

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.

Syndicate 1225



Annual Report and Financial Statements

For the Year Ended 31 December 2020

Contents

	Page
Financial highlights	1
Report of the directors of the managing agent	2
Strategic report of the directors of the managing agent	4
Statement of total comprehensive income	6
Balance sheet	8
Statement of changes in members' balances	10
Statement of cash flows	11
Notes to the financial statements	12
Independent auditor's report	29
Administration	32

Financial highlights

<p>Total comprehensive income £60.3m (2019: £31.1m)</p> <p>A cumulative profit of £219.3m generated in the last five years.</p>	<p>Gross written premium £707.9m (2019: £653.2m)</p> <p>Further diversification and increased underwriting capacity has increased gross written premium by £331.2m in the last five years.</p>
<p>Combined ratio 91.6% (2019: 96.8%)</p> <p>Positive result despite challenges within the market in recent years. The average combined ratio for the last five years is 94.7%.</p>	<p>Investment return £18.6m (2019: £20.9m)</p> <p>Optimism over US economic growth, despite numerous global uncertainties, has generated strong investment returns across the risk spectrum. Total return of 3.12% (2019: 3.83%).</p>

Five year financial performance

£ million	2020	2019	2018	2017	2016
Gross written premium	707.9	653.2	555.2	462.2	376.7
Underwriting profit ¹	44.9	15.2	22.2	2.1	27.0
Investment return	18.6	20.9	6.1	7.9	9.1
Foreign exchange gains/(losses)	(3.1)	(5.0)	0.8	(5.9)	23.5
Total comprehensive income	60.3	31.1	29.1	4.1	59.6
Combined ratio ²	91.6%	96.8%	94.4%	99.4%	91.0%

Lloyd's Ratings

A (Excellent) from A.M. Best³

AA- (Very Strong) from Fitch³

A+ (Strong) from Standard & Poor's³

¹ Underwriting profit is the balance on the technical account less investment return

² The combined ratio is derived as follows:

$$\frac{(\text{Claims incurred, net of reinsurance} + \text{Acquisition costs} + \text{Administrative expenses [excl profit/loss on exchange]})}{\text{Earned premiums, net of reinsurance}}$$

³ Current insurer financial strength ratings of Lloyd's of London

Report of the directors of the managing agent

The directors of the managing agent, AEGIS Managing Agency Limited (the “Company” or the “Managing Agent”), present their annual report and audited financial statements for Syndicate 1225 (the “Syndicate”) for the year ended 31 December 2020.

The Syndicate is, through intermediate holding companies, a wholly aligned Syndicate of Associated Electric & Gas Insurance Services Limited (AEGIS) incorporated in Bermuda.

1. Directors’ Report

Executive Directors

D P Croom-Johnson	<i>Chief Executive Officer</i>
A J P Powell	<i>Active Underwriter</i>
G S G Tennyson	<i>Risk & Compliance Director</i>
K A Wade	<i>Chief Financial Officer</i>
M C Yeldham	<i>Director</i>

Non-Executive Directors

T G S Busher	<i>(Non-Executive Chairman)</i>
G Abel	
C M Crane	
T Farrell	
C D Forbes	
J G Gray	
M L Onslow	
W W von Schack	

The directors of the Managing Agent that have served through the period and up to the date of signing are shown above, except for Katie Wade who was appointed as a Director on 20 August 2020.

Going concern

After making enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. The Board has considered the impact of COVID-19 in their going concern assessment. Accordingly, the directors continue to adopt the going concern basis for preparing the annual report and financial statements.

The impact of Brexit has been internally assessed and in conclusion management have come to a view that Brexit has no impact on the going concern nature of the business.

Future developments

We are looking to continue our strategy of disciplined profitable growth in those classes that deliver a prospective acceptable margin. We will focus our efforts on improving profit margins in a positive underwriting environment whilst seeking to reduce the costs of business acquisition. We anticipate further success with regard to our digital product offerings, whilst continuing our strategy of multi-channelled distribution and delivering the excellence in underwriting and service levels that our clients and brokers have come to expect.

Use of financial instruments

In relation to the use of financial instruments, the financial risk management objectives and policies of the Syndicate as well as the exposure of the Syndicate to risk are discussed in note 2 to these financial statements.

Report of the directors of the managing agent *continued*

Disclosure of information to auditor

Each director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Independent auditor

The auditor for the year ended 31 December 2020 was Deloitte LLP. They have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be re-appointed.

2. Managing agent's responsibilities statement

AEGIS Managing Agency Limited is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare Syndicate annual report and financial statements as at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and applicable law). The annual report and financial statements 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 and loss for that year.

In preparing the Syndicate annual report and financial statements, the Managing Agent is required to:

- select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

The Managing Agent is responsible for keeping adequate 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 report and financial statements comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors of AEGIS Managing Agency Limited and signed on its behalf by:

D P Croom-Johnson
Chief Executive Officer
04 March 2021

Strategic report of the directors of the managing agent

Principal activity and review of the business

The principal activity of Syndicate 1225 remains the transaction of specialist insurance and reinsurance business across more than 20 classes underwritten within the Lloyd's of London insurance market. The total premium written as at 31 December 2020 was £707.9m which saw an increase of £54.7m on 2019 as a reflection of strategic and business initiatives. A significant proportion of the Syndicate's underwriting is sourced from North America.

Total comprehensive income: £60.3m (2019: £31.1m) with a combined ratio of 91.6% (2019: 96.8%)

The Syndicate recorded its fourteenth successive year of underwriting profit. Total comprehensive income of £60.3m (2019: £31.1m) is driven by underwriting profit of £44.9m (2019: £15.2m). AEGIS continues to maintain underwriting discipline, prudent management of risk and careful control over expenses. The historic performance of the Syndicate reflects the fact that the Company has managed its risk selection wisely, has refused to write business in areas that are under priced relative to their volatility and has maintained strong relationships with both its clients and brokers.

