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Talbot Underwriting Ltd Syndicate 2019

Annual Report and Accounts

31 December 2021

Annual Report and Accounts 2021

Contents

Chief Executive Officer’s report

Syndicate 2019 completed its second year of reinsuring AIG’s Private Client Group (PCG) and the underwriting of a single treaty quota share contract of AIG’s High-Net-Worth personal lines portfolio. Results for the first two full years of operation are disappointing with both 2020 and 2021 financial years results being heavily impacted by US catastrophes. Talbot, as Syndicate 2019’s Managing Agent, and PCG together remain focused on remediation efforts.

Result for the year

Premiums for the year increased to $773.4m (2020: $724.7m) reflecting the higher cession from PCG.

The net claims ratio reduced to 77.7% (2020: 81.8%) despite a second year of catastrophe losses being above expectations; 2021 was impacted by U.S. Winter Storm Uri and Hurricane Ida, which together contributed 17.3% to the net claims ratio.

The investment loss of 0.4% (2020: return of 0.7%) reflects the impact of unrealised losses due to US credit spread widening.

The overall result for the year was a loss of $101.3m (2020: loss of $67.1m).

Future developments

The syndicate capacity for the 2022 year of account is £498.2m (2021: £500.4m). The cession for the PCG 2022 treaty quota share reinsurance contract is 57.8% (2021: 57.8%; 2020: 49.1%).

Talbot and PCG remain focused on improving the performance of the underlying portfolio to generate sustainable returns. PCG announced a major acceleration of the California (CA) remediation efforts in December 2021 with the intent to withdraw from the CA admitted market. Further underwriting actions in non-strategic US Gulf States are expected to improve the loss experience of the portfolio.

I would once again like to thank all my colleagues at Talbot for their hard work, commitment and resilience during the year.

Chris Rash

Chief Executive Officer, Talbot Underwriting Ltd

3 March 2022

Report of the directors of the Managing Agent

The directors of the Managing Agent, Talbot Underwriting Ltd ("Talbot" or "the Company"), present their annual report and audited accounts for the year ended 31 December 2021. The annual report is 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.

The comments below refer to both information prepared on an annual accounting basis and information derived from a Lloyd's year of account basis. The latter is included where it is used by management to manage the business.

Principal activity

The principal activity of the syndicate continues to be the underwriting of a proportional quota share reinsurance contract covering high net worth (HNW) personal lines insurance business underwritten by American International Group Inc (AIG) companies, as part of its Private Clients Group (PCG): the PCG HNW portfolio. The quota share contract provides coverage for PCG HNW policies incepting from 1 January each year.

Talbot has been a member company of AIG since 2018, with offices located in London, Singapore and New York.

Overview

The syndicate result for the year was a loss of $101.3m (2020: loss of $67.1m). Gross premiums written during the year were $773.4m (2020: $724.7m).

Results for the financial year

	2021 $m	2020 $m
Gross premiums written	773.4	724.7
Net premiums written	773.4	724.7
Net earned premiums	728.0	370.1
Net claims incurred	(565.9)	(302.7)
Net acquisition costs	(244.6)	(124.3)
Underwriting result before administrative expenses	(82.5)	(56.9)
Administrative expenses	(16.6)	(10.4)
Investment return	(2.0)	0.6
Foreign exchange losses	(0.2)	(0.4)
Loss for the financial year	(101.3)	(67.1)

Syndicate 2019 purchases no reinsurance and, as such, gross premiums and claims equal net premiums and claims, respectively.

Key performance indicators

	2021	2020
Net claims ratio (%)	77.7%	81.8%
Net acquisition expense ratio (%)	33.6%	33.6%
Administrative expense ratio (%)	2.3%	2.8%
Combined ratio (%)	113.6%	118.2%

The net claims ratio is the ratio of net claims incurred to net earned premiums.

The net acquisition expense ratio is the ratio of net acquisition costs to net earned premiums.

The administrative expense ratio is the ratio of administrative expenses to net earned premiums.

Key performance indicators (continued)

The net expense ratio is a measure of the level of expenses (both net acquisition costs and administrative expenses) associated with underwriting activity. It is the ratio of net operating expenses to net earned premiums.

The combined ratio is a measure of the profitability of an insurer's underwriting activity. It is the ratio of net operating expenses plus net claims incurred to net earned premiums.

Review of the business

Underwriting

The syndicate underwrites a 57.8% quota share of PCG's High Net Worth portfolio for the 2021 year of account (2020 year of account: 49.1%). The portfolio is protected by a reinsurance programme comprising excess of loss, quota share and facultative covers, which is applied before premium is ceded to the syndicate. The syndicate did not purchase any reinsurance in 2021 (which is consistent with 2020).

Premiums written by class of business for the calendar year were as follows:-

	2021	2020
	$m	$m
Homeowners	483.9	467.3
Auto	131.6	113.1
Collections Fine Art	15.0	29.1
Collection General Specie	71.1	59.4
Yacht	15.2	9.2
Excess Liability	54.4	44.8
Workers Comp	2.2	1.8
Total gross premiums written	773.4	724.7

Net claims ratio

The net claims ratio for the year was 77.7% compared to 81.8% in 2020. Net claims incurred as a percentage of net earned premiums were as follows:

	2021	2020
Current year notified claims - catastrophe (%)	22.7%	36.7%
Current year claims - attritional (%)	51.5%	45.1%
Change in prior years' net claims (%)	3.5%	-
Net claims ratio	77.7%	81.8%

The net catastrophe claims ratio has been materially impacted by losses in the US during the year, including the US Winter Storm Uri and Hurricane Ida, which have contributed 8.3% and 9.0% to the net claims ratio, respectively.

Net operating expenses

Net operating expenses for the year are set out below:

	2021 $m	2020 $m
Net acquisition costs	244.6	124.3
Administrative expenses	16.6	10.4
Net operating expenses	261.2	134.7

As % of net earned premiums		
Net acquisition expense ratio (%)	33.6%	33.6%
Administrative expense ratio (%)	2.3%	2.8%
Net expense ratio (%)	35.9%	36.4%

Net acquisition costs are in accordance with the Quota Share contract at 33.6% (2020: 33.6%). Administrative expenses consist primarily of Lloyd's costs and managing agent fees.

