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# SIRIUS INTERNATIONAL MANAGING AGENCY LIMITED – SYNDICATE 1945 REPORT AND ACCOUNTS

**31 December 2021**

# REPORT AND ACCOUNTS 2021

## Contents

## Directors and Administration

**MANAGING AGENT:**

**Sirius International Managing Agency Limited - (SIMA).**

The ultimate parent company of SIMA is SiriusPoint Limited domiciled in Bermuda.

**Directors of SIMA:**

S Acland (Chief Underwriting Officer and Active Underwriter)
M Cramér Manhem (Group Non-Executive) *
L Ek (Group Non-Executive, resigned 30 June 2021) *
D Foster (Chief Financial Officer) (Chair of the Reserving Committee, appointed 1 January 2021)
P Gage (Independent Non-Executive and Chair of the Strategic Underwriting Committee) *
R Harman (Chief Executive Officer)
J Haynes (Independent Non-Executive, Chair of the Audit Committee, Chair of Risk and Capital Committee) *
M Hudson (Independent Non–Executive Director, Chairman of the Board and Chair of the Remuneration and Nominations Committee) *
A Smith (Chief Risk Officer)
E Zerka (Head of Regulation and Compliance)

*Non-Executive Directors

None of the directors has any participation on the Syndicate.

**Company Secretary**

Clyde Secretaries Ltd
The St Botolph Building
138 Houndsditch
London EC3A 7AR

**Managing Agent's registered office**

The St Botolph Building
138 Houndsditch
London EC3A 7AR

**Managing Agent's registered number** 08536887

**SYNDICATE:**

**Active Underwriter**

S Acland

**Bankers**

Citibank NA
RBC Dexia

## Directors and administration (continued)

**Investment Manager**

Amundi (UK) Ltd

**Independent Auditors**

PricewaterhouseCoopers LLP
7 More London Riverside
London
United Kingdom
SE1 2RT

## Chief Executive Officer's Report

2021 has been an exceptional year for Syndicate 1945 returning a calendar year profit of £6.8m (2020 loss of £56.1m) at a combined ratio of 92.9% (2020 159.3% or 99.7% excluding COVID 19 losses). The result is evidence that our remediation work undertaken over recent years is starting to materialise through the calendar year results.

The Syndicate has maintained its overall premium level in 2021 writing gross premium of £110.8m (2020: £108.8m), whilst re-focusing the portfolio to its core A&H, Casualty and Energy classes. Despite the remediation work conducted in prior years, the Managing Agency decided that the Property D&F is no longer within the Syndicate's risk appetite and therefore closed the class of business in May 2021. As a result, the gap between the full year plan and the business bound to date for this class, was redistributed to A&H, Energy and Casualty.

The Syndicate remains a market leader in Accident & Health and a price influencer in Casualty. Rate change is improving for all classes but most keenly felt in the Casualty Reinsurance and Energy Liability accounts. This is underpinned by the positive benchmark percentage, with priced loss ratios being better than plan.

The COVID 19 global pandemic continues to create uncertainty across the market however our reserves for these losses have remained robust and stable across the year; a significant portion of which relate to losses attaching to the 2018 and prior underwriting years of account on our discontinued Contingency book.

The impact from exiting the European Union has been limited from an underwriting point of view. The majority of the Syndicate's business is US exposed, however for the small number of European exposed risks (affecting Energy, Space and Property), having access to the Lloyd's Insurance Company ensured no business was lost. During the year there have been some operational challenges surrounding the Part VII transfer of relevant EEA business to Lloyd's Insurance Company S.A, (LIC) whereby transactions relating to the Lloyd's Part VII transfer were incorrectly processed through the Syndicate's premium trust funds by third parties. These transactions were immaterial to the Syndicate and were dealt with in accordance with the Lloyd's Part VII dispute process.

I would like to take this opportunity to thank all of the employees together with the Board and our capital providers who have worked tirelessly during 2021.

**R Harman**

Chief Executive Officer

**S Acland**

Chief Underwriting Officer and Active Underwriter
2 March 2022

## Report of the Directors of the Managing Agent

The directors of the Managing Agent present their managing agent's report for the year ended 31 December 2021.
This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

**Results**

The result for the year ended 31 December 2021 is a profit of £6.8m (2020: loss of £56.2m); and the total comprehensive income is a profit of £6.8m (2020: loss of £52.8m). The total recognised result on open years is a profit loss of £25.3m (2020: loss of £81.0m). This is calculated as the sum of the 2019 year of account at 36 months, the 2020 year of account at 24 months and the 2021 year of account at 12 months. The Member's balance of the Syndicate was £18.4m at 31 December 2021 (2020: £34.0m.)

**Principal Activities**

The principal activity of Syndicate 1945 continues to be the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's.

**Business Review**

The Syndicate underwrote the following classes of business in 2021: Accident and Health, Property, Marine, Energy and Casualty. As referred to in the CEO report, SiriusPoint decided that the Property D&F is no longer within the company's risk appetite and therefore closed the class of business in May 2021. As a result, the gap between the full year plan and the business bound to date for this class, was redistributed to A&H, Energy and Casualty.

In the immediate aftermath of the COVID pandemic, the rating environment saw pockets of increases on loss affected accounts particularly on the Accident & Health account. Conversely, whilst Casualty continues to see rate improvements, it is starting to reduce following historical year on year increases and additional capacity in the market, coupled with increased retention in the market. The Syndicate has performed largely in line with plan, with rating improvements being more localised on the PA Cat XL and Renewable Energy accounts. For each of these classes; Accident & Health saw risk adjusted rate of 2.1% (1.1% above plan), Energy saw risk adjusted rate change of 5.7% (0.4% above plan), Casualty saw risk adjusted rate change of 9% (1% below plan) and the Space class saw risk adjusted rate change of 9.7% (5.3% below plan) in 2021 underwriting year.

The merger between Third Point Reinsurance Ltd. and Sirius International Insurance Group, Ltd was completed on 26 February 2021and the ultimate parent of the Syndicate became Third Point Reinsurance Ltd. Following the merger Third Point Reinsurance Ltd merged with Sirius Bermuda Insurance Company (Sirius Bermuda) with Sirius Bermuda being the surviving entity. Upon the effectiveness of the merger, Sirius Bermuda changed its name to SiriusPoint Ltd. There are no changes expected to the Syndicate's planned activities over the next twelve months.

**Key Performance Indicators**

The directors consider the information in the following tables to be the key performance indicators for the Syndicate.

## Report of the Directors of the Managing Agent (continued)

**Key Performance Indicators (continued)**

| Gross written premium by class of business | 2021 £000 | 2020 £000 |
|---|---|---|
| Accident and health | **38,161** | 40,935 |
| Contingency | **522** | (108) |
| Property | **4,836** | 12,403 |
| Marine | **2,460** | 3,707 |
| Energy | **19,572** | 12,464 |
| Casualty | **45,251** | 39,431 |
| **Total** | **110,802** | 108,832 |

These are the classes of business that management use to review the business.

| Key performance indicators | 2021 £000 | 2020 £000 |
|---|---|---|
| Gross written premium | **110,802** | 108,832 |
| Net claims ratio | **59.3%** | 127.1% |
| Expense ratio | **33.6%** | 32.2% |
| Combined ratio | **92.9%** | 159.3% |

The net claims ratio is net claims incurred as a percentage of the net premium earned. The expense ratio is the net operational expense (including foreign exchange losses/profits) as a percentage of net premium earned. The combined ratio is the combination of the two.

The reduction in the net claims loss ratio in 2021 to 59.3% (2020: 127.1%) is largely due to COVID-19 losses incurred in 2020 that have not repeated in 2021.

**Investment Policy**

It is the policy of the Syndicate that it only invests in assets and instruments the risks of which they can properly identify, measure, monitor, manage and control as well as appropriately take into account in the assessment of their overall solvency needs. The investment objectives are to maintain sufficient credit risk spread within the portfolio and to invest in easily realisable, highly rated securities.