Brexit

The operational impact of Brexit was internally assessed and processes were revised to ensure that the Syndicate could transact business, using Lloyd's Insurance Company SA, for relevant European Economic Area (EEA) risks after the UK had left the EU.

Investment income

Investment income prior to foreign exchange effects continues to perform well considering market volatility with increased treasury yields seen during the year. The investment income gross of investment management fees and prior to foreign exchange effects, as a percentage of the average investable assets, is 3.12% for 2020 (2019: 3.83%). The Company continues to be a high quality, short duration investor.

The total cash and financial investments of the Syndicate were £653.1m (2019: £599.2m), comprised of:

	2020	2019	2020	2019
	£m	£m	% of Total	% of Total
Fixed income	568.3	531.2	87%	89%
Overseas deposits	73.8	62.9	11%	10%
Cash	11.0	5.1	2%	1%
TOTAL	653.1	599.2		

Strategic report of the directors of the managing agent *continued*

Principal risks and uncertainties

On 23 March 2020 the UK Government declared a countrywide lockdown following the outbreak of the COVID-19 pandemic. The pandemic presents challenges to the Syndicate, and the rest of the insurance industry. The principal risks to the business have been evaluated through our enterprise risk management (ERM) framework and relate to future uncertainties of claims reserve risk, underwriting risks from both catastrophe and non-catastrophe events, and market risk. All of these are closely monitored and managed. For further details see note 2 of these financial statements.

The Syndicate has sufficient financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Syndicate is well positioned to manage its business risks, despite the current outbreak of the COVID-19 pandemic.

Climate change

The directors are aware of climate change and its potential to impact the principal risks affecting the business as outlined above. As part of its risk management framework, and through the existing ERM infrastructure, the Company and its directors monitor the potential impact of climate change through the analysis of various scenarios, predominantly through the Own Risk and Solvency Assessment processes.

Key performance indicators

For key performance indicators, refer to financial highlights on page 1 of these financial statements.

Use of financial instruments

In relation to the use of financial instruments, see note 2 of these financial statements.

Approved by the Board of Directors of AEGIS Managing Agency Limited and signed on its behalf by:

D P Croom-Johnson
Chief Executive Officer
04 March 2021

Statement of total comprehensive income

(For the year ended 31 December 2020)

	Notes	2020 £m	2019 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	3, 4	707.9	653.2
Outward reinsurance premium		(145.4)	(136.0)
Net premiums written		562.5	517.2
Change in provision for unearned premiums:	10		
Gross amount		(33.8)	(45.6)
Reinsurers share		3.3	5.9
Change in the net provision for unearned premiums		(30.5)	(39.7)
Earned premiums, net of reinsurance		532.0	477.5
Allocated investment return transferred from the non-technical account		17.6	17.5
Other technical income, net of reinsurance	5	12.2	11.9
Total technical income		561.8	506.9
Claims incurred, net of reinsurance			
Gross claims paid		(281.2)	(296.4)
Reinsurers share		73.6	80.9
Net claims paid		(207.6)	(215.5)
Change in the provision for claims:	10		
Gross amount		(124.3)	(67.9)
Reinsurers share		50.0	7.9
Change in the net provision for claims		(74.3)	(60.0)
Claims incurred, net of reinsurance		(281.5)	(275.5)
Net operating expenses	5	(217.4)	(198.7)
Total technical charges		(499.3)	(474.2)
Balance on technical account – general business		62.5	32.7

The notes on pages 12 to 28 form an integral part of these financial statements.

Statement of total comprehensive income *continued*

(For the year ended 31 December 2020)

	Notes	2020 £m	2019 £m
Non-technical account			
Balance on the general business technical account		62.5	32.7
Interest income from investments		13.2	14.1
Realised investment gains		2.5	2.6
Realised investment losses		(1.4)	-
Unrealised gains on investments		16.8	7.9
Unrealised losses on investments		(11.7)	(3.0)
Investment expenses and investment management charges		(0.9)	(0.7)
Foreign exchange losses		1.2	(4.1)
		<hr/> 19.7	<hr/> 16.8
Allocated investment return transferred to the general business technical account		(17.6)	(17.5)
		<hr/> 64.6	<hr/> 32.0
Other comprehensive income – foreign exchange (loss) / gain on conversion to presentational currency		(4.3)	(0.9)
		<hr/> 60.3	<hr/> 31.1
Total comprehensive income		<hr/> 60.3	<hr/> 31.1

All operations of the Syndicate are continuing.

Balance sheet

(As at 31 December 2020)

	Notes	2020 £m	2019 £m
ASSETS			
Investments			
Financial investments	9	568.3	531.2
Reinsurers share of technical provisions			
Provision for unearned premiums	10	71.4	71.2
Claims outstanding		272.6	233.4
		<u>344.0</u>	<u>304.6</u>
Debtors			
Debtors arising out of direct insurance operations	9	199.6	183.6
Debtors arising out of reinsurance operations		34.5	21.2
Other debtors		9.9	14.8
		<u>244.0</u>	<u>219.6</u>
Other assets			
Cash at bank and in hand		11.0	5.1
Overseas deposits		73.8	62.9
		<u>84.8</u>	<u>68.0</u>
Prepayments and accrued income			
Deferred acquisition costs	10	83.9	84.4
Other prepayments and accrued income		4.1	6.6
		<u>88.0</u>	<u>91.0</u>
		<u>1,329.1</u>	<u>1,214.4</u>
TOTAL ASSETS			

The notes on pages 12 to 28 form an integral part of these financial statements.