Investment return

The return on syndicate funds by currency is shown below:

	$m
2021	
Average syndicate funds available for investment	541.5
Investment loss for the year	(2.0)
Calendar year investment return (%)	-0.4%

	$m
2020	
Average syndicate funds available for investment	90.9
Investment return for the year	0.6
Calendar year investment return (%)	0.7%

Syndicate funds are actively managed by AIG Asset Management (Europe) Limited and the returns compared to benchmarks agreed as part of the investment guidelines. Average funds available for investment increased with the introduction of the second year of account of the syndicate. Investment losses in 2021 of $2.0m compare to investment gains of $0.6m in 2020. The investment loss for the 2021 financial year comprises unrealised and realised losses of $5.7m and $1.0m respectively, offset by coupon receipts of $4.7m.

Financial position

The main components of the balance sheet are technical provisions and financial investments. Each is discussed below.

Financial investments

Financial investments consist primarily of debt securities issued by governments, government agencies, or high grade corporate entities. Investment guidelines do not allow the holding of equities. All investments are traded within liquid markets. The fair value of investments carried in the balance sheet is determined by market prices or by industry standard valuation models. At 31 December 2021, the fair value of investments was $696.4m (2020: $357.1m) and the portfolio composition is shown in note 9 to the accounts.

Cash flow

There was an increase of $10.8m (2020: $83.3m) in cash and cash equivalents during the year. Before investment activities, cash and cash equivalents increased by $341.8m due to net cash inflows from operating activities of $187.8m and intra Group loans of $154.0m.

The liquidity requirements of the syndicate will continue to be monitored. The syndicate has an intra Group loan facility in place until April 2025 with a limit to cover funding requirements. The facility limit was $200m at 31 December 2021 and this was increased to $300m in February 2022.

Technical provisions

Technical provisions include a provision for outstanding claims of $515.1m (2020: $278.4m) and a provision for unearned premiums of $400.0m (2020: $354.7m).

Future developments

The syndicate has renewed the quota share of PCG's High Net Worth portfolio for the 2022 year of account. The syndicate capacity for the 2022 year of account is £498.2m (2021: £500.4m).

The underwriting quality and performance improvement of the portfolio are key focus areas. The California (CA) optimisation program announced mid-2021 continues to be a core focus of the underwriting remediation effort.

PCG announced a major acceleration of the CA remediation efforts in December 2021 with the intent to withdraw from the CA admitted market. PCG will continue to offer non-admitted coverage to certain impacted clients, where form and pricing allow underwriters to respond to market conditions. Further underwriting actions in non-strategic US Gulf States, are expected to improve the loss experience.

On AIG's February 2022 earnings call, AIG announced it is taking meaningful steps to address increased catastrophe frequency and severity, risk aggregation, increased reinsurance cost and supply chain issues. This will lead to further underwriting actions that will be announced in the coming quarters.

The directors have a reasonable expectation that the syndicate will continue as a going concern.

Principal Risks and Uncertainties

The principal risks to the business of the syndicate are insurance, credit, liquidity, market and operational risks. A description of these principal risks and uncertainties is set out in note 5 to the financial statements (risk management). The additional emerging risks and uncertainties associated with environmental responsibilities and climate risks are covered in the next section.

Environmental Responsibilities and Climate Risks

Talbot acknowledges its environmental responsibilities and the impact that climate change has on the business and the syndicate and remains committed to playing a role in addressing these challenges.

Leadership by the Talbot Board (the Board) and Executive Committee towards climate change is central to Talbot's approach. The Executive Committee has established a Climate Change Working Group to oversee the development and execution of Talbot's climate strategy. This Group includes the Senior Management Function and cross functional representatives.

Talbot and PCG continue to assess and understand its impact as a company and as a business on the climate. Talbot internally monitors its carbon footprint and emissions, with the use of third party experts to help assess this. Talbot will also continue to consider the risks, industries and businesses it reinsures as well as the nature of the investments it holds. Talbot is committed to continuously improving and evolving its approach to climate risk as well as the disclosures and metrics presented in this area in the future.

Environmental Responsibilities and Climate Risks (continued)

The climate change risks to Talbot have been split into two categories:

Short to medium term risks

Climate risks in the short to medium term primarily include physical risks which can be event-driven or result from shifts in climate patterns, such as natural catastrophe risk, operational risk, and business continuity risk. These may challenge the ability to effectively underwrite, model and price catastrophe risk, particularly if there is an increase relative to the long term mean in frequency and severity of catastrophe events, such as hurricanes, tornadoes, earthquakes, floods, wildfires, windstorms and other natural disasters.

Talbot also recognises that there are physical risks at an operational level and assesses the risks and opportunities associated with the physical impacts of climate change, including individual facilities and office locations.

Medium and long term risks

Climate risks include regulatory risk, investment and credit risk, litigation and legal risk, reputational risk, and technology risk. Whilst Talbot recognises that the transition to a low-carbon economy is gradual and relatively slow process, Talbot will monitor and work closely with our stakeholders to keep abreast of changes in this area. Talbot holds investments for future periods and, as efforts to move away from a carbon-intensive economy gather pace, Talbot recognises the possibility that financial market participants may fundamentally reassess the value of carbon-intensive assets and the businesses that rely on them. In line with commitments made by the Corporation of Lloyd's, Talbot has committed to not invest new money into thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities from 1 January 2022 although existing investments in these areas will continue to be held to maturity. In recent years the industry has seen an overall increase in various climate-related litigation claims brought forward for a multitude of reasons. Talbot will continue monitoring litigation trends to assess the potential impact of any developments and overall risk mitigation strategies.

Technological advancements that support the transition to a lower-carbon, energy-efficient economic system may have a significant impact on a wide range of companies. The economic transition may also materially affect the demand for insurance in specific sectors, most obviously in energy and transport. Although this may not necessarily reduce the overall demand for insurance products and services, it may alter the patterns of demand and the nature of insurance cover required, to which Talbot will need to respond in order to remain competitive.