SIMA has an investment committee to recommend investment strategy and guidelines. During the year the Syndicate’s appointed investment manager was actively managing the USD Credit for Reinsurance Trust Fund (CRTF) and USD Lloyd’s Dollar Trust Fund (LDTF). Other Syndicate Trust Funds are currently too small to be actively managed but this is kept under management review. In the interim, these funds are invested in the Western Asset Government Reserve Mutual Fund, the Western Asset Liquidity Fund and the Fiera Funds. These are highly liquid, being available for utilisation immediately as required.

## Report of the Directors of the Managing Agent (continued)

**Principal Risks and Uncertainties**

SIMA sets the risk appetite for the Syndicate annually, which is approved by the Board as part of the Syndicate's business planning and Solvency Capital Requirement (`SCR') process. The SIMA Risk and Capital Committee meets quarterly to oversee the risk management framework. This committee reviews the risk profile and monitors performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

**Insurance Risk**

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

**Credit Risk**

Credit risk is the risk of default by one of the direct debtors of the Company being unable to pay their debts when due.

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Board's policy is that the Syndicate will normally only reinsure with businesses rated in the A range (S & P or AM Best) or higher or otherwise require collateral. SIMA participates in the Sirius Group Security Committee which assesses and is required to approve all new reinsurers before business is placed with them.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Syndicate’s liability as primary insurer. If a reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis periodically by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by periodically reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. Where ratings are lower than the A range (S & P or AM Best) and in certain other circumstances, deposits from reinsurers may be held as collateral. Concentration risk is reviewed through monitoring aggregations of credit risk by reinsurer. The approval of reinsurers includes establishing limits on exposure to individual counterparties, so that the total credit risk the Syndicate can be exposed to is limited and management monitor the counterparty exposure on an ongoing basis.

**Market Risk**

Market risk is the risk arising from uncertainty of asset prices, interest rates, foreign exchange rates, and other factors related to all financial markets and investment asset management.

The key aspect of market risk for the Syndicate is that it may incur losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. SIMA's policy is to maintain received income or incurred expenditure in the currencies in which they were received or paid. Currency asset and liability matching is explicitly reported to the Investment Committee on a quarterly basis. Any significant surplus or deficit in a currency would be subject to review by the Investment Committee, and depending on the magnitude of the surplus or deficit, to escalation to the Board.

## Report of the Directors of the Managing Agent (continued)

**Liquidity and Cash Flow Risk**

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk, the Investment Committee reviews cash flow projections regularly and the investment portfolio is held in cash and readily realisable securities. In addition, the Syndicate has a credit facility with SINT as disclosed in Note 19. Where appropriate, the Investment Committee escalates liquidity risk issues to the Board. The capital framework at Lloyd's is documented in Note 4.

**Operational Risk**

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. SIMA seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

During 2020, the business continuity plan was tested during the global Corona virus pandemic and was proven to be effective, allowing staff to utilise available technology to work remotely with efficiency. During 2021, the business moved to adopt a hybrid-working model, which optimises the benefits of flexibility with workplace interaction.

During 2021, some transactions relating to the Lloyd's Part VII transfer were incorrectly processed through the syndicate's premium trust funds by third parties. These transactions were immaterial to the syndicate and were dealt with in accordance with the Lloyd's Part VII dispute process.

**Regulatory Risk**

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. SIMA is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. SIMA monitors regulatory developments and assesses the impact on agency policy.

**Climate Change**

During 2021, the SIMA Board considered the impact of climate change on all aspects of the business of the Managing Agency and Syndicate. As a key developing risk identified by the emerging risk process, a range of impacts are considered; including weather-related natural catastrophes, transition risks and SIMA's environmental responsibilities. These risks will continue to be an area of management focus as the plan is implemented and SIMA's approach to managing the risks is embedded throughout the business.

**Future Developments**

The Syndicate will continue to transact the current classes of general insurance and reinsurance business, and if opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The Syndicate's income to date has been in line with expectations. The current rating environment still provides opportunities for growth over the planning cycle, either organically or by adding new strategies.

## Report of the Directors of the Managing Agent (continued)

**Future Developments (continued)**

The Syndicate's 2022 Business Forecast was submitted to Lloyd's with a planned gross written premium of £112.5m (Gross net written premium: £102.4m). The capacity for the 2022 year of account is £ 89.0m.

As mentioned in the "Business Review" section of this report, following the merger between Third Point Reinsurance Ltd. and Sirius International Insurance Group the ultimate parent of the company is SiriusPoint Ltd. There are no changes expected to the Syndicate's planned activities over the next twelve months.

**Directors Serving in the Year**

The directors of the Managing Agency who held office during the year were as follows:

S Acland (Chief Underwriting Officer and Active Underwriter)
M Cramér Manhem (Group Non-Executive) *
L Ek (Group Non-Executive, resigned 30 June 2021) *
D Foster (Chief Financial Officer) (Chair of Reserving Committee, appointed 1 January 2021)
P Gage (Independent Non-Executive and chair of the Strategic Underwriting Committee) *
R Harman (Chief Executive Officer)
J Haynes (Independent Non-Executive, Chair of the Audit Committee, Chair of Risk and Capital Committee) *
M Hudson (Independent Non–Executive Director, Chairman of the Board and Chair of the Remuneration and Nominations Committee) *
A Smith (Chief Risk Officer)
E Zerka (Head of Regulation and Compliance)

*Non-Executive Directors

The directors of the Managing Agent are covered by the Sirius Group indemnity provision policy, which was in force during the financial year and at the date of signing the annual accounts.

**Statement of disclosure of information to the auditors**

Each of the persons who are a director of the Managing Agent at the date of this report confirms that:

- So far as each of them is aware, there is no information relevant to the audit of the Syndicate's annual accounts for the year ended 31 December 2021 of which the auditors are unaware; and
- The director has taken all steps that he/she ought to have taken in his/her duty as a director in order to make him/herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

**Independent Auditors**

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) require that the auditors of the Syndicate's annual accounts be appointed by the Managing Agent on behalf of the member of the Syndicate.

In accordance with section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD), the auditors, PricewaterhouseCoopers LLP will be deemed reappointed by the Managing agency on behalf of the member of the Syndicate. They have indicated their willingness to continue in office.

## Report of the Directors of the Managing Agent (continued)

On behalf of the Board,

**R Harman**

Chief Executive Officer

2 March 2022

## Statement of Managing Agent's Responsibilities

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

In preparing the Syndicate's annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRSs 102 and 103 have been followed, subject to any material departures disclosed and explained in the annual accounts;
- notify the members in writing about the use of disclosure exemptions, if any, of FRS 102 and FRS 103 used in preparation of the annual accounts; and
- prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is also responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

On behalf of the Board,

**R Harman**

Chief Executive Officer

2 March 2021

## Independent Auditors' Report to the Member of Syndicate 1945

## Report on the audit of the financial statements

### Opinion

In our opinion, Syndicate 1945's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its profit 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 Syndicate 1945 Report and Accounts (the "Annual Report"), which comprise: the Statement of Financial Position – Assets and the Statement of Financial Position - Liabilities as at 31 December 2021; the Income Statement: Technical Account – General Business, the Income Statement: Non-Technical Account, the Statement of Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Member's 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.

### 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.

### Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report 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 Managing Agent's Report.

## 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 management bias in accounting estimates and judgmental areas of the Annual Return. Audit procedures performed by the engagement team included:

- Discussions with the Audit Committee, management and Internal Audit, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

- Obtaining an understanding of the end-to-end process of posting journals to the general ledger and the financial reporting processes;

- Performing testing over journals based on defined risk criteria, such as unusual combinations of entries and unusual words, and examining the accounting records and supporting documentation for each journal entry identified for investigation;

- Identifying significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual; and

- Understanding and assessing, with reference to supporting data and, where deemed appropriate, independent auditor reprojections, the significant judgements made by management, in particular in relation to the valuation of claims incurred but not reported and the estimation of premium income, including consideration of potential conditions for increased management bias.