Syndicate 1225

For the year ended 31 December 2020

Balance sheet *continued*

(As at 31 December 2020)

	Notes	2020 £m	2019 £m
LIABILITIES			
Capital and reserves			
Members' balances		31.6	46.3
Technical provisions			
Provision for unearned premium	10	377.6	355.7
Claims outstanding		828.7	730.1
		<u>1,206.3</u>	<u>1,085.8</u>
Creditors			
Creditors arising out of direct insurance operations	9	7.6	2.4
Creditors arising out of reinsurance operations		79.7	71.8
Other creditors		0.7	5.7
		<u>88.0</u>	<u>79.9</u>
Accruals and deferred income		3.2	2.4
		<u>1,329.1</u>	<u>1,214.4</u>

The Syndicate financial statements were approved by the Board of Directors of AEGIS Managing Agency Limited (registered number: 03413859) and signed on its behalf by:

D P Croom-Johnson
Chief Executive Officer
04 March 2021

The notes on pages 12 to 28 form an integral part of these financial statements.

Statement of changes in members' balances

(As at 31 December 2020)

	2020 £m	2019 £m
Members' balances brought forward at 1 January	46.3	16.2
Profit for the financial year	64.6	32.0
Other comprehensive income - foreign exchange (loss) / gain on conversion to presentational currency	(4.3)	(0.9)
Total profit or loss for the year and other comprehensive income or loss	60.3	31.1
Profit distribution	(13.4)	(14.8)
Foreign exchange movement on profit distribution	-	0.1
Transfer into Funds In Syndicate	-	13.7
Transfer out of Funds In Syndicate	(60.9)	-
Foreign exchange on transfer out of Funds In Syndicate	(0.9)	-
Members' balances carried forward at 31 December	31.4	46.3

Members participate on the Syndicate by reference to years of account (YOA) and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Transfers in and out of Funds in Syndicate are the result of capital release tests which ensure sufficient levels of funds held at Lloyd's (FAL) to support continuing underwriting activities.

Statement of cash flows

(For the year ended 31 December 2020)

	2020 £m	2019 £m
Cash flows from operating activities		
Profit for the year	64.6	32.0
Adjusted for:		
Increase in gross technical provisions	150.1	110.9
Decrease in reinsurers' share of gross technical provisions	(48.8)	(12.9)
Decrease in debtors	(30.1)	(58.9)
Increase in creditors	10.7	9.3
Movement in other assets/liabilities	(64.0)	(91.6)
Investment return	(18.6)	(20.9)
Other (Foreign exchange)	3.6	3.6
Net cash inflow from operating activities	67.5	(28.5)
Cash flows from investing activities		
Purchase of equity and debt instruments	(648.5)	(673.9)
Sale of equity and debt instruments	646.9	674.1
Interest income from investments	14.3	16.8
Net cash flows from investing activities	12.7	17.0
Cash flows from financing activities		
Distributions of profits	(74.2)	(1.0)
Net cash flows used in financing activities	(74.2)	(1.0)
Net increase/(decrease) in cash and cash equivalents	6.0	(12.5)
Cash and cash equivalents at the beginning of the year	5.1	17.3
Effect of foreign exchange rate changes	(0.1)	0.3
Cash and cash equivalents at the end of the year	11.0	5.1
Reconciliation to cash at bank in hand:		
Cash at bank and in hand at end of financial year	11.0	5.1
Cash equivalents	-	-
Cash and cash equivalents at the end of financial year	11.0	5.1

The notes on pages 12 to 28 form an integral part of these financial statements.

Notes to the financial statements

(Forming part of the financial statements)

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), and Financial Reporting Standard 103 Insurance Contracts ("FRS 103"). In accordance with FRS 102 the financial statements are prepared under the historical cost convention as modified by financial instruments recognised at fair value. Because the corporate members of the Syndicate are all owned by the same corporate Group, the Syndicate's financial statements are fully consolidated within the financial statements of the ultimate parent and controlling company, Associated Electric & Gas Insurance Services Limited (AEGIS), which are publically available and may be obtained at 1 Meadowlands Plaza, East Rutherford, NJ 07073.

Critical accounting judgements and key sources of estimation uncertainties

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty

The most critical element within the Syndicates' financial position is the provision for claims outstanding at the period end, which include the provision for claims that have occurred but have not yet been reported (IBNR) and the related reinsurers share of those claims. This estimate is critical because it outlines the current liability for future expenses expected to be incurred in relation to claims.

The ultimate cost of outstanding claims is estimated using standard claims projection techniques completed by our in-house actuaries. The main assumption for these techniques is that past claims development experience can be used to project future claims development. The provision for claims also includes amounts in respect of internal and external claims handling costs. Claims handling costs are based on a set percentage of IBNR and outstanding claims, this calculation is reviewed on an annual basis. The directors consider that the provisions for claims and associated reinsurance recoveries are fairly stated based on the information currently available, see Note 2 and 10 of these financial statements.

For certain insurance contracts, written premium is initially recognised based on the estimate of ultimate premiums. These estimates and the main assumption underlying these estimates is that past premium development has been used to project future premium development. The estimation of unearned premiums, includes estimates made on the allocation of premiums between accounting periods based on judgements on the profile of the underlying risks associated with the written premium and accordingly how the premium is recognised as earned see Note 10 of these financial statements.

Critical accounting judgements

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

Principal Accounting Policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's financial statements.

Insurance contracts premium

Gross premium written comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a 365ths basis. For premium written under facilities, such as binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

The proportion of premium written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the Statement of Comprehensive Income in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Reinsurance premium ceded

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

Insurance contracts liabilities: claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the Statement of Comprehensive Income.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the underwriting divisions within the Syndicate have been regarded as groups of business that are managed together.