Environmental Strategies

1. Climate Risk Plan

Talbot has developed a Climate Risk Plan to support management in their duties to integrate and embed Climate Risk Management into the business. Examples of the key activities undertaken thus far are:

- A Climate Change Risk Framework has been completed to ensure there is a framework in place to identify and manage climate risks and opportunities;
- A risk assessment has been completed across all classes of business to understand the extent to which physical, liability and transitional risks impact the syndicate;
- Talbot has performed stress test scenarios on Climate Change aligned with the Prudential Regulation Authority's approach;
- Investment portfolio analysis has been undertaken with a view to assess the exposure to fossil fuel production, power generation and renewable energy generations.

2. Carbon Footprint Reporting

Talbot is committed to reducing its global carbon footprint and is actively tracking and reporting internally on carbon emissions.

Report of the directors of the Managing Agent (continued)

Directors

The directors of the Managing Agent during the period from 1 January 2021 to the date of this report are as follows:

DJ Batchelor	(Non-executive, appointed as Chair 7 January 2021)
RE Bean	(Chief Underwriting Officer, appointed 14 May 2021)
TA Bolt	(Non-executive, shareholder representative)
MEA Carpenter	(Non-executive)
KA Coates	(Non-executive, appointed 12 November 2021)
JL Hancock	(Non-executive, shareholder representative)
BJ Hurst-Bannister	(Non-executive, resigned as Acting Chair 7 January 2021)
CJR Rash	(Chief Executive, appointed 8 February 2021)
JG Ross	(Chief Risk Officer)
M Scales	(Non-executive)

Former directors who served during the period from 1 January 2021 to the date of this report were as follows:

CE Barton	(Chief Financial Officer, resigned 31 August 2021)
NMA Burch	(Non-executive, resigned 12 November 2021)
DE Morris	(Acting Chief Executive, resigned 8 February 2021)

Active Underwriter

A Howse	(Appointed 12 July 2021)
I Peterson	(Resigned 11 July 2021)

Company Secretary

M-C Gallagher

Statutory Information

Disclosure of information to auditors

The directors of the Managing Agent who held office at the date of approval of this report confirm that, so far as they are each 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 to make themself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

The current syndicate auditors, PricewaterhouseCoopers LLP, will be reappointed.

Annual General Meeting

Subject to the consent of Lloyd's, it is not intended to hold a syndicate Annual General Meeting in 2022.

Statement of Managing Agent’s responsibilities

The directors of the Managing Agent are required by the Insurance Accounts Directive (Lloyd’s syndicate and Aggregate Accounts) Regulations 2008 to prepare syndicate annual accounts at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that year. The directors have elected to prepare the syndicate annual accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Account Practice), including Financial Reporting Standard 102 “The Financial Reporting Standard Applicable in the UK and Republic of Ireland” (“FRS 102”).

The directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these accounts, the directors are 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, including FRS 102, have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- Prepare the syndicate annual accounts on the basis that the syndicate will continue to write business unless it is inappropriate to presume that the syndicate will do so.

The directors of the Managing Agent confirm that they have complied with the above requirements in preparing the syndicate annual accounts.

The directors of the Managing Agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that its accounts comply with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. They are also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on behalf of the Board

Chris Rash
Chief Executive Officer
3 March 2022

Independent auditors’ report to the members of Syndicate 2019

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, syndicate 2019’s 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 Report and Accounts (the “Annual Report”), which comprise: the balance sheet as at 31 December 2021; the profit and loss account, the statement of cash flows and the statement of changes in members’ balance 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 7, 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, 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 directors 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 directors 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 directors 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 Statement of Managing Agent’s responsibilities, 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 the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to estimated premium income and incurred but not reported provisions included in claims outstanding. Audit procedures performed by the engagement team included:

- Discussion with the Board, management, the compliance function and internal audit of the Managing Agent, including confirming there are no known or suspected frauds or non-compliance with laws and regulations;
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of management's investigation of such matters;
- Reviewing relevant meeting minutes, including those of the Board, Risk & Compliance Committee and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including the Council of Lloyd's, the Prudential Regulatory Authority, and the Financial Conduct Authority;
- Testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of premium income and incurred but not reported provisions included in claims outstanding, including independently obtaining underlying support for estimates arising from related party transactions;
- Identification and testing of journal entries identified as potential indicators of fraud, particularly those which are posted by unexpected users, those with unusual account combinations, duplicate journals and reversals, or journals posted by employees who have left the entity; and
- Designing audit procedures to incorporate unpredictability around the nature, timing and extent of testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the 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.

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

Profit and loss account

For the year ended 31 December 2021

	Note	2021 $m	2020 $m
Gross premiums written	6	773.4	724.7
Outwards reinsurance premiums		-	-
Net premiums written		773.4	724.7
Change in gross provision for unearned premiums		(45.4)	(354.6)
Reinsurers' share of change in the provision for unearned premium		-	-
Change in the net provision for unearned premiums		(45.4)	(354.6)
Earned premiums, net of reinsurance		728.0	370.1
Allocated investment return transferred from the non-technical account		(2.0)	0.6
Gross claims paid		(329.2)	(24.2)
Reinsurers' share of claims paid		-	-
Claims paid net of reinsurance		(329.2)	(24.2)
Change in the gross provision for claims		(236.7)	(278.5)
Change in the provision for claims, reinsurers' share		-	-
Change in the net provision for claims		(236.7)	(278.5)
Claims incurred, net of reinsurance		(565.9)	(302.7)
Net operating expenses	7	(261.2)	(134.7)
Balance on the technical account		(101.1)	(66.7)
Investment income		3.7	0.5
Unrealised gains and (losses) on investments		(5.7)	0.1
		(2.0)	0.6
Allocated investment return transferred to/from the technical account		2.0	(0.6)
Loss on exchange		(0.2)	(0.4)
Loss for the financial year	12	(101.3)	(67.1)

There was no other comprehensive income or expense in the year.

Balance sheet

As at 31 December 2021

	Note	2021 $m	2020 $m
Assets			
Investments	9	696.4	357.1
		696.4	357.1
Debtors			
Debtors arising out of reinsurance operations	10	62.7	94.1
Other debtors	11	2.7	0.7
		65.4	94.8
Other assets			
Cash at bank and in hand		12.1	12.5
Deferred acquisition costs		134.5	119.2
		146.6	131.7
Total assets		908.4	583.6
Liabilities			
Capital and reserves			
Members' balance	12	(168.4)	(67.1)
Technical provisions			
Provision for unearned premiums	13	400.0	354.7
Claims outstanding	13	515.1	278.4
		915.1	633.1
Creditors			
Other creditors including taxation and social security	14	160.7	16.6
		160.7	16.6
Other Liabilities			
Accrued expenses		1.0	1.0
		1.0	1.0
Total Liabilities		908.4	583.6

The notes on pages 17 to 31 are an integral part of these financial statements.