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.

Thomas Robb (Senior statutory auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

2 March 2022

## Income Statement: Technical Account – General Business

**For the year ended 31 December 2021**

| | Note | 2021 £000 | £000 | 2020 £000 | £000 |
|---|---|---|---|---|---|
| **Earned premiums, net of reinsurance** | | | | | |
| Gross premiums written | *5* | **110,802** | | 108,832 | |
| Outwards reinsurance premiums | | **(10,881)** | | (9,566) | |
| | | | **99,921** | | 99,266 |
| Change in the provision for unearned premiums | *16* | | | | |
| | | | | | |
| Gross amount | | **(3,389)** | | (4,754) | |
| Reinsurers share | | **420** | | 1,200 | |
| | | | **(2,969)** | | (3,554) |
| | | | **96,952** | | 95,712 |
| | | | | | |
| **Allocated investment return transferred from the non-technical account** | *9* | | **(129)** | | 769 |
| | | | | | |
| **Claims incurred, net of reinsurance** | *6* | | | | |
| Claims paid | | | | | |
| Gross amount | | **(64,028)** | | (72,062) | |
| Reinsurers' share | | **11,574** | | 12,210 | |
| | | | **(52,454)** | | (59,852) |
| | | | | | |
| Change in the provision for claims | *6, 16* | | | | |
| Gross amount | | **2,253** | | (80,087) | |
| Reinsurers' share | | **(7,329)** | | 18,255 | |
| | | | **(5,076)** | | (61,832) |
| **Claims incurred, net of reinsurance** | | | **(57,530)** | | (121,684) |
| | | | | | |
| **Net operating expenses** | *7* | | **(32,441)** | | (30,850) |
| | | | | | |
| **Balance on the technical account for general business** | | | **6,852** | | (56,053) |

## Income Statement: Non-Technical Account

**For the year ended 31 December 2021**

| | Note | 2021 £000 | 2020 £000 |
|---|---|---|---|
| **Balance on the technical account for general business** | | **6,852** | (56,053) |
| | | | |
| **Investment result:** | | | |
| Investment income | 9 | **585** | 925 |
| Unrealised gains on investments | 9 | **94** | - |
| Investment expenses and charges | 9 | **(58)** | (32) |
| Unrealised losses on investments | 9 | **(750)** | (124) |
| | | | |
| **Allocated investment return transferred to technical account** | | **129** | (769) |
| | | | |
| Investment deficit on funds in syndicate | | **(4)** | - |
| Loss on foreign exchange | | **(89)** | (111) |
| | | | |
| **Profit/(loss) for the financial year** | | **6,759** | (56,164) |

All operations relate to continuing activities.

## Statement of Comprehensive Income

**For the year ended 31 December 2021**

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Profit/(loss) for the financial year** | **6,759** | (56,164) |
| Currency translation differences | **41** | 3,394 |
| | | |
| **Total comprehensive profit/(loss) for the year** | **6,800** | (52,770) |

## Statement of Financial Position – Assets

**As at 31 December 2021**

| | Note | 2021 £000 | £000 | 2020 £000 | £000 |
|---|---|---|---|---|---|
| **Investments** | | | | | |
| Financial investments | *10* | | **126,867** | | 138,351 |
| Deposits with ceding undertakings | | | **3,241** | | 229 |
| | | | | | |
| **Reinsurers' share of technical provisions** | *16* | | | | |
| Provision for unearned premiums | | **3,500** | | 3,038 | |
| Claims outstanding | | **14,918** | | 22,120 | |
| | | | **18,418** | | 25,158 |
| **Debtors** | | | | | |
| **Within one year** | | | | | |
| Debtors arising out of direct insurance operations | *11* | **11,506** | | 8,907 | |
| Debtors arising out of reinsurance operations | *12* | **40,575** | | 35,267 | |
| Other debtors | 20 | **5,392** | | 4,780 | |
| | | | **57,473** | | 48,954 |
| **Other assets** | | | | | |
| Cash at bank and in hand | | **12,804** | | 6,763 | |
| Overseas deposits | | **7,155** | | 9,208 | |
| | | | **19,959** | | 15,971 |
| **Prepayments and accrued income** | | | | | |
| Deferred acquisition costs | *13* | **13,408** | | 13,008 | |
| Other prepayments and accrued income | | **24** | | 80 | |
| | | | **13,432** | | 13,088 |
| | | | | | |
| **Total assets** | | | **239,390** | | 241,751 |

## Statement of Financial Position – Liabilities

**As at 31 December 2021**

| | Note | 2021<br>£000 | £000 | 2020<br>£000 | £000 |
|---|---|---|---|---|---|
| **Capital and reserves** | | | | | |
| Member's balance | | | **(18,389)** | | (33,960) |
| | | | | | |
| **Technical provisions** | *16* | | | | |
| Provision for unearned premiums | | **57,244** | | 53,640 | |
| Claims outstanding | | **167,230** | | 168,966 | |
| | | | **224,474** | | 222,606 |
| **Creditors** | *17* | | | | |
| **Within one year** | | | | | |
| Creditors arising out of direct insurance operations | | **1,583** | | 886 | |
| Creditors arising out of reinsurance operations | | **10,124** | | 6,542 | |
| Other creditors | | **13** | | 4,436 | |
| | | | **11,720** | | 11,864 |
| **After one year** | | | | | |
| Creditors arising out of reinsurance operations | | **27** | | 54 | |
| | | | **27** | | 54 |
| | | | | | |
| **Accruals and deferred income** | | | **21,558** | | 41,187 |
| | | | | | |
| **Total Member's balances and liabilities** | | | **239,390** | | 241,751 |

The notes on pages 22 to 52 form an integral part of these annual accounts.

The Syndicate financial statements on pages 16 to 52 were approved by the Board of Sirius International Managing Agency Limited on 24 February 2022 and were signed on its behalf by

**D Foster**

Chief Financial Officer

2 March 2022

## Statement of Changes in Member's Balance

**For the year ended 31 December 2021**

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Member's balance as at 1 January | **(33,960)** | (63,568) |
| Profit/(loss) for the year | **6,759** | (56,164) |
| Other comprehensive income | **41** | 3,394 |
| As at 31 December | **(27,160)** | (116,338) |
| Loss collection | **48,963** | 35,300 |
| Exchange rate movement on cash calls on open years | **(20)** | - |
| Net balance as at 31 December | **21,783** | (81,038) |
| Deposit of Funds at Lloyd's in Syndicate Trust Funds | **8,805** | 47,078 |
| Withdrawal of Funds in Syndicate Trust Funds | **(48,977)** | - |
| **Member's balance as at 31 December** | **(18,389)** | (33,960) |

Members participate on syndicates 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.