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported 'IBNR' and future claims handling provisions. Reinsurance recoveries are accounted for in the same way as gross incurred claims.

The provision for claims encompasses amounts set aside for claims outstanding and IBNR. The IBNR amount is an estimate of allowances for claims incurred but not reported, using past experience and trends adjusted for foreseeable events and calculated using widely accepted actuarial statistical techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The provision for IBNR is reviewed biannually by both internal and external actuaries. Critical assumptions are used alongside historical data to form a basis for future claims development. The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims notified and projections for IBNR, net of estimated irrecoverable debt and bad debt also taking into consideration the reinsurance programme in place for each class of business and the claims experience for the year.

The Syndicate takes all reasonable steps to ensure that the Company has taken into account all appropriate information regarding its gross and net claims exposures, however given the uncertainty in establishing such claims provisions it is likely that the final outcome will prove to be dissimilar from the original estimated liability. Should the provisions prove to be different from the original estimate, adjustments are made to the claims provisions in respect of prior years and are included in the Technical account within the financial statements of the period when such adjustments are made.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events.

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

These adjustments are reflected in the financial statements for the period in which the related adjustments are made. There have been no changes in assumptions used to measure insurance assets and insurance liabilities during the year.

Investments

Equity investments in non-convertible preference shares and non-puttable ordinary or preference shares are measured at fair value through profit or loss. All debt instruments are designated as fair value through profit or loss and are therefore also measured as such. The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The cost of the Syndicate investments held at the balance sheet date is deemed to be the aggregate of the value of investments held at the balance sheet date, and the cost of any new investments acquired during the year.

Overseas deposits

Overseas deposits are stated at the market value at the balance sheet date.

Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges. Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the Non-technical account. A transfer is then made from the Non-technical account to the Technical account.

Taxation

No provision has been made in respect of UK income tax on trading income. It is the responsibility of members to settle their tax liabilities.

Overseas taxation comprises US Federal Income tax and Canadian Federal Income tax. The amounts charged to members are collected centrally through Lloyd's Members' Services Unit as part of the members' distribution process. The ultimate tax liability is the responsibility of each individual underwriting member.

Foreign currencies

In accordance with FRS 102, the functional currency of the Syndicate is US dollars as this is the currency of the primary economic environment in which the entity operates and is the one in which it primarily generates and expends cash. The presentational currency of the Syndicate is Sterling, which is common for Syndicates at Lloyd's.

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the Non-technical account. Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded as Other Comprehensive Income as per FRS 103.

Insurance debtors and creditors

In the normal course of business, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, comprise respectively the totals of all the Syndicate's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

Syndicate operating expenses

Costs incurred by the managing agent exclusively for the Syndicate are charged to the Syndicate on an accruals basis.

Expenses incurred jointly by the managing agent and the Syndicate are charged through an annual management charge. The charge reflects the expected costs of services to be provided to the Syndicate and does not include any profit element.

Retirement benefit costs

AEGIS Managing Agency Limited operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Going concern

The Syndicate's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the directors of the managing agent (page 2). Its forecasts and projections, taking account of reasonably possible changes in trading performance, show that the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. In addition, the directors have a reasonable expectation that capital will be available to support future underwriting activities. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Syndicate's capital.

Underwriting risk

The Syndicate accepts underwriting risk in a range of classes of business. The bias of the portfolio is towards short-tail property and accident risk but liability coverage is also underwritten.

In underwriting insurance or reinsurance policies the Syndicate's underwriters use their skill, knowledge and data on past claims experience to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. The business plan is subject to Lloyd's scrutiny and monitoring. Progress against this plan is monitored during the year. The Syndicate also operates under an underwriting control framework that determines the maximum liability per policy which can be written for each class and for each underwriter. The framework is subject to an internal escalation process that ensures all material exceptions must be approved by senior management. The Syndicate is also exposed to catastrophe losses which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the reinsurance arrangements section below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, that use their judgement to write risks on our behalf under clear authority levels. We have a regular process of coverholder audits performed during the year.

The insurance liabilities underwritten by the Syndicate are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise that in aggregate exceeds the reserve provision established.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

Reinsurance arrangements

The Syndicate purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. The Syndicate also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover. For information on credit risk in respect of reinsurance debtors see the Credit Risk section.

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Risk appetite

The Syndicate has a defined risk appetite which seeks to limit its maximum net loss at a number of confidence levels.

These maximum losses are expected only to be incurred in extreme events. The Syndicate also adopts risk tolerances for a number of other pre-defined scenarios including, for example, a marine collision and an offshore rig loss.

The enterprise risk management framework recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against defined tolerances. The following assumptions and procedures are used in the process:

- the data used reflects the information supplied to the Syndicate by insured and ceding companies. This may prove to be inaccurate or could develop during the policy period;
- the exposures are modelled using a mixture of stochastic models and underwriter input to arrive at 'damage factors' - these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate;
- the reinsurance programme as purchased is applied - a provision for reinsurer counterparty failure is included but may prove to be inadequate; and
- reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be an un-modelled loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

Claims reserves

Claims reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% variation in the total net claims reserves would be £5.6m (2019: £5.0m).

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of legal advisers.

Property catastrophe claims such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Syndicate. There is uncertainty over the adequacy of information and modelling of major losses for a period of several months after a catastrophe loss. Consideration should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes, for which a large IBNR has to be established, represent the most difficult classes to reserve because claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for US liability written on a losses occurring basis.

The use of historical development data, adjusted for known changes to wordings or the claims environment, is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. A credit risk could therefore have an impact upon the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. Syndicate 1225 is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

As well as an actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's ability to perform these duties in a timely manner. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The Syndicate's investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security and exposure limits prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on rating agency review and the Syndicate's own ratings for each reinsurer. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer.