The financial statements on pages 13 to 31 were approved by the board of directors on 3 March 2022 and signed on its behalf by:

Chris Rash
Chief Executive Officer
3 March 2022

Statement of changes in members' balance

For the year ended 31 December 2021

	Note	2021 $m	2020 $m
Balance at 1 January		(67.1)	-
Loss for the financial year	12	(101.3)	(67.1)
Balance at 31 December		(168.4)	(67.1)

The members participate on the syndicate by reference to underwriting year of account. Analysis of the members' balance by underwriting year of account is shown in note 12 to these accounts.

Statement of cash flows
For the year ended 31 December 2021

	2021	2020
	$m	$m
Loss for the financial year	(101.3)	(67.1)
Increase in gross technical provisions	282.1	633.0
Decrease/(Increase) in debtors	31.3	(94.1)
(Decrease)/Increase in creditors	(9.9)	15.8
Movement in other assets/liabilities	(16.4)	(118.2)
Investment return	2.0	(0.6)
Foreign exchange	-	0.9
Net cash flows from operating activities	187.8	369.7
Cash flows from investing activities		
Purchase of debt instruments	(947.0)	(281.4)
Sale of debt instruments	616.0	0.6
Investment income received	3.7	0.3
Other	(3.7)	(5.9)
Net cash flow from investing activities	(331.0)	(286.4)
Cash flows from financing activities		
Draw down on intra Group loan facility	154.0	-
Net cash flows from financing activities	154.0	-
Net increase in cash and cash equivalents	**10.8**	**83.3**
Cash and cash equivalents at beginning of year	83.3	-
Cash and cash equivalents at end of year	**94.1**	**83.3**
Cash at bank and in hand	12.1	12.5
Short term investments - cash equivalents	82.0	70.8
Cash and cash equivalents at end of year	**94.1**	**83.3**

Notes to the financial statements

1 Statement of compliance

The accounts of syndicate 2019 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland” (“FRS 102”), Insurance Contracts standard (“FRS 103”) and Regulation 5 of the Insurance Accounts Directive (Lloyd’s syndicate and Aggregate Accounts) Regulations 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below.

3 Accounting policies

Basis of preparation

Having assessed the principal risks to the syndicate, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these accounts. The PCG quota share reinsurance quota share contract has been renewed for 2022. Also, the directors have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future.

These accounts are prepared under the historical cost convention, as modified by certain financial assets measured at fair value through profit and loss.

The preparation of accounts in conformity with FRS 102 and 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the syndicate’s accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are used are shown in note 4 below.

The results of the syndicate are determined on an annual basis, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(a) Insurance contracts – classification

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder is classified as an insurance policy.

(b) Gross premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. The 2020 and 2021 financial years comprise a single quota share contract incepting on 1 January. Premiums are shown gross of acquisition costs. Premiums include estimated amounts of premium due but not yet received or notified – refer to note 4 for more details on premium estimates.

(c) Outwards reinsurance premiums

Outwards reinsurance premiums written comprise premiums for contracts incepted during the financial year as well as adjustments made in the year to outwards reinsurance premiums written in prior accounting periods. There was no outwards reinsurance for the 2020 and 2021 financial years.

(d) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The provision for unearned premiums is calculated on a pro rata basis. The syndicate underwrites risks attaching during (RAD) contracts for which premiums are earned in line with the gross premiums to which the risk attaching contract relates.

3 Accounting policies (continued)

(e) Claims incurred

Claims incurred comprise: (i) claims and related expenses paid in the year; (ii) changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR); (iii) related claims expenses; and (iv) any other adjustments to claims from previous years.

(f) Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of unpaid claims incurred.

In calculating the claims provisions, the syndicate uses generally accepted estimation techniques applied to underwriting year of account data, usually based upon analyses of historical experience, which assume that the development pattern of future claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to alter when compared with the cost of those previously settled. Catastrophe and Large claims that impact specific classes of business are assessed and measured on a case by case basis or projected separately.

The syndicate writes a mix of predominantly short tail business, wherein most of the claims are settled within relatively few years following the writing of the policy. A proportion of the syndicate's short tail business is, however, low frequency and high severity in nature, which makes the data more volatile.

For longer tail business, where there are liability exposures, the time from the occurrence of a claim to it being reported and the subsequent time before settlement of the claim can be many years. In this time additional facts regarding individual claims and trends often will become known and legislation and case law may change, affecting the ultimate value of the claim.

Provisions are calculated net of any reinsurance recoveries. There was no outwards reinsurance for the 2020 and 2021 financial years.

Net ultimate claims provision are split between earned and unearned components, based upon earned exposure at the balance sheet date.

The factors above bring considerable uncertainty to the process of estimating earned ultimate losses and earned claims provisions.

The directors consider that the claims provisions are fairly stated on the basis of the information currently available to them. However, the ultimate liability may vary as a result of subsequent information and this may result in significant adjustments in future years to the amounts provided.

(g) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period 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 syndicate reinsures a single annual reinsurance contract and all business is reinsured together under one contract. There are no unexpired risk provisions to be reported in the current or prior year.

(h) Acquisition costs

Acquisition costs, calculated as a percentage of premium, comprising ceding commission, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Notes to the financial statements (continued)

3 Accounting policies (continued)

(i) Foreign currency

The functional and presentational currency of the syndicate is the US dollar. Transactions in other currencies are translated into US dollars at the average rates of exchange for the period or at the contracted forward rates of exchange. Assets and liabilities denominated in other currencies are translated into US dollars at the closing rates of exchange for the period.

Foreign exchange gains and losses resulting from the translation of transactions or the translation of assets and liabilities are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cashflow hedges.