## Statement of Cash Flows

**For the year ended 31 December 2021**

| | Note | 2021 £000 | £000 | 2020 £000 | £000 |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Profit/(loss) for the financial year | | **6,759** | | (56,164) | |
| | | | | | |
| *Adjustments* | | | | | |
| Net (gains)/losses on other financial instruments | | **(514)** | | 361 | |
| Net unrealised foreign exchange(gains)/ losses | | **(3,456)** | | 3,532 | |
| Net interest receivable /(payable) | | **133** | | (769) | |
| Interest (paid)/received | | **(133)** | | 769 | |
| | | | | | |
| *Movements in operating assets and liabilities:* | | | | | |
| Decrease/(increase) in reinsurers' share of technical provisions | | **6,740** | | (17,653) | |
| (Increase) in prepayments and accrued income | | **(344)** | | (790) | |
| (Increase)in debtors | | **(8,520)** | | (7,284) | |
| Increase in gross technical provisions | | **1,868** | | 76,553 | |
| Increase in creditors | | **305** | | 4,484 | |
| (Decrease)/increase in accruals and deferred income | | **(19,628)** | | 6,991 | |
| **Cash flows from operating activities** | | | **(16,790)** | | 10,030 |
| | | | | | |
| **Net cash flow from investing activities** | | | | | |
| Acquisitions of other financial instruments | | **(80,703)** | | (60,725) | |
| Proceeds from sale of other financial instruments | | **53,730** | | 18,341 | |
| **Cash flows from investing activities** | | | **(26,973)** | | (42,384) |
| | | | | | |
| Transfer from members in respect of underwriting participations | | | **48,963** | | 35,300 |
| (Withdrawals)/Deposit of funds at Lloyd's in Syndicate Trust Fund | | | **(40,172)** | | 47,078 |
| **Cash flows from financing activities** | | | **8,791** | | 82,378 |
| | | | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | | **(34,972)** | | 50,024 |
| | | | | | |
| Cash and cash equivalents at the beginning of the year | | | **70,912** | | 21,083 |
| Effect of exchange rate changes on cash and cash equivalents | | | **488** | | (195) |
| | | | | | |
| **Cash and cash equivalents at the end of the year** | *18* | | **36,428** | | 70,912 |

# Notes to the financial statements for the year ended 31 December 2021

## 1. Basis of preparation

Syndicate 1945 ('The Syndicate') comprises a member of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the Syndicate's managing agent is The St Botolph Building, 138 Houndsditch, London, EC3A 7AR.

The financial statements have been prepared in accordance with regulation 5 of 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"). These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value through profit or loss. In assessing going concern the directors have considered the syndicate's current and forecast solvency and liquidity position for the next twelve months and beyond using scenario analysis and by considering the mitigating recovery actions that can be undertaken. It is the intention for the Syndicate to participate on the 2023 year of account and its ability to meet the capital requirements set by Lloyd's associated with this participation, including the continued financial support from the parent company, SiriusPoint International Insurance Corp has been considered. Please refer to Note 4 for further information of the capital framework at Lloyd's.

The financial statements are presented in Pound Sterling (GBP), consistent with the presentational currency for reporting to Lloyd's following the introduction of FRS 102, with effect from 1 January 2015. The functional currency of the Syndicate is US Dollars (USD) which is the major currency in which business is written and costs incurred. Amounts are presented rounded to the nearest thousands, except where stated.

## 2. Use of judgements and estimates

In preparing these financial statements, the directors of the Managing Agent have made 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 estimates are recognised prospectively. The material judgements and estimates made in preparing these financial statements are described below.

**Claims provisions**

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in-house actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part from considerations of market benchmarks (especially where the account is relatively new), output from rating and other models of business accepted and assessments of underwriting conditions. On specific losses/events a more bespoke approach is undertaken, involving inputs from Underwriting, Claims and Exposure management. The provision for claims also includes amounts in respect of internal and external claims handling costs.

Areas where there is a relatively higher level of uncertainty at Q4 2021:

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 2. Use of judgements and estimates (continued)

**Claims provisions (continued)**

*Casualty lines of business*

Casualty has been underwritten since 2018 (International Casualty from 2020) and the reserves have become more dominant as the reserves on the run-off classes (Marine and Contingency since 2018, Property since mid-2021) continue to reduce. The Casualty business has a long tail and there is only limited claims experience to date.

The key assumption underlying the Casualty reserves is the Initial Expected Loss Ratios (“IELRs”). The IELRs are calibrated by considering planning and pricing loss ratios, premium rate change assumptions, claims inflation assumptions and external benchmarks.

*COVID-19*

On classes with material Covid-19 exposures, policy/contract level analysis is performed considering likelihood and severity of losses given emerging experience and market insight, with inputs from Underwriting/Claims.

- Accident & Health; due to limited level of information received to date and coupled with uncertainty around application of loss triggers on PA & Travel policies.
- Contingency; claims relating to film and TV productions affected by Covid-19, for which claims costs are yet to be finalised.

*Margin*

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate, which reduces the possibility of adverse claims development during run-off.

Margin is considered for exceptional reserves (such as large natural catastrophes such as hurricanes and Covid-19) and the main block reserves separately. The Covid-19 margin is set on each class based on considering the level of uncertainty/downside potential for each class

For the main block reserves, the margin is calibrated based on the attritional reserve distribution from the Internal Model. The level of the margin is set to maintain the booked reserves to be in line with the Syndicate’s Reserve Risk Appetite.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in Note 4 and further information about the amounts of claims outstanding is contained in Note 16.

**Pipeline premium**

The Syndicate makes an estimate of premiums written during the year that have not yet been notified by the end of the financial year (“pipeline premiums”), based on business written but not yet signed. For certain insurance contracts, written premium is initially recognised based on estimates of ultimate premiums. These estimates are derived based on a combination of underwriting information

(e.g. contractual terms, coverholder/broker estimates on expected premium etc.) and statistical/projection methods. Where statistical methods are used, the main assumption underlying these estimates is that past premium development can be used to project future premium development. The estimates are judgemental and could result in misstatements of revenue recorded in the financial

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 2. Use of judgements and estimates (continued)

**Pipeline premium (continued)**

statements, and are therefore subject to a quarterly review and control process. The pipeline premium included in gross written premium is £43.6 million (2020: £37.5 million).

## 3. Significant accounting policies

The following principal accounting policies that have been applied consistently in the preparation of these Syndicate's financial statements, are listed below.

**Premiums written**

Gross premiums written reflect direct and inwards reinsurance business written during the period, gross of commission payable to intermediaries, and exclude any taxes or duties based on premiums. Premiums written include estimates for 'pipeline' premiums representing amounts due to the Syndicate not yet notified and adjustments to estimates of premiums written in previous periods.

Insurance contracts are those contracts that transfer significant risk.

**Unearned premiums**

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract. Premiums are earned from the date of attachment of risk over the indemnity period based on the pattern of the risks underwritten. Outwards reinsurance premiums on quota share policies are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. Excess of loss reinsurance policies are accounted for over their term. The earned proportion of premiums is recognised as income and, for reinsurance ceded, an expense.

**Acquisition costs**

Costs incurred in acquiring general insurance contracts are recognised over the period of the insurance contracts to which they relate on the same basis as the earning pattern of the premium. At the balance sheet date, acquisition costs are deferred to the extent that they are attributable to unearned premiums. Acquisition costs include direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies.

**Claims incurred**

Claims incurred comprise claims and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses. Where applicable, deductions are made for salvage and other recoveries.

**Claims outstanding**

Outstanding claims include an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR). The estimated cost of claims includes expenses to be incurred in settling claims.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 3. Significant accounting policies (continued)

**Claims outstanding (continued)**

Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported and making allowance for claims incurred but not reported using statistical techniques of estimation, generally involving projecting from past experience of the development of claims over time, or market benchmarks where there is limited own data. On specific losses/events a more bespoke approach is undertaken, involving inputs from Underwriting, Claims and Exposure management.

The Syndicate does not discount its liabilities for unpaid claims.

**Claims recoveries**

The reinsurers' share of incurred claims comprise recoveries on paid gross claims that have been processed and movement in the reinsurers' share of gross claims outstanding. Recoveries are calculated based on the reinsurance programmes in place and gross outstanding claims having due regard to collectability. Where applicable, collectability is assessed using the current security rating of the reinsurance companies involved. A number of statistical techniques are used to assist in estimating reinsurance recoveries on gross IBNR claims.

**Unexpired risks provision**

Provision is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). A review is performed by Lloyd's reporting class of business and underwriting year and a provision for unexpired risks is calculated taking into account the expected loss ratio on unexpired premium.

**Foreign currencies**

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.