Credit risk in respect of premium debt is overseen by the AEGIS Managing Agency Limited's Counterparty Security Group, reporting to the Operations Committee. The key controls include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

The following table analyses the credit rating by investment grade of financial investments, reinsurers share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

2020

	AAA	AA	A	BBB	BBB or less	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	-	48.3	26.4	-	9.8	84.6
Debt securities	131.0	116.8	94.5	33.9	29.2	-	405.4
Loans with credit institutions	28.0	36.6	13.7	-	-	-	78.3
Overseas deposits as investments	34.6	18.5	7.5	8.4	-	4.8	73.8
Reinsurers share of claims outstanding	6.2	19.7	244.4	-	-	2.2	272.6
Reinsurers debtors	0.8	1.8	27.1	-	-	-	29.7
Cash at bank and in hand	-	-	11.0	-	-	-	11.0
Total credit risk	200.6	193.4	446.6	68.7	29.2	16.8	955.3

2019

	AAA	AA	A	BBB	BBB or less	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	-	-	-	50.2	-	7.5	57.7
Debt securities	119.1	109.2	87.6	57.4	32.1	-	405.4
Loans with credit institutions	33.3	34.8	-	-	-	-	68.1
Overseas deposits as investments	39.0	7.6	8.8	5.3	-	2.2	62.9
Reinsurers share of claims outstanding	1.7	3.9	227.8	-	-	-	233.4
Reinsurers debtors	0.9	0.5	15.5	-	-	-	16.9
Cash at bank and in hand	-	-	5.1	-	-	-	5.1
Total credit risk	194.0	156.0	344.8	112.9	32.1	9.7	849.5

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Credit risk *continued*

At 31 December 2020, total cash and investments amounted to £653.1m, of which 87% relates to debt and other fixed income securities and loans with credit institutions. The residual element of the portfolio relates to cash and overseas deposits. The portfolio remains of high quality, as illustrated by the asset allocation table shown above. The credit ratings on debt securities are composite ratings based on Standard & Poor's, Moody's and Fitch. Collateral in the form of short term investments and cash in trust of £136.2m (2019: £137.4m) is held as security in support of reinsurers' share of claims outstanding. The collateral mitigates the entity's credit risk in the event that a reinsurer defaults.

The following table analyses the age of reinsurance and insurance debtors, that are past due but not impaired:

2020

	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Insurance debtors	117.6	79.8	1.4	0.7	0.1	199.6
Reinsurance debtors	34.5	-	-	-	-	34.5
Total insurance and reinsurance debtors	152.1	79.8	1.4	0.7	0.1	234.1

2019

	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Insurance debtors	168.7	11.6	2.7	0.6	-	183.6
Reinsurance debtors	4.2	14.4	1.8	0.5	0.3	21.2
Total insurance and reinsurance debtors	172.9	26.0	4.5	1.1	0.3	204.8

There have been no material changes to the Syndicate's policies and processes for managing credit risk, or its exposure to credit risk, from the prior financial period.

Market risk

The Syndicate's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits, and SSAE 16 reports are obtained. The Syndicate's investment managers operate within guidelines which are set and regularly reviewed by the management of the Syndicate for investment duration, credit quality and appropriate benchmarks. There have been no material changes to Syndicate's policies or processes for managing or exposure to valuation risk from the prior financial period.

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Syndicate's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security; the greater its price volatility. This risk is mitigated by continual review of our investment strategies. Overall the Syndicate seeks to balance the potential for adverse results arising from interest rate movements against investment return. There have been no material changes to the Syndicate's policies or processes for managing to interest rate risk, or exposure to interest rate risk, from the prior financial period.

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Interest rate risk *continued*

An analysis of the Syndicate's sensitivity to interest rate risk is presented in the table below:

	2020 £m	2019 £m
Impact of 50 basis point increase on result	(5.6)	(5.4)
Impact of 50 basis point decrease on result	5.6	5.4
Impact of 50 basis point increase on net assets	(5.6)	(5.4)
Impact of 50 basis point decrease on net assets	5.6	5.4

The methods and assumptions used in preparing the sensitivity analysis are a reasonable approximation of possible changes in interest rates.

Foreign exchange risk

Policyholders' assets are held in the base currencies of Sterling, US dollars Canadian dollars, Euros, Australian Dollar, and Japanese Yen, which represent the majority of the Syndicate's liabilities by currency. This limits underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-base currencies. These transactions are converted into sterling at the prevailing spot rate once the premium is received. Consequently there is exposure to currency movements between the exposure being written and the premium being converted. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Syndicate is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk is mitigated by internal monitoring which includes asset and liability matching. It is not management's intention to take speculative currency positions in order to make currency gains. Overall the Syndicate's foreign exchange risk appetite seeks to minimise the potential for adverse results arising from foreign exchange rate movements. There have been no material changes to the Syndicate's policies or processes for managing foreign exchange risk, or exposure to foreign exchange risk, from the prior financial period.

Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis. Liquid assets are also held in excess of the immediate requirements to avoid the Syndicate having to be a forced seller of any of its assets, which may result in prices below market value being realised, especially in periods of below normal investment market activity. This practice of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch. Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios.

The table below shows the maturity profiles of the Syndicate's claims outstanding and creditor balances.