The principal rates of exchange used in preparing these financial statements were as follows:

	2021		2020	
	Average	Closing	Average	Closing
Sterling	0.73	0.74	0.78	0.73

(j) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

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

(k) Financial assets and liabilities

Financial assets

Basic financial assets including insurance debtors, other debtors and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at the market rate of interest. Such assets are subsequently carried at amortised cost less any provision for impairments.

Investments are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit and loss, except that investments whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are settled, or substantially all the risks and rewards of the ownership of the asset are transferred to another party, or control of the asset has been transferred to another party who has the practical ability to sell the asset to an unrelated party.

Cash and cash equivalents comprise cash at bank and short-term highly liquid investments readily realisable as cash without significant financial penalty.

Financial liabilities

Basic financial liabilities include insurance creditors and other creditors, recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Notes to the financial statements (continued)

3 Accounting policies (continued)

(k) Financial assets and liabilities (continued)

Insurance debtors and creditors

Insurance debtors and creditors include amounts due to and from brokers and contract holders. These are classified as insurance debtors and creditors as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

(l) 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 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 on behalf of members during the year are included in the balance sheet under the heading 'other debtors'.

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

(m) Profit commissions

Profit commissions payable to the managing agent, which are expected to arise on closure of a Lloyd's year of account, are recognised on an accruals basis, taking into consideration any deficit clauses. The managing agent's charges for the 2021 and 2020 years of account do not include profit commission.

(n) Members' balance and distribution

The members' balance represents the retained profit or loss relating to all underwriting years of account net of any profit distribution or cash calls received in respect of losses.

4 Key judgements and uncertainties

Premium estimates

Critical estimates include premium written and the earning pattern of recognising premium over the life of the policy.

Syndicate 2019 writes a single annual quota share reinsurance contract. Premium written is initially based on estimated premium income (EPI) recognised in full at inception based on what will be ultimately written under the contract.

The premium ceded to, and recognised by, the syndicate under the quota share contract is net of deemed reinsurance outlined within the quota share reinsurance contract and applied by the cedent prior to cession to the syndicate. The cedent's reinsurance programme is not exclusive to the portfolio of business ceded under the quota share contract and thus the reinsurance applied prior to cession to the syndicate represents an allocation of the total reinsurance coverage the cedent has purchased.

Premium written is provided quarterly by PCG, which will include actuals and estimates for future months of the underwriting year, and is adjusted to actual as the underwriting year develops. Premium estimates will also include estimates for the reinsurance applied before the cession of premium. These reinsurance cost estimates will include allocation to the business ceded under the quota share as well as allocation to underwriting year.

Premium estimates are reviewed at least quarterly. Quarterly EPI reflects actual underlying written premium and forecast for future months, which are compared to plan and previous quarters' actuals for reasonableness. The allocation of reinsurance applied by PCG prior to cession is validated against modelling outputs as well as placing broker analysis. Premium estimates are subject to review and approval by the Active Underwriter and Reserve Committee. A source of uncertainty arises from the fact that, at any given point in time, the EPI could be different to final signed premium.

Premium is earned on a straight line basis for underlying PCG policies which have been ceded under the quota share contract.

4 Key judgements and uncertainties (continued)

Claims provision

The most critical estimate impacting the balance sheet is the estimate for insurance losses incurred but not reported (IBNR), which is included in claims outstanding in the balance sheet. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported at 31 December 2021 is $374.3m (31 December 2020: $240.8m).

The process for estimating claims provisions considers key sources of uncertainty around the following:

- Future development of inward claims, both reported and unsettled and incurred but not reported claims;
- The allocation of claims liabilities by underwriting year prior to cession to the syndicate;
- Estimates of claims liabilities for cat events;
- Corresponding reinsurance recoveries prior to cession to the syndicate, including considerations for the recoveries made under the deemed reinsurance outlined within the quota share reinsurance contracts; and
- The splits of future claim liabilities between earned and unearned exposures.

Assumptions and expert judgements made to quantify these uncertainties are produced by the cedent's actuarial, claims and reinsurance personnel. Supporting their production are:

- Monthly and quarterly claims and premium data, both gross and net of reinsurance;
- Quarterly cedent updates on expected premium volumes and rating levels in light of business written and prevalent market conditions;
- Ongoing monitoring of developing claims experience relative to that implied/expected from the reserving model, with quarterly assessment of suitability of actuarial reserving assumptions in light of emerging experience;
- Annual detailed reviews of actuarial assumptions used in the reserving model, including discussions of impact of rate movements, underwriting strategies, reinsurance protection, etc., on these assumptions; and

Talbot receives the reserve data from the cedent and reviews these assumptions and judgements. Talbot's Reserve Committee sets the ultimate claims liability provisions on a best estimate, undiscounted basis.

5 Risk management

The principal risks to the business of the syndicate are insurance, credit, liquidity, market and operational risks as set out below. All risks are overseen and managed by the Board and its sub committees.

Executive oversight of the Risk Management Framework is delegated to the Executive Committee, which is responsible for ensuring that a risk register and key controls have been established and are maintained by the business. In addition to the Executive Committee, there are a number of other management committees which are responsible for risk, including the following:

- Insurance Management Committee;
- Reserve Committee;
- Operational Risk Committee; and
- Financial Risk Committee.

Insurance risk with regard to underwriting is monitored by the Insurance Management Committee. Insurance risk with regard to reserving is monitored by the Reserve Committee. Credit, liquidity, market and solvency risks are monitored by the Financial Risk Committee. Operational risks are monitored by the Operational Risk Committee.

5 Risk management (continued)

During 2021, the Financial Risk Committee was responsible for managing credit, liquidity, market and solvency risks. In January 2022, the Financial Risk Committee was updated to become the Finance Committee and an Investment Committee was established taking over responsibilities for credit, liquidity, market and solvency risks going forward.

As the Managing Agent for the syndicate, Talbot is ultimately responsible for the management of risk both at company and at syndicate level and for formulating the risk appetite for approval by the Board. The Executive Committee maintains comprehensive risk register and risk management framework on behalf of the syndicate and the companies in the Talbot Group. This allows new risks to be identified and new controls to be put in place as necessary, either to reduce the likelihood of an event or to mitigate its impact once it has happened. The Executive Committee also oversees the management of the key risks with regard to business planning, strategy and relationships with stakeholders. The responsibilities of these committees are to ensure that all risks recorded on the risk register at both the company and syndicate level are managed effectively.