Transactions in functional currency are translated to the presentational currency using average exchange rates for the period. Assets and liabilities are translated from functional currency to presentational currency at the rates of exchange at the balance sheet date.

**Financial assets and liabilities**

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of FRS 102 chapters 11 and 12.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 3. Significant accounting policies (continued)

**Financial assets and liabilities (continued)**

*Recognition*

The Syndicate does not hold financial assets or financial liabilities for trading purposes. Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially recognised at transaction price.

Financial assets are derecognised if the Syndicate’s contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Regular purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

*Classification and measurement*

Investments in debt and other fixed income securities are subsequently carried at fair value through profit or loss. Fair value changes are recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Debtors including debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and creditors including creditors arising out of direct insurance and reinsurance operations are subsequently carried at amortised cost.

*Identification and measurement of impairment*

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. Fo financial assets measured at amortised cost the reversal is recognised in profit or loss.

*Off-setting*

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 3. Significant accounting policies (continued)

**Investment return**

Financial investments comprise of US Government Stocks, US Corporate Bonds and funds held in money market funds. Investment income in respect of financial investments consists of interest income and realised investment gains. Investment return comprises of investment income and movements in unrealised gains and losses on financial instruments at fair value through profit or loss, less investment management expenses, interest payable, realised losses and impairment losses.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price.

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise changes during the reporting period in the value of the investments held.

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise changes during the reporting period in the value of the investments held.

Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances at bank, LOC collateralisation accounts and funds held in overnight “sweep” accounts with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short term commitments.

**Deposits with Ceding Undertakings**

Deposits with ceding undertakings are measured at cost less allowance for impairment.

**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, currently at 20% (2020: 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members’ agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

**Pension costs**

SIMA does not employ any staff directly and does not operate a pension scheme. No pension contributions are charged directly to the Syndicate.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 3. Significant accounting policies (continued)

**Profit commission**

There is no provision in SIMA's managing agency agreement for profit commission.

**Related party transactions**

A related party is a person or entity that is related to the Syndicate. The Syndicate discloses transactions with related parties including parties not wholly owned within the Group.

## 4. Risk and capital management

**Introduction and overview**

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.

**Risk management framework**

The Board of Directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has established a Risk and Capital Committee to oversee the operation of the Syndicate's risk management framework and to review and monitor the management of the risks to which the Syndicate is exposed. Additionally, the Board of SIMA has delegated oversight aspects of insurance risks to the Strategic Underwriting and Reserving Committees, which are responsible for monitoring insurance and reserving risk management policies, and the management of aspects of financial risks to the Investment Committee, which is responsible for developing and monitoring financial risk management policies.

The Risk and Capital Committee reports regularly to the Board of Directors on its activities. Similarly, the Strategic Underwriting, Reserving and Investment Committees report regularly to the Board on their areas of responsibility.

The risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

**Insurance Risk**

The predominant risk to which the Syndicate is exposed is insurance risk which can be split into underwriting risk and reserving risk.

**Management of underwriting risk**

A key component of the management of underwriting risk for the Syndicate is a disciplined underwriting strategy that is focused on writing quality business and not writing for volume. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes underwriting limits on the Syndicate's total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well-diversified book is maintained with no over exposure in any one geographical region. This is described further under Concentration of insurance risk below.

Contracts can contain a number of features which help to manage the underwriting risk such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements).

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Management of underwriting risk (continued)**

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event, including excess of loss, stop loss, quota share and catastrophe reinsurance. Where an individual exposure is deemed surplus to the Syndicate's appetite additional facultative reinsurance is also purchased.

**Concentration of underwriting risk**

The Syndicate's exposure to insurance risk is diversified. The following tables provide an analysis of the geographical breakdown and by class of business, which the directors consider to be the major types of insurance exposures.

Premium by class of business and geographic analysis is shown below:

| Year 2021 | Accident & Health £000 | Marine, aviation and transport £000 | Fire and other damage to property £000 | Pecuniary loss £000 | Reinsurance £000 | Total £000 |
|---|---|---|---|---|---|---|
| UK | **2,688** | **3,585** | **1,716** | **61** | **17,769** | **25,819** |
| EU | **-** | **-** | **-** | **-** | **5,060** | **5,060** |
| US | **5,602** | **7,471** | **3,577** | **127** | **37,034** | **53,811** |
| Canada | **318** | **424** | **203** | **7** | **2,099** | **3,051** |
| Other | **2,401** | **3,202** | **1,533** | **55** | **15,870** | **23,061** |
| **Total** | **11,009** | **14,682** | **7,029** | **250** | **77,832** | **110,802** |

| Year 2020 | Accident & Health £000 | Marine, aviation and transport £000 | Fire and other damage to property £000 | Pecuniary loss £000 | Reinsurance £000 | Total £000 |
|---|---|---|---|---|---|---|
| UK | 5,299 | 5,127 | 9,001 | (9) | 46,944 | 66,362 |
| EU | - | - | - | - | 1,851 | 1,851 |
| US | 2,121 | 2,052 | 3,602 | (3) | 18,792 | 26,564 |
| Canada | 154 | 148 | 261 | - | 1,362 | 1,925 |
| Other | 968 | 937 | 1,645 | (2) | 8,582 | 12,130 |
| Total | 8,542 | 8,264 | 14,509 | (14) | 77,531 | 108,832 |

Claims liabilities by class of business are shown on the following page: -

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 4. Risk and capital management (continued)

**Concentration of underwriting risk (continued)**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Gross liabilities £000 | Reinsurance of liabilities £000 | Net liabilities £000 | Gross liabilities £000 | Reinsurance of liabilities £000 | Net liabilities £000 |
| Accident and health | **7,730** | **(72)** | **7,658** | 7,301 | (146) | 7,155 |
| Marine, aviation and transport | **15,796** | **(4,088)** | **11,708** | 11,391 | (2,720) | 8,671 |
| Fire and other damage to property | **13,495** | **(2,793)** | **10,702** | 15,402 | (203) | 15,199 |
| Pecuniary loss | **7,256** | **(2,426)** | **4,830** | 21,566 | (11,734) | 9,832 |
| Reinsurance | **122,953** | **(5,539)** | **117,414** | 113,306 | (7,317) | 105,989 |
| **Total** | **167,230** | **(14,918)** | **152,312** | 168,966 | (22,120) | 146,846 |

The geographical concentration of the outstanding claims liabilities is noted below. This is based on the location of the risk exposure: -

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Gross liabilities £000 | Reinsurance of liabilities £000 | Net liabilities £000 | Gross liabilities £000 | Reinsurance of liabilities £000 | Net liabilities £000 |
| UK | **18,501** | **(1,965)** | **16,536** | 20,850 | (3,271) | 17,579 |
| EU | **2,212** | **(257)** | **1,955** | 2,785 | (448) | 2,337 |
| US | **75,937** | **(6,557)** | **69,380** | 71,303 | (9,303) | 62,000 |
| Canada | **19,713** | **(1,127)** | **18,586** | 10,167 | (1,411) | 8,756 |
| Other | **50,867** | **(5,012)** | **45,855** | 63,861 | (7,687) | 56,174 |
| **Total** | **167,230** | **(14,918)** | **152,312** | 168,966 | (22,120) | 146,846 |

The Syndicate's Realistic Disaster Scenarios (RDS) provide an estimate of the effect on the Syndicate's results on an aggregation of the claims arising from a large range of disasters. This includes those specified by Lloyd's. The table on the following page was taken from July 2021 submission to Lloyd's. It also illustrates the effect of the RDS on the underwriting result.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Concentration of underwriting risk (continued)**

| Event | Industry Loss £Bn | Syndicate Gross Loss £m | Syndicate Net loss £m |
|---|---|---|---|
| Florida Windstorm – Miami Dade | **96.9** | **2.3** | **0.6** |
| Florida Windstorm – Pinellas | **99.1** | **3.7** | **0.6** |
| Gulf of Mexico Windstorm | **87.3** | **3.7** | **0.6** |
| North East Windstorm | **59.9** | **1.1** | **0.6** |
| Carolinas Windstorm | **28.9** | **2.1** | **0.6** |
| California Earthquake – Los Angeles | **57.7** | **4.1** | **2.7** |
| California Earthquake – San Francisco | **59.2** | **5.6** | **2.7** |
| New Madrid Earthquake | **32.6** | **2.3** | **2.1** |

**Management of reserving risk**

The Reserving Committee oversees the management of reserving risk. The use of proprietary software and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

The Syndicate Managing Agent's in house actuaries perform a reserving analysis on a quarterly basis, liaising closely with underwriters and claims staff. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is reviewed annually by external consulting actuaries.