2020

	0-1 year £m	1-3 years £m	3-5 years £m	>5 years £m	Total £m
Claims outstanding	281.9	334.6	162.3	49.9	828.7
Creditors	88.0	-	-	-	88.0
Total claims outstanding and creditors	369.9	334.6	162.3	49.9	916.7

2019

	0-1 year £m	1-3 years £m	3-5 years £m	>5 years £m	Total £m
Claims outstanding	277.4	294.5	124.9	33.3	730.1
Creditors	79.9	-	-	-	79.9
Total claims outstanding and creditors	357.3	294.5	124.9	33.3	810.0

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Regulatory risk

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the Prudential Regulation Authority, Financial Conduct Authority, or Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Company has a Compliance Function, responsible for monitoring regulatory developments and assessing the impact on our business.

Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Syndicate. The Syndicate manages these risks through AEGIS Managing Agency Limited's Operations Committee. In addition, the Company has an Internal Audit department which assists the business to meet the strategic and operational objectives of the Syndicate through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

3. Segmental analysis

The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

2020

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	96.1	92.5	(52.7)	(29.1)	(0.7)
Fire and other damage to property	304.6	280.1	(138.5)	(96.8)	(10.1)
Third party liability	173.3	174.3	(126.1)	(57.6)	(3.2)
Miscellaneous	13.5	9.1	(11.9)	(2.9)	0.6
	587.5	556.0	(329.2)	(186.4)	(13.4)
Reinsurance acceptances	120.4	118.1	(76.3)	(31.0)	(5.1)
	707.9	674.1	(405.6)	(217.4)	(18.5)

2019

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	70.8	74.0	(61.2)	(20.2)	(0.9)
Fire and other damage to property	254.8	232.5	(121.0)	(72.9)	(20.3)
Third party liability	156.2	157.0	(95.6)	(44.7)	(10.3)
Miscellaneous	11.8	7.8	(5.1)	(3.4)	(0.4)
	493.6	471.3	(282.9)	(141.2)	(31.9)
Reinsurance acceptances	159.6	136.3	(81.4)	(45.7)	(9.3)
	653.2	607.6	(364.3)	(186.9)	(41.2)

The net assets of Syndicate 1225 are managed as a whole and are not allocated to a separate business segment.

Notes to the financial statements *continued*

(Forming part of the financial statements)

4. Brokerage and Commission

Gross premiums written are stated before the deduction of brokerage. Brokerage for the year was £164.3m (2019: £157.2m).

5. Profit for the year

Net operating expenses include:

	2020 £m	2019 £m
Acquisition expenses	164.3	157.2
Change in net deferred acquisition costs	(2.0)	(10.5)
Administrative expenses	55.1	52.0
	<u>217.4</u>	<u>198.7</u>

Administrative expenses include:

	2020 £	2019 £
Auditor's remuneration:		
- Audit of Syndicate annual report and financial statements	119,825	102,500
- Other services pursuant to legislation:		
Regulatory audits for UK GAAP	42,295	39,367
Regulatory audits for Solvency II balance sheet	71,407	60,540
	<u>233,527</u>	<u>202,407</u>

Member's standard personal expenses are included within administrative expenses. Other technical income, net of reinsurance, includes reinsurance commissions and profit participation income of £12.2m (2019: £11.9m).

6. Prior years' claims estimate

The estimate for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2020 £m	2019 £m
Marine, aviation and transport	22.4	1.0
Fire and other damage to property	25.9	2.1
Third party liability	(8.8)	0.3
Miscellaneous	(2.2)	0.0
	<u>37.3</u>	<u>3.4</u>
Favourable movement in technical provisions		3.4

The movement in estimate of the prior year is driven mainly by favourable loss experience and incurred claims forms a 7% (2019: 1%) component of the 2020 loss ratio of 53% (2019: 58%). The earned loss ratio represents incurred losses net divided by net earned premium.

Notes to the financial statements *continued*

(Forming part of the financial statements)

7. Staff numbers and costs

Employees

The monthly average number of employees, including executive directors, employed by AEGIS Managing Agency Limited during the year was as follows:

	2020	2019
Administration and finance	72	62
Underwriting and reinsurance	65	64
Claims	11	10
	148	136

Salary costs

The following amounts were recharged to the Syndicate in respect of salary costs:

	2020 £m	2019 £m
Wages and salaries	16.0	13.9
Social security costs	2.2	1.7
Other pension costs	1.8	1.7
	20.0	17.3

8. Directors' remuneration

AEGIS Managing Agency Limited charged the Syndicate the following amounts in respect of remuneration paid to its directors and the active underwriter of the Syndicate:

	2020 £m	2019 £m
Emoluments	2.1	2.0
Pension contributions	0.2	0.2
	2.3	2.2

The following aggregate remuneration was charged to the Syndicate in respect of the highest paid director.

	2020 £m	2019 £m
Emoluments	0.4	0.4

The following aggregate remuneration was charged to the Syndicate in respect of the person holding the position of Active Underwriter.

	2020 £m	2019 £m
Emoluments	0.3	0.3

Two directors are accruing retirement benefits under a defined contribution pension scheme (2019: Two) for the annual value of £43,000 (2019:£43,000).

Notes to the financial statements *continued*

(Forming part of the financial statements)

9. Financial assets and liabilities

Financial assets measured at fair value through profit or loss

	At valuation		At cost	
	2020 £m	2019 £m	2020 £m	2019 £m
Shares and other variable yield securities	84.6	57.7	60.8	59.1
Debt securities and other fixed income securities	405.4	405.4	376.4	383.7
Loans secured by mortgage	78.3	68.1	77.1	67.7
Financial investments	568.3	531.2	514.3	510.5

Financial assets measured at amortised cost

	2020 £m	2019 £m
Debtors arising out of direct insurance and reinsurance operations	234.1	204.8
Other debtors	9.9	14.8

Financial liabilities measured at amortised cost

	2020 £m	2019 £m
Creditors arising out of direct insurance and reinsurance operations	87.3	74.2
Other creditors	0.7	5.7

All overseas deposits £73.8m (2019: £62.9m) are held at fair value through profit or loss.