Talbot has also established a Climate Change Working Group to ensure that the financial risks arising from climate change are adequately addressed within its Risk Management Framework. Further details can be found in the 'Environmental Responsibilities and Climate Risks' section of the report of the directors of the Managing Agent.

Talbot's Enterprise Risk Management (ERM) integrates the risk management functions in each business unit and provides senior management with a consolidated view of key risks. It supports the business and management in the embedding of risk management in business processes and in identifying, assessing, quantifying, managing, monitoring, reporting and mitigating risk exposures. This includes risks related to changing climate conditions, and tracking societal changes that could impact operations and elevate reputational risks. Talbot has reviewed its risk appetite and guidelines in respect to climate change including its position in relation to supporting wider government targets.

(a) Insurance risk

This is risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Insurance risk comprises of both underwriting risk and reserving risk.

Underwriting risk

Underwriting risk arises from the fluctuations in timing, frequency and severity of insured events, relative to expectations at the time of underwriting, as well as inappropriate pricing, selection and approval of insurance risks. The PCG business plan, including the deemed reinsurance, for the prospective year of account is reviewed in depth prior to underwriting the quota share contract. The business ceded to the syndicate is after the application of the PCG deemed reinsurance to arrive at an acceptable level of risk. The Board reviews the deemed reinsurance structure at least annually to determine whether any additional reinsurance is required at a syndicate level. Underwriting strategy is agreed by the Board and is set out in the syndicate business plan that is submitted to the Society of Lloyd's for approval each year. Underwriting is aligned with the syndicate's strategy, agreed business plan and underwriting policy.

The nature of the business exposes the syndicate to various kinds of natural disaster, such as hurricanes, windstorms, hailstorms, flooding, earthquakes, wildfires, and other catastrophes, in which multiple losses can occur and affect multiple lines of business in any given year. Talbot's Risk Appetite Framework establishes and maintains appropriate limits on the material risks identified. A significant proportion of the natural catastrophe-related risks that are underwritten by the syndicate are renewed on an annual basis. This provides the opportunity to regularly re-underwrite and re-price the risk. Talbot uses a blend of proprietary and third-party risk models to help better understand the frequency and severity of natural catastrophe risk. Talbot has assembled a collection of hazard and engineering data, client and industry exposure, and loss information all of which have been used to analyse the external catastrophe models, inform catastrophe model selections, and support catastrophe model calibrations which form the in-house view of catastrophe risk. For weather perils Talbot models the following: 1) hurricanes including storm surge, 2) floods, 3) wildfires, 4) severe convective storms, and 5) winter storms. Talbot's catastrophe modelling has a clear approach for how catastrophe risk is represented in the Internal Model and this includes validation and governance around model selection, model peril evaluation, model use, and model change.

Notes to the financial statements (continued)

5 Risk management (continued)

(a) Insurance risk (continued)

Reserving risk

Reserving risk arises where the claims provisions established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly across lines of business but can arise from inadequate reserves for known or incurred but not reported (IBNR) claims. These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events. Insurance risk with regard to reserving is principally monitored by the Reserve Committee.

Note 4 contains additional details around the key judgements and uncertainties involved in the estimate for claims provisions. The syndicate has in place procedures and controls to manage and monitor the assessment of claims and the setting of appropriate reserves, with PCG involvement.

The syndicate has exposure to volatile lines of business that carry inherent risk that the ultimate claims settlement will vary from previous assessments of reserves. The syndicate reserves are annually subject to a formal independent actuarial opinion. The actuarial opinions are covered by a combination of formal Actuarial Professional Standards and specific Lloyd's guidance and rules.

Note 13 includes further detail on claims provisions and claims development triangles.

(b) Credit risk

Credit risk is defined as the risk that counterparties are unable, or unwilling, to settle their debts as they fall due.

Investment counterparties: Investment guidelines ensure that the syndicate's investments are held in high quality instruments. The portfolio is monitored for concentration with respect to issuers and credit ratings. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. Of the total fixed interest and cash investments as at 31 December 2021, all are with counterparties having a credit agency rating of A or better.

Reinsurance counterparties: There are no reinsurance counterparties.

Broker counterparties: Underwriters may only write business through an approved counterparty. The quota share contract is written through Aon which has a credit rating of A-.

The syndicate has no premiums receivable that are past due at the reporting date (31 December 2020: nil).

Balances with investment counterparties are rated as follows:

As at 31 December 2021	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	207.7	234.7	162.4	-	-	-	604.8
Shares and other variable yield securities	82.0	-	-	-	-	5.9	87.9
Overseas deposits	1.9	1.1	0.5	0.2	-	-	3.7
Cash at bank and in hand	-	-	12.1	-	-	-	12.1
	291.6	235.8	175.0	0.2	-	5.9	708.5

As at 31 December 2020	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	187.7	13.6	79.0	-	-	-	280.3
Shares and other variable yield securities	70.8	-	-	-	-	6.0	76.8
Cash at bank and in hand	-	-	12.5	-	-	-	12.5
	258.5	13.6	91.5	-	-	6.0	369.6

Notes to the financial statements (continued)

5 Risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that the syndicate is unable to pay debts or meet regulatory funding requirements as they fall due and can arise if the assets held to settle liabilities are either unable to be realised or they are only realisable at materially below market value or funds are not available to satisfy regulatory requirements.

Syndicate cash flow forecasts are prepared and reviewed by the Financial Risk Committee. Liquidity is also considered by the Financial Risk Committee and the Board, when reviewing asset allocation constraints within the investment guidelines.

At 31 December 2021 the average duration of syndicate funds to maturity was 1.2 years (2020: 1.8 years) compared to 1.3 years (2020: 0.9 years) for syndicate claims outstanding.