The Reserving Committee performs a comprehensive review of the projections, both gross and net of reinsurance. Following this review, the Reserving Committee makes recommendations, first to the Audit Committee and then to the Managing Agent's Board of Directors of the claims provisions to be established.

In arriving at the level of claims provisions a margin for uncertainty is applied over and above the actuarial best estimate which reduces the possibility of adverse claims development during run-off.

**Reserving risk key assumptions**

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends can be applied in the future. The assumptions used to determine the sensitivity have not changed from the prior year on attritional losses and Cat losses (excluding Covid-19). For Covid-19, bespoke approaches have been used to estimate reserves. On classes with material Covid-19 exposure a contract level analysis is performed considering likelihood and severity of losses, as well as pessimistic scenarios given emerging experience and market insight, with inputs from Underwriting and Claims.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Sensitivity to reserving risk**

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). Covid-19 reserves account for approximately one third on the net reserves at 31 December 2021.

The provision for claims outstanding is the key insurance risk faced by the Syndicate. For the claims provisions excluding Covid-19 (approximately two thirds of the net reserves), the directors consider that a 5% variation in the value of claims outstanding is a realistic spread of the uncertainty. For Covid-19, a 10% variation is selected considering the relative higher level of uncertainty compared with the rest of the provision, noting that the attritional and Covid-19 margin is around 5% and 7.5% of the attritional and Covid-19 best estimates respectively.

Overall, a 7.5% variation in the value of total claims outstanding is considered, the effect this would have on profit and member's balance and hence the Syndicate is illustrated in the tables below:

| | 2021 Gross | | 2021 Net | |
|---|---|---|---|---|
| | 7.5% increase | 7.5% decrease | 7.5% increase | 7.5% decrease |
| Accident & Health | **(562)** | **562** | **(556)** | **556** |
| Marine, aviation and transport | **(1,149)** | **1,149** | **(842)** | **842** |
| Fire and other damage to property | **(987)** | **987** | **(777)** | **777** |
| Pecuniary loss | **(530)** | **530** | **(348)** | **348** |
| Reinsurance | **(8,980)** | **8,980** | **(8,566)** | **8,566** |
| **Total** | **(12,208)** | **12,208** | **(11,089)** | **11,089** |

| | 2020 Gross | | 2020 Net | |
|---|---|---|---|---|
| | 7.5% increase | 7.5% decrease | 7.5% increase | 7.5% decrease |
| Accident & Health | (533) | 533 | (522) | 522 |
| Marine, aviation and transport | (828) | 828 | (624) | 624 |
| Fire and other damage to property | (1,126) | 1,126 | (1,110) | 1,110 |
| Direct Contingency | (1,324) | 1,324 | (589) | 589 |
| Reinsurance | (8,304) | 8,304 | (7,756) | 7,756 |
| Total | (12,115) | 12,115 | (10,601) | 10,601 |

**Financial risk**

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The investment management objective is to invest conservatively in easily realisable, highly rated securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Credit risk**

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- Reinsurers' share of insurance liabilities
- Amounts due from reinsurers in respect of settled claims
- Debt securities
- Amounts due from intermediaries
- Cash and cash equivalents
- Other debtors and accrued interest

**Management of credit risk**

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year. The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers.

The Board's policy in respect of credit risk exposure to reinsurers is that the Syndicate will normally only reinsure with businesses rated in the A range (S & P or AM Best) or higher. SIMA participates in the Sirius Group Security Committee which assesses and is required to approve all new reinsurers before business is placed with them.

Reinsurance is used to manage insurance risk. This does not, however, discharge the Syndicate's liability as primary insurer. If a reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. Where ratings are lower than A range (S & P or AM Best) and in certain other circumstances, deposits from reinsurers may be held as collateral.

Other elements of credit risk are managed by monitoring exposure to individual counterparties and participation in money market funds and collective investment schemes.

**Exposure to credit risk**

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset). The following table analyses the credit rating by investment grade of financial investments of financial assets that are neither past due, nor impaired.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Exposure to credit risk (continued)**

| Credit rating for financial assets that are neither past due or impaired | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Year 2021** | **AAA £000** | **AA £000** | **A £000** | **BBB £000** | **BB or less £000** | **Not rated £000** | **Total £000** |
| **Financial investments** | | | | | | | |
| Shares & other variable yield securities & Unit trusts | **5,928** | **10,451** | **13,323** | **-** | **-** | **3,672** | **33,374** |
| Debt Securities | **45,630** | **7,310** | **35,216** | **3,476** | **-** | **153** | **91,785** |
| **Other assets** | | | | | | | |
| Deposits with ceding undertakings | **-** | **-** | **3,241** | **-** | **-** | **-** | **3,241** |
| Overseas deposits | **3,476** | **1,065** | **657** | **521** | **1,057** | **379** | **7,155** |
| Other investments | **-** | **-** | **1,708** | **-** | **-** | **-** | **1,708** |
| Reinsurers' share of claims outstanding | **-** | **-** | **14,806** | **-** | **-** | **112** | **14,918** |
| Debtors arising out of reinsurance operations | **-** | **-** | **3,760** | **-** | **-** | **924** | **4,684** |
| Cash at bank and in hand | **-** | **-** | **12,804** | **-** | **-** | **-** | **12,804** |
| | | | | | | | |
| **Total** | **55,034** | **18,826** | **85,515** | **3,997** | **1,057** | **5,240** | **169,669** |

| Credit rating for financial assets that are neither past due or impaired | | | | | | | |
|---|---|---|---|---|---|---|---|
| Year 2020 | AAA £000 | AA £000 | A £000 | BBB £000 | BB or less £000 | Not rated £000 | Total £000 |
| **Financial investments** | | | | | | | |
| Shares & other variable yield securities & Unit trusts | 37,503 | 17,860 | 24,245 | - | - | 3,783 | 83,391 |
| Debt securities | 39,451 | 732 | 13,415 | 958 | - | - | 54,556 |
| **Other assets** | | | | | | | |
| Deposit with ceding undertakings | - | - | 229 | - | - | - | 229 |
| Overseas deposits | 4,723 | 836 | 705 | 498 | 1,570 | 876 | 9,208 |
| Other investments | - | - | 404 | - | - | - | 404 |
| Reinsurers' share of claims outstanding | - | - | 21,958 | - | - | 162 | 22,120 |
| Debtors arising out of reinsurance operations | - | - | 1,039 | - | - | 995 | 2,034 |
| Cash at bank and in hand | - | - | 6,763 | - | - | - | 6,763 |
| | | | | | | | |
| Total | 81,677 | 19,428 | 68,758 | 1,456 | 1,570 | 5,816 | 178,705 |

At the end of the year the largest concentration of credit risk to the Syndicate was to the United States Government £28.8m (2020 £29.9m) and Citibank £16.5m (2020: £8.4m). Cash held at Citibank at the end of the year was classified as A rated, in line with the treatment at 2020.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Financial assets that are past due or impaired**

The Syndicate has some debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate has no financial assets that are impaired at the reporting date.