Debt securities and other fixed income securities listed on recognised stock exchanges have a carrying value of £344.1m (2019: £370.7m). All investments are held at fair value through profit or loss as per the accounting policy note. All income and expense and unrealised gains and losses as a change in the fair value on these investments are presented on the face of the Statement of Total Comprehensive Income £19.7m (2019: £16.9m).

The Syndicate classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Prices based on recent transactions in identical assets (either unadjusted or adjusted)

Level 3 - Prices determined using a valuation technique

Level 3 consists mainly of Syndicate Loans provided by the syndicate to the Central Fund at Lloyd's in respect of the 2019 and 2020 underwriting years. These instruments are not tradeable and are valued using discounted cash flow models, designed to appropriately reflect the credit and illiquidity risk of the instruments.

The table below analyses financial instruments and overseas deposits held at fair value in the Syndicate's balance sheet at the reporting date by its level in the fair value hierarchy.

2020

	Level 1 £m	Level 2 £m	Level 3 £m	Balance sheet position £m
Shares and other variable yield securities and units in unit trusts	-	74.8	9.8	84.6
Debt securities and other fixed income securities	215.5	189.9	-	405.4
Loans and deposits with credit institutions	-	78.3	-	78.3
Overseas deposits	12.3	61.6	-	73.8
Total	227.8	404.6	9.8	642.1

Notes to the financial statements *continued*

(Forming part of the financial statements)

9. Financial assets and liabilities *continued*

2019

	Level 1	Level 2	Level 3	Balance sheet position
	£m	£m	£m	£m
Shares and other variable yield securities and units in unit trusts	-	57.7	-	57.7
Debt securities and other fixed income securities	202.1	203.3	-	405.4
Loans and deposits with credit institutions	-	66.3	1.8	68.1
Overseas deposits	9.5	53.4	-	62.9
Total	211.6	380.7	1.8	594.1

10. Technical provisions

	Provision for unearned premium	Provision for claims outstanding	Deferred acquisition costs	Total
	£m	£m	£m	£m
Gross				
At 1 January 2020	(355.7)	(730.1)	84.4	(1001.4)
Movement in technical provision	(33.8)	(124.3)	2.0	(156.1)
Foreign exchange movement	11.9	25.7	(2.4)	40.0
At 31 December 2020	377.6	(828.7)	84.0	(1.122.4)
Reinsurance				
At 1 January 2020	71.2	233.4	-	304.6
Movement in technical provision	3.3	50.0	-	53.3
Foreign exchange movement	(3.1)	(10.8)	-	(13.9)
At 31 December 2020	71.4	272.6	-	344.0
Net				
At 31 December 2020	(306.2)	(556.1)	84.0	(778.4)
At 31 December 2019	(284.5)	(496.7)	84.4	(696.8)

The exchange rate movement reflects the opening provision at opening vs closing rates of exchange together with the difference between the technical account movement at average vs closing rates of exchange.

Notes to the financial statements *continued*

(Forming part of the financial statements)

11. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2020 in all cases. Gross claims ratios represent gross ultimate claims divided by gross ultimate premiums, and the net claims ratios represent ultimate claims net of reinsurance divided by ultimate premiums net of reinsurance.

Gross ultimate claims and ratios	2015 & Prior	2016	2017	2018	2019	2020	Total
At end of underwriting year	-	64%	70%	65%	62%	62%	-
One year later	-	70%	66%	62%	62%		-
Two years later	-	66%	65%	59%			-
Three years later	-	64%	64%				-
Four years later	-	66%					-
Total ultimate losses (£m)	2,890.0	270.8	305.7	313.5	372.5	405.7	4,558.3
Less: cumulative paid claims (£m)	(2,729.9)	(206.4)	(209.3)	(172.5)	(117.8)	(28.9)	(3,464.8)
Less: unearned portion of ultimate losses (£m)	-	-	-	(7.1)	(33.7)	(223.9)	(269.3)
Gross claims liabilities (£m)	160.0	64.5	96.5	133.9	220.9	152.9	828.7

Net ultimate claims and ratios	2015 & Prior	2016	2017	2018	2019	2020	Total
At end of underwriting year	-	58%	62%	58%	57%	57%	-
One year later	-	60%	58%	56%	55%		-
Two years later	-	59%	58%	54%			-
Three years later	-	58%	59%				-
Four years later	-	58%					-
Total ultimate losses (£m)	2,089.5	191.6	222.7	230.3	259.9	306.2	3,300.3
Less: cumulative paid claims (£m)	(1,983.5)	(153.1)	(154.0)	(134.4)	(90.8)	(26.2)	(2,542.0)
Less: unearned portion of ultimate losses (£m)	-	-	-	(5.3)	(19.4)	(177.4)	(202.1)
Net claims liabilities (£m)	106.0	38.5	68.7	90.6	149.7	102.6	556.1

The below tables show the pure year earned claims reserves and cumulative payments, gross and net of reinsurance.

Gross reserves and payments	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m
At end of underwriting year	96.8	95.4	132.4	129.7	160.8	181.8
One year later	195.3	261.9	281.8	293.9	338.8	
Two years later	205.1	264.6	302.7	306.5		
Three years later	193.1	262.7	305.7			
Four years later	187.7	270.8				
Five years later	186.1					
Cumulative payments	(146.9)	(206.4)	(209.3)	(172.5)	(117.8)	(28.9)
Estimated balance to pay	39.2	64.4	96.4	134.0	221.0	152.9

Notes to the financial statements *continued*

(Forming part of the financial statements)

11. Claims development *continued*

Net reserves and payments	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m
At end of underwriting year	74.9	68.0	83.5	84.1	113.4	128.8
One year later	155.6	181.4	199.8	216.8	240.5	
Two years later	160.9	193.6	219.4	225.0		
Three years later	153.9	189.8	222.7			
Four years later	148.8	191.6				
Five years later	148.5					
Cumulative payments	(120.3)	(153.1)	(154.0)	(134.4)	(90.8)	(26.2)
Estimated balance to pay	28.2	38.5	68.7	90.6	149.7	102.6

12. Related parties

The ultimate parent company of AEGIS Managing Agency Limited is Associated Electric & Gas Insurance Services Limited (AEGIS) incorporated in Bermuda.