At 31 December 2021	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	293.5	253.0	6.9	51.4	604.8
Shares and other variable securities	82.0	-	-	-	-	82.0
Overseas deposits	-	2.5	1.2	-	-	3.7
Loans and deposits with credit institutions	5.9	-	-	-	-	5.9
Cash at bank and in hand	12.1	-	-	-	-	12.1
	100.0	296.0	254.2	6.9	51.4	708.5
Financial liabilities						
Technical provisions - claims outstanding	-	345.2	111.5	40.4	18.0	515.1
Other creditors including taxation and social security	-	6.5	-	154.2	-	160.7
	-	351.7	111.5	194.6	18.0	675.8

5 Risk management (continued)

(c) Liquidity risk (continued)

At 31 December 2020	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	5.9	220.1	23.1	31.2	280.3
Shares and other variable securities	76.8	-	-	-	-	76.8
Cash at bank and in hand	12.5	-	-	-	-	12.5
	89.3	5.9	220.1	23.1	31.2	369.6
Financial liabilities						
Technical provisions - claims outstanding	-	115.8	162.6	-	-	278.4
Other creditors including taxation and social security	-	16.6	-	-	-	16.6
	-	132.4	162.6	-	-	295.0

The syndicate has a loan facility in place with a group entity for any funding needs that may arise. The limit of the loan facility was $200m at the balance sheet date, of which $154.2m was drawn down (31 December 2020: $50m facility with nil drawn down). The loan facility limit was increased to $300m in February 2022 and has a maturity date of 24 April 2025.

(d) Market risk

Market risk is the risk that the value of a portfolio of assets will decline due to changes in market factors. These factors include stock market prices, interest rates, foreign exchange rates and commodity prices. As the syndicate does not hold shares or commodities, it is not directly exposed to the price risk relating to them. Further detail of investments is shown in note 9.

Foreign exchange risk

This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the syndicate's reporting currency. The syndicate's results are reported in US dollars and assets and liabilities are held primarily in US dollars. Therefore, there is minimum risk that fluctuations in exchange rates would have a significant effect on the syndicates results and net assets.

Interest rate risk

This is the risk that an increase in interest rates or volatility in the fixed income markets could result in significant unrealised or realised losses in the market value of the investment portfolio. The syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the syndicate to cash flow interest rate risk. Fixed interest rate assets expose the syndicate to fair value risk. The syndicate's strategy is to invest in high quality, liquid, fixed and floating rate interest securities and cash and to manage duration actively. The investment portfolios are managed actively to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business. If interest rates had increased/decreased by 0.5%, investment return for the year would have been lower/higher by $4.5m (2020: $3.5m).

5 Risk management (continued)

(e) Operational risk

Operational risk is attributable to people, processes, systems and external events and is the risk that the actions of people, or failings in processes or systems, or external events, may give rise to losses in the syndicate or wider group. This is a large risk group and the risks within it are managed widely across the business. Operational risks are reported on monthly at the Operational Risk Committee unless they are sufficiently material to be escalated to the Executive Committee. When risks are reported, controls are put in place to mitigate the likelihood of the risk impacting the business.

Talbot has operated effectively on either a remote or hybrid working basis since March 2020. Operational risks arising from COVID-19 continue to be managed by the Incident Management Team and regular monitoring of the performance of controls continues through the risk management reporting process.

6 Segmental information

The syndicate only underwrites reinsurance business. All premium written is for a single contract concluded in the UK.

The geographical analysis of gross written premium by destination (domicile of the insured) is as follows:

	2021 $m	2020 $m
US	773.4	724.7
	773.4	724.7

7 Net operating expenses

	2021 $m	2020 $m
Brokerage and commission	259.8	243.5
Other acquisition costs	-	-
Acquisition costs	259.8	243.5
Acquisition costs - change in deferred acquisition costs	(15.2)	(119.2)
Administrative expenses	16.6	10.4
Gross operating expenses	261.2	134.7
Reinsurance commissions and profit participations	-	-
	261.2	134.7

An analysis of the amounts paid to the syndicate's auditors and associates is given below.

	2021 $m	2020 $m
Fees payable to the syndicate's auditors and their associates in respect of:		
Audit of the syndicate annual accounts	0.3	0.3
Other services pursuant to legislation	0.2	0.2
	0.5	0.5

Other services pursuant to legislation relate to the audit and review of Lloyd's regulatory returns as well as the provision of the statement of actuarial opinion as required by Lloyd's Byelaws.

8 Employees and directors

The syndicate has no direct employees. The staff and directors who provide services to the syndicate are employed by a group service company. Key management personnel includes Talbot directors and the active underwriter. The Managing Agent charges the syndicate a Managing Agent's fee based on gross written premium for services provided to the syndicate. Staff costs and numbers are not separately identified.

9 Investments

	Cost 2021 $m	Cost 2020 $m	Market Value 2021 $m	Market Value 2020 $m
Investments at fair value				
Debt securities and other fixed income securities	610.5	280.2	604.8	280.3
Shares and other variable yield securities	87.9	76.8	87.9	76.8
Overseas Deposits	3.7	-	3.7	-
Total	702.1	357.0	696.4	357.1

	Cost 2021 $m	Cost 2020 $m	Market Value 2021 $m	Market Value 2020 $m
Investments at fair value analysis				
Government debt	301.0	128.9	300.5	129.0
Corporate debt	196.5	98.4	193.0	98.2
Short term investment - cash equivalents	82.0	70.8	82.0	70.8
Asset backed securities	9.9	-	9.7	-
Mortgage backed securities	52.2	31.0	51.4	31.2
Supranational debt	50.9	21.9	50.2	21.9
Overseas Deposits	3.7	-	3.7	-
Loan to Lloyd's Central Fund	5.9	6.0	5.9	6.0
Total	702.1	357.0	696.4	357.1

Shares and other variable yield securities include short-term highly liquid investments of $82.0m (2020: $70.8m) and loans to the Lloyd's Central Fund of $5.9m (2020: $6.0m). Short–term highly liquid investments are readily convertible to known amounts of cash with an insignificant risk of change in value, i.e. cash equivalents. Loans to the Lloyd's Central Fund are held at par value of $5.9m (2020: $6.0m) as a proxy for fair value.

Lloyd's overseas deposits are lodged as a condition of conducting underwriting business in certain countries or states within countries. These funds are managed by Lloyd's Treasury Services.

Fair value estimation

The syndicate recognises investments at their fair value in the balance sheet. The syndicate's investments valuations are provided principally by AIG Asset Management (Europe) Limited, who in turn use data from a number of sources including index providers (e.g. Barclays Capital), commercial valuation providers and broker-dealers. Lloyd's Treasury Services provides details of the sourcing of fair value classification together with details by security for the Lloyd's overseas deposits.