In preparation of this analysis debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties. An analysis of the carrying amounts of past due or impaired debtors is presented in the following table.

| Year 2021 | Neither past due nor impaired £000 | Past due £000 | Impaired £000 | Total £000 |
|---|---|---|---|---|
| Shares & other variable yield securities & unit trusts | **33,374** | **-** | **-** | **33,374** |
| Debt securities | **91,785** | | | **91,785** |
| Overseas deposits | **7,155** | **-** | **-** | **7,155** |
| Other Investments | **1,708** | **-** | **-** | **1,708** |
| Deposits with ceding undertakings | **3,241** | **-** | **-** | **3,241** |
| Reinsurers' share of claims outstanding | **14,918** | **-** | **-** | **14,918** |
| Debtors arising out of reinsurance operations | **4,684** | **294** | **-** | **4,978** |
| Cash at bank and in hand | **12,804** | **-** | **-** | **12,804** |
| Insurance debtors | **11,506** | **-** | **-** | **11,506** |
| Other debtors | **57,921** | **-** | **-** | **57,921** |
| | | | | |
| **Total credit risk** | **239,096** | **294** | **-** | **239,390** |

| Year 2020 | Neither past due nor impaired £000 | Past due £000 | Impaired £000 | Total £000 |
|---|---|---|---|---|
| Shares & other variable yield securities & unit trusts | 83,391 | - | - | 83,391 |
| Debt securities | 54,556 | | | 54,556 |
| Overseas deposits | 9,208 | - | - | 9,208 |
| Other Investments | 404 | - | - | 404 |
| Deposits with ceding undertakings | 229 | - | - | 229 |
| Reinsurers' share of claims outstanding | 22,120 | - | - | 22,120 |
| Debtors arising out of reinsurance operations | 2,034 | 9 | - | 2,043 |
| Cash at bank and in hand | 6,763 | - | - | 6,763 |
| Insurance debtors | 8,907 | - | - | 8,907 |
| Other debtors | 54,130 | - | - | 54,130 |
| | | | | |
| Total credit risk | 241,742 | 9 | - | 241,751 |

Reinsurance recovery amounts which are past due of £294k (2020: £9k) are considered to be fully recoverable. These amounts are not in dispute.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Liquidity risk**

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

**Management of liquidity risk**

The Syndicate's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions.

The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term
- The Syndicate purchases assets with durations not greater than its estimated insurance contract outflows
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts
- The Syndicate holds a working capital borrowing facility from Sirius International Insurance Corporation (publ) to enable cash to be raised in a relatively short time-span
- The Syndicate regularly reviews its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

The maturity analysis presented in the table below shows the remaining contractual maturities for the Syndicate's insurance contracts. For insurance contracts, the contractual maturity is the estimated date when the gross undiscounted contractually required cash flows will occur. Financial assets have a maturity profile of less than one year.

| | | Undiscounted net cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| **Year 2021** | **Carrying amount £000** | **Less than 1 Year £000** | **1-3 years £000** | **3-5 years £000** | **5-10 years £000** | **More than 10 years £000** | **Total £000** |
| **Outstanding claim liabilities** | **167,230** | **72,137** | **49,558** | **20,017** | **19,753** | **5,765** | **167,230** |
| **Other creditors** | **11,747** | **11,720** | **27** | **-** | **-** | **-** | **11,747** |
| | | | | | | | |
| **Total** | **178,977** | **83,857** | **49,585** | **20,017** | **19,753** | **5,765** | **178,977** |

| | | Undiscounted net cash flows | | | | | |
|---|---|---|---|---|---|---|---|
| Year 2020 | Carrying amount £000 | Less than 1 year £000 | 1-2 years £000 | 2-5 years £000 | 5-10 years £000 | More than 10 years £000 | Total £000 |
| Outstanding claim liabilities | 168,966 | 85,499 | 57,897 | 13,882 | 8,799 | 2,889 | 168,966 |
| Other creditors | 11,918 | 11,864 | 54 | - | - | - | 11,918 |
| | | | | | | | |
| Total | 180,884 | 97,363 | 57,951 | 13,882 | 8,799 | 2,889 | 180,884 |

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

**Management of market risk**

For each of the major components of market risk the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the Syndicate at the reporting date to each major risk are addressed below.

**Interest rate risk**

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a periodic basis.

**Currency risk**

The Syndicate writes business primarily in US Dollar, Australian Dollar, Sterling, Canadian Dollar and Euro, and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to hedge the currency risk inherent in these contracts.

The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date:

| Year 2021 | UK £<br>£000 | US $<br>£000 | CAD $<br>£000 | Euro<br>£000 | AUD $<br>£000 | Other<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|---|
| **Total assets** | **11,485** | **193,604** | **12,412** | **6,894** | **13,533** | **1,462** | **239,390** |
| **Total liabilities** | **(36,276)** | **(197,235)** | **(5,707)** | **(7,691)** | **(10,211)** | **(659)** | **(257,779)** |
| **Net (liabilities)/assets** | **(24,791)** | **(3,631)** | **6,705** | **(797)** | **3,322** | **803** | **(18,389)** |

| Year 2020 | UK £<br>£000 | US $<br>£000 | CAD $<br>£000 | Euro<br>£000 | AUD $<br>£000 | Other<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|---|
| Total assets | 12,782 | 199,759 | 11,770 | 3,641 | 13,794 | 5 | 241,751 |
| Total liabilities | (52,318) | (197,451) | (6,618) | (5,665) | (11,477) | (2,182) | (275,711) |
| Net (liabilities)/assets | (39,536) | 2,308 | 5,152 | (2,024) | 2,317 | (2,177) | (33,960) |

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Currency risk (continued)**

The most significant net liability position arises in sterling, due to the need to fund operating expenses in sterling. The small deficits in other currencies arises on claims liabilities and may be managed by a sale of currencies that have a surplus or by utilisation of the Working Capital Facility mentioned in Note 19.

The currency translation differences are found in the statement of comprehensive income, a gain for 2021 of £0.04m (2020: £3.39m).

**Sensitivity analysis to market risks for financial instruments**

An analysis of the Syndicate's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting year and had been applied to the risk exposures at that date.

| | 2021 Impact on net assets £000 | 2020 Impact on net assets £000 |
|---|---|---|
| **Interest rate risk** | | |
| + 50 basis points shift in interest rates | **(642)** | (217) |
| - 50 basis points shift in interest rates | **642** | 217 |
| **Currency risk** | | |
| 10 percent increase in USD/GBP exchange rate | **(582)** | (507) |
| 10 percent decrease in USD/GBP exchange rate | **582** | 507 |
| 10 percent increase in USD/Euro exchange rate | **(80)** | (202) |
| 10 percent decrease in USD/Euro exchange rate | **80** | 202 |
| 10 percent increase in USD/AUD exchange rate | **332** | 232 |
| 10percent decrease in USD /AUD exchange rate | **(332)** | (232) |

The impact of the reasonably possible changes in the risk variables on Members' balances would be the same, since the Syndicate recognises all changes in recognised assets and liabilities in profit or loss.

A 10% increase (or decrease) in exchange rates, a 50 basis point increase in yield curves and a 50 basis point decrease in yield curves have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analysis is based on the Syndicate's financial position at the reporting date and may vary at the time that any actual market movement occurs.

**Capital management**

**Capital framework at Lloyd's**

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

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 4. Risk and capital management (continued)

**Capital framework at Lloyd's (continued)**

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

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's would comply 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 syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1945 is not disclosed in these financial statements.

**Lloyd's capital setting process**

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements 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 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% of the member's SCR 'to ultimate'.

**Provision of capital by members**

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), assets held 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 member's balances reported on the statement of the financial position on page 19 represent resources available to meet or a deduction to a member's and Lloyd's capital requirements.