The Managing Agent recharges the Syndicate expenses incurred by the Managing Agent in connection with the Syndicate's underwriting business. These recharges include a proportion of the remuneration payable in respect of the executives of the Managing Agent. The total recharge for the year was £24.8m (2019: £20.0m). The balance owed to the Managing Agent at 31 December 2020 was £0.5m (2019: £2.3m).

In turn, AEGIS recharges the Syndicate the cost of certain expenses paid by AEGIS on behalf of the Syndicate. During the year, the net amount of these recharges was £2.0m (2019: £1.8m) expense to Syndicate.

The above related party transactions are settled on a regular basis and not bound by any other terms and conditions.

Service Company

AEGIS London Holdings Limited, the company which owns the capital providers of the Syndicate, has a 100% subsidiary which introduces business to the Syndicate. The service company premium income received by the Syndicate is £8.2m (2019: £14.7m) largely relating to the Hull and Canadian Non-Marine Property classes of business.

The underwriting transactions of AEGIS London Services Limited are included in that of the Syndicate. AEGIS London Services Limited receives agency fees to the value of 5% of gross written premiums placed with the Syndicate. No fees are paid by AEGIS London Services Limited to any of the directors of AEGIS Managing Agency Limited.

Transactions with Directors

Certain directors of the managing agent are also directors of other companies, which may, and in some instances do, conduct business with Syndicate 1225. In all cases transactions between the Syndicate are carried out on normal arm's length commercial terms without any involvement by the director concerned on either side of the transaction.

13. Funds at Lloyd's

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with the (on-shored) Solvency 2 framework.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at the Syndicate level as a starting point, the requirement to meet Solvency 2 and Lloyd's capital requirements apply at overall and member and Syndicate level respectively. The capital requirement in respect of Syndicate 1225 is not disclosed in these financial statements.

Notes to the financial statements *continued*

(Forming part of the financial statements)

13. Funds at Lloyd's *continued*

Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency 2 requirements. The SCRs of each Syndicate are subject to review and approval by Lloyd's.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the 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 2020 was 35% (2019: 35%) of the member's SCR 'to ultimate', which is consistent with previous years.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the balance sheet on pages 8 and 9, represent resources available to meet members' and Lloyd's capital requirements.

14. Ultimate parent

The managing agent of the Syndicate is AEGIS Managing Agency Limited whose immediate parent and the smallest group into which the accounts are consolidated is AEGIS London Holdings Limited, registered office, 33 Gracechurch Street, London, EC3V 0BT England. The ultimate parent and controlling party is Associated Electric & Gas Insurance Services Limited (AEGIS), incorporated in Bermuda. A copy of AEGIS group accounts may be obtained from 1 Meadowlands Plaza, East Rutherford, NJ 07073.

Independent auditor's report to the members of Syndicate 1225

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of Syndicate 1225 (the 'syndicate'):

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

We have audited the syndicate annual financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in members' balances;
- the cash flow statement; and
- the related notes 1 to 14.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

The other information comprises the information included in the annual report, other than the syndicate annual financial statements and our auditor's report thereon. The managing agent is responsible for the other information contained within the annual report. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report to the members of Syndicate 1225

continued

Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

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

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

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

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

- Estimation of pipeline premiums requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response our testing included, on a sample basis, comparing management's estimates on prior year binders against actual premiums received as well as to historical experience on similar binders.
- Valuation of technical provisions includes assumptions and methodology requiring significant management judgement and involves complex calculations, and therefore there is potential for management bias. There is also a risk of overriding controls by making late adjustments to the technical provisions. In response to these risks we involved our actuarial specialists to develop independent estimates of the technical provisions and we tested the late journal entries to technical provisions.

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

Independent auditor's report to the members of Syndicate 1225

continued

Extent to which the audit was considered capable of detecting irregularities, including fraud *continued*

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

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

Report on other legal and regulatory requirements

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

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

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

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report of the directors of the managing agent

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Adam Ely FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
4 March 2021

Administration

Managing Agent:	AEGIS Managing Agency Limited
Registered Office:	33 Gracechurch Street, London, EC3V 0BT, England and Wales
Registered Number:	03413859
Telephone:	+44 (0)20 7265 2100
Fax:	+44 (0)20 7265 2101
Website:	www.AEGISLondon.co.uk
E-mail:	enquiries@AEGISLondon.co.uk

AEGIS Syndicate 1225 at Lloyd's of London ("Syndicate 1225") commenced operations in 1999. Syndicate 1225 operations are supported by AEGIS Managing Agency Limited ("AMAL"), which provides professional staff and services for Syndicate 1225. AEGIS Electric & Gas International Services Limited ("AISL") is a corporate member of Lloyd's and the main capital provider of Syndicate 1225. AISL, AMAL, AEGIS London Services Limited, AEGIS Electric & Gas International Services 2 Limited, AEGIS Electric & Gas International Services 3 Limited, AEGIS Electric & Gas International Services 4 Limited, and AEGIS Electric & Gas International Services 5 Limited are subsidiaries of AEGIS London Holdings Limited, and ultimately owned by Associated Electric & Gas Insurance Services Limited ("AEGIS").