	-
Total	**37,019**	20,840

17. Debtors arising out of reinsurance operations

	2021 £000	2020 £000
Amounts due from Syndicate 1955 quota share reinsurance policy	-	2,134
Amounts due from intermediaries	**32,408**	21,091
Total	**32,408**	23,225

18. Other debtors

	2021 £000	2020 £000
VAT Control Account	-	21
Refund due from Lloyd's	-	82
Amounts due from Arcus 1856 Limited (due within one year)	**30**	177
Total	**30**	280

Amounts due from Arcus 1856 Limited were received in January 2022.

19. Creditors arising out of reinsurance operations

	2021 £000	2020 £000
Amounts due from intermediaries:		
Due within one year	**15,378**	24,318
Total	**15,378**	24,318

20. Other Creditors

	2021 £000	2020 £000
Amounts due to IQUW group companies (due within one year)	**4,095**	-
Amounts due to Arch group companies (due within one year)	**151**	1,793
Total	**4,246**	1,793

21. Accruals and Deferred Income

	2021 £000	2020 £000
Accrued expenses	**482**	899
Total	**482**	899

22. Other net cashflow from investing activities

Other net cashflow from investing activities of £5.6 million comprises of overseas deposits and deposits with ceded undertakings.

23. Related Parties

IQUW Corporate Member Limited ("IQUW CML")

IQUW CML is a wholly owned subsidiary of IQUW IGL through which IQUW Bermuda Holdings Limited ("IQUW Group") conducts its underwriting business at Lloyd's. IQUW CML provides dedicated corporate capacity for the Syndicate as follows:

Year of account	Stamp participation £000
2022	£400,286
2021	£187,980

IQUW CML's share of the syndicate profit for the year is £6.3 million.

IQUW Syndicate Services Limited ("IQUW SSL")

IQUW SSL is a wholly owned subsidiary of IQUW SML and acts as a service company for the Syndicate.

IQUW SSL became an appointed representative of the managing agent IQUW SML on 14 January 2005 and is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and PRA. The managing agent IQUW SML does not receive any direct income from IQUW SSL. No director of the managing agent IQUW SML has received any benefit for acting as a director of IQUW SSL.

IQUW SSL recharged the following expenses to the Syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) £000
2021 calendar year	**(3,761)**	**11,964**

Arch Managing Agency Limited ("AMAL")

Following Lloyd's approval, the managing agent responsibility for the Syndicate was novated effective 1 September 2021 from AMAL to IQUW SML.

AMAL recharged the following expenses to the Syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) £000
2021 calendar year	**(151)**	**3,356**
2020 calendar year	**(1,793)**	**5,917**

Arcus 1856 Limited

Following Lloyd's approval and the subsequent Syndicate novation effective 1 September 2021 Arcus 1856 Limited ceased providing services to the Syndicate.

Arcus 1856 Limited recharged the following expenses to the Syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) £000
2021 calendar year	**30**	**3,706**
2020 calendar year	**2,312**	**2,231**

Humboldt Re Limited and Kelvin Re Limited

The Syndicate purchased several outwards quota share reinsurance contracts with Humboldt Re Limited and Kelvin Re Limited across the 2016 to 2020 underwriting years. These are related counterparties because Humboldt Re Limited is part of the same corporate group as Humboldt Corporate Member Limited that is a member, and Kelvin Re Limited is a material provider of capital to a Credit Suisse Insurance Linked Strategies Ltd managed fund that is a member.

There is a total net amount (due from) of £6 million as per note 4(iii) which is expected to be recovered in full.

24. Syndicate Structure

The managing agent of the Syndicate is IQUW Syndicate Management Limited whose immediate parent undertaking is IQUW Insurance Group Limited ("IQUW IGL"), a company registered in England and Wales.

The ultimate parent undertaking of the largest and smallest group of companies for which Group accounts are drawn up is IQUW Bermuda Holdings Limited. Copies of financial statements can be obtained from the Company Secretary at 21 Lombard Street, London, EC3V 9AH.

25. Derivatives

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

26. Post Reporting Date Events

The Syndicate provides insurance cover to clients in respect of claims arising out of war events and consequently has insurance exposures relating to the events in the Ukraine and its impacts in the region. This includes property, cargo and aviation interests. In certain instances, notice of cancellation can be provided with reinstatement of cover available excluding the war exposed territory. Reinsurance cover is purchased to respond to such events and recoveries against the event aggregate for this purpose, within time limits as set out in the reinsurance contract.

At this stage, no claims have been received and any likely claims are being continually evaluated. The Syndicate has purchased reinsurance to cover the aggregation of claims. The net reinsurance retention of the relevant programme is US Dollar 5 million, plus reinstatement premium on the reinsurance cover that responds to any recoveries. The event definition within our reinsurance programme is time bound and therefore, depending on the timing of future unfolding circumstances, the Syndicate may bear multiple retentions.

The Syndicate also commenced writing a specialty reinsurance account in 2021. There are exposures to the Ukrainian war, and connected events, in this account through the reinsurance of clients war and related writings. Exposures are more limited for this part of the business and any net impact to the Syndicate will benefit from retrocessional reinsurance purchased: on marine composite reinsurance claims this would lead to a retention of US Dollar 5 million (plus reinstatements premium) and for aviation reinsurance claims a retention of US Dollar 2.5 million (plus reinstatement premium).