Under FRS 102, the syndicate must determine the appropriate level in a fair value hierarchy for each fair value measurement. The fair value hierarchy under FRS 102 has three levels which should be used to estimate fair value:

- Level 1 – the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date,
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly, and
- Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability. Loans to the Lloyd's Central Fund are classified as level 3 assets.

Notes to the financial statements (continued)

9 Investments (continued)

Fair value estimation (continued)

At 31 December, the syndicate’s investments were allocated between the Levels 1, 2 and 3 as follows:

2021	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	350.7	254.1	-	604.8
Shares and other variable yield securities	82.0	-	5.9	87.9
Overseas Deposits	0.9	2.8	-	3.7
Total	433.6	256.9	5.9	696.4

2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	150.9	129.4	-	280.3
Shares and other variable yield securities	70.8	-	6.0	76.8
Total	221.7	129.4	6.0	357.1

10 Debtors arising out of reinsurance operations

	2021 $m	2020 $m
Premiums due from intermediaries within one year	62.7	94.1
	62.7	94.1

There are no overdue debtors as at 31 December 2021 (31 December 2020: nil).

11 Other debtors

	2021 $m	2020 $m
Accrued interest	1.5	0.7
Expense refunds due	1.2	-
	2.7	0.7

Accrued interest and expense refunds due are receivable within one year.

Notes to the financial statements (continued)

12 Statement of changes in members' balance

Year ended 31 December 2021	2021 YOA Open $m	2020 YOA Open $m	Total 2021 $m
Retained profit / (loss)			
At 1 January	-	(67.1)	(67.1)
Profit / (loss) for the year	(46.3)	(55.0)	(101.3)
At 31 December	(46.3)	(122.1)	(168.4)

13 Technical provisions

Year ended 31 December 2021	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	354.7	278.4
Movement	45.3	236.7
As at 31 December	400.0	515.1

Year ended 31 December 2020	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	-	-
Movement	354.7	278.4
As at 31 December	354.7	278.4

13 Technical provisions (continued)

Claims development triangles

Whole account, underwriting year	2020	2021	Total
Gross earned ultimate claims	£m	$m	$m
12 months	302.7	294.6	597.3
24 months	573.8	-	573.8
Total gross earned ultimate losses	573.8	294.6	868.4
Less paid claims	(316.9)	(36.4)	(353.3)
Gross claims liabilities	256.9	258.2	515.1

Whole account, underwriting year			
Net earned ultimate claims			
12 months	302.7	294.6	597.3
24 months	573.8	-	573.8
Total gross earned ultimate losses	573.8	294.6	868.4
Less paid claims	(316.9)	(36.4)	(353.3)
Net claims liabilities	256.9	258.2	515.1

14 Other creditors including taxation and social security

	2021	2020
	$m	$m
Intra group loan	154.2	-
Other amounts due to group companies	6.5	16.6
	160.7	16.6

The intra group loan is an interest bearing loan facility in place with a group entity with a maturity date of 24 April 2025. From 1 January 2021 to 30 November 2021, interest was payable on the loan at a rate equal to the USD London Interbank Offered Rate plus 12.5 bps. From 1 December 2021, interest was payable based on a benchmark rate (Commercial Paper rate), which may be amended from time to time by the lender to ensure it represents an arm's length rate. There are no covenants or restrictions placed on the syndicate in relation to this loan facility.

Other amounts owed to group companies are unsecured, interest free, have no fixed date of payment and are payable on demand.

15 Related parties

Parent companies

The immediate parent company of Talbot Underwriting Ltd (TUL) is Talbot Underwriting Holdings Ltd, a company registered in England and Wales.

The ultimate parent and controlling party of Talbot is American International Group, Inc (AIG). The registered office of which is 175 Water Street, New York, NY 10038, United States of America. AIG is listed on the New York Stock Exchange.

PCG proportional quota share reinsurance contract

The syndicate reinsured a single quota share contract for the 2020 and 2021 underwriting years. This quota share contract is with AIG group entities and was brokered and priced on an arm's length basis.

Intra group loan

The syndicate has a loan facility with an AIG Group entity, AIG Transaction Execution Limited. The loan facility was for $200m at the balance sheet date, of which $154.2m was drawn down (31 December 2020: $50m facility with nil drawn down). The facility limit was increased to $300m in February 2022 and has a maturity date of 24 April 2025.

Corporate member

PCG 2019 Corporate Member Ltd (PCGCM), an AIG company, has a 97.2% participation on the 2020 underwriting year and an 82.5% participation on both the 2021 and 2022 underwriting years.

Managing agent

During the year, the syndicate has been charged an annual fee by TUL, the Managing Agent of the syndicate, amounting to $8.2m (2020: $3.6m). The outstanding net balance due to TUL at the year end was $6.2m (2020: $3.6m).

16 Capital

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, license and ratings objectives. Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at an overall member level. Accordingly the capital requirement in respect of syndicate 2019 is not disclosed in these financial statements.

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

The SCR of the syndicate is subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment ('ECA'). The purpose of this uplift, which is a Lloyd's not a solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% (2020: 35%) of the member's SCR to ultimate.

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), assets held and managed within a syndicate (Funds in syndicate, not applicable for syndicate 2019) and/or as the member's share of the Solvency II members' balances on each syndicate on which it participates.

An additional level of security is the Central Fund to which all syndicates contribute, based on their premium income, for every year of account. Claims may be paid out of the Central Fund once approved by the Council of Lloyd's if a syndicate's members' capital resources cannot cover all claims.

Officers and professional advisors

Managing agent
Talbot Underwriting Ltd
60 Threadneedle Street
London
EC2R 8HP

Managing agent's registered number
2202362

Directors

DJ Batchelor	(Chair, non-executive)
RE Bean	(Executive)
TA Bolt	(Non-executive)
MEA Carpenter	(Non-executive)
KA Coates	(Non-executive)
JL Hancock	(Non-executive)
BJ Hurst-Bannister	(Non-executive)
CJR Rash	(Chief Executive)
JG Ross	(Executive)
M Scales	(Non-executive)

Company secretary
M-C Gallagher

Syndicate
Syndicate 2019

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A Howse

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Citibank NA

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