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 5. Analysis of underwriting result

| Year 2021 | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 | Total £000 |
|---|---|---|---|---|---|---|
| Direct insurance | | | | | | |
| Accident and health | **11,009** | **11,263** | **(8,281)** | **(3,751)** | **(18)** | **(787)** |
| Marine, aviation and transport | **14,682** | **11,851** | **(8,286)** | **(2,389)** | **(3,614)** | **(2,438)** |
| Fire and other damage to property | **7,029** | **8,453** | **(6,195)** | **(2,208)** | **1,755** | **1,805** |
| Pecuniary loss | **250** | **250** | **6,973** | **(42)** | **(4,291)** | **2,890** |
| Reinsurance | **77,832** | **75,596** | **(45,986)** | **(24,051)** | **(48)** | **5,511** |
| **Total** | **110,802** | **107,413** | **(61,775)** | **(32,441)** | **(6,216)** | **6,981** |

| Year 2020 | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Reinsurance balance £000 | Total £000 |
|---|---|---|---|---|---|---|
| Direct insurance | | | | | | |
| Accident and health | 8,542 | 11,193 | (7,267) | (3,498) | (95) | 333 |
| Marine, aviation and transport | 8,264 | 7,475 | (3,891) | (1,782) | (1,422) | 380 |
| Fire and other damage to property | 14,509 | 13,901 | (10,495) | (3,799) | (1,103) | (1,496) |
| Pecuniary loss | (14) | 309 | (40,361) | (69) | 19,750 | (20,371) |
| Reinsurance | 77,531 | 71,200 | (90,135) | (21,702) | 4,969 | (35,668) |
| Total | 108,832 | 104,078 | (152,149) | (30,850) | 22,099 | (56,822) |

Current year underwriting results for the Part VII transfer of EU business to Lloyd's Insurance Company Limited (LIC) have been reported under the Inwards Reinsurance class of business which is consistent with the presentation in the Income Statement: Technical Account – General Business.

The Syndicate recognised a loss of £4.2m in the year on buying reinsurance (2020: profit of £23.8m).

The gross premiums written for inward business by geographic origin is presented in the table below:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| United Kingdom | **25,819** | 66,362 |
| Other European Union Member States | **5,060** | 1,851 |
| US | **53,811** | 26,564 |
| Other countries | **26,112** | 14,055 |
| **Total gross premiums written** | **110,802** | 108,832 |

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 6. Claims outstanding

The tables below show the movements on claims reserves brought forward.

| 2021 | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2021 | **168,966** | **(22,120)** | **146,846** |
| Claims incurred in current underwriting year | **32,123** | **(1,887)** | **30,236** |
| Claims incurred in prior underwriting years | **29,652** | **(2,358)** | **27,294** |
| Claims paid during the year | **(64,028)** | **11,574** | **(52,454)** |
| Foreign exchange | **517** | **(127)** | **390** |
| **At 31 December 2021** | **167,230** | **(14,918)** | **152,312** |

| 2020 | Gross £000 | Reinsurers' share £000 | Net £000 |
|---|---|---|---|
| At 1 January 2020 | 96,577 | (5,568) | 91,009 |
| Claims incurred in current underwriting year | 46,731 | (2,068) | 44,663 |
| Claims incurred in prior underwriting years | 105,418 | (28,397) | 77,021 |
| Claims paid during the year | (72,062) | 12,210 | (59,852) |
| Foreign exchange | (7,698) | 1,703 | (5,995) |
| At 31 December 2020 | 168,966 | (22,120) | 146,846 |

## 7. Net operating expenses

The Syndicate is charged a managing agency fee at a rate of 0.63% of stamp capacity (2020:0.66%). In addition, all necessary expenses incurred in the administration of the Syndicate were charged to the Syndicate.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Acquisition costs: | | |
| Brokerage and commissions | **24,674** | 23,748 |
| Other acquisitions costs | **1,712** | 1,632 |
| | **26,386** | 25,380 |
| Change in deferred acquisition costs | **(373)** | (859) |
| Administrative expenses | **7,001** | 6,708 |
| Members' standard personal expenses | **1,420** | 1,346 |
| Reinsurance commissions and profit participation | **(1,993)** | (1,725) |
| **Net operating expenses** | **32,441** | 30,850 |

Total commissions for direct insurance business for the year amounted to £6.4m (2020: £7.0m).

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 7. Net operating expenses (continued)

During the year the Syndicate obtained the following services from the auditors:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Auditors' remuneration: | | |
| Fees payable to the Syndicate's auditors for the audit of these financial statements | **232** | 123 |
| Fees payable to the Syndicate's auditors in respect of the audit of Sirius International Insurance Group Limited | **-** | 20 |
| Fees payable to the Syndicate's auditors in respect of other audit related assurance services | **70** | 193 |
| **Total** | **302** | 336 |

Fees payable to the Syndicate's auditors in respect of other related services include all audit services in relation to the audit of Lloyd's reporting at year end 2021 and half year 2021. No fees were charged in respect of non-audit activities (2020 £nil).

## 8. Directors and management personnel compensation

The emoluments of the active underwriter and the other directors of Sirius International Managing Agency Limited are borne by SiriusPoint International Insurance Corporation (PUBL) or other members of the group and are not separately identifiable from the fee charged by Sirius to the Syndicate. Fees of the independent non-executive directors are borne by SIMA, and not charged to the Syndicate in 2021 (2020: £nil). Hence, the directors have estimated the emoluments received that relate to their services to the Syndicate, which are included in the tables below. The Board considers that the directors are the only key management personnel.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Aggregate emoluments and other benefits | **927** | 862 |
| Pension contributions | **83** | 76 |
| **Total** | **1,010** | 938 |

The active Underwriter and the highest paid director received the following remuneration for services provided to the Syndicate.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Aggregate emoluments and other benefits | **226** | 223 |
| Pension contributions | **19** | 19 |
| **Total** | **245** | 242 |

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 9. Investment return

The investment return transferred from the technical account to the non-technical account comprises the following:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Investment income | | |
| Interest | **1,144** | 799 |
| Realised gains | **199** | 127 |
| Unrealised gains | **94** | - |
| Investment expenses and charges: | | |
| Investment management expenses, including interest | **(58)** | (32) |
| Losses on the realisation of investments | **(724)** | - |
| Unrealised losses | **(788)** | (125) |
| **Total investment return** | **(133)** | 769 |

The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Financial assets at fair value through profit or loss | **(154)** | 529 |
| Interest income | **79** | 272 |
| Investment management expenses, excluding interest | **(58)** | (32) |
| **Total investment return** | **(133)** | 769 |

The tables below and on the following page presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Average amount of Syndicate funds available for investment during the year | | |
| Sterling | **5,776** | 2,393 |
| Euro | **2,172** | 778 |
| US dollar | **127,735** | 83,768 |
| Canadian dollar | **9,685** | 9,019 |
| Other | **10,315** | 12,865 |
| **Total funds available for investment, in sterling** | **155,683** | 108,823 |

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 9. Investment return (continued)

| | 2021 £000 | 2020 £000 |
|---|---|---|
| **Annual investment yield** | | |
| Sterling | **0.88%** | 1.42% |
| Euro | **0.00%** | 0.00% |
| US dollar | **(0.11)%** | 0.33% |
| Canadian dollar | **0.04%** | 1.18% |
| Other | **0.07%** | 2.73% |
| | | |
| **Total annual investment yield, in sterling** | **(0.05)%** | 0.71% |

### 10. Financial investments

| | Carrying value 2021 £000 | Cost 2021 £000 | Listed 2021 £000 |
|---|---|---|---|
| **Financial assets measured at fair value through profit or loss** | | | |
| Shares and other variable yield securities and units in unit trusts | **33,374** | **33,374** | **33,374** |
| Debt securities and other fixed income securities: | | | |
| Government and supranational securities | **91,785** | **92,577** | **91,785** |
| Deposits with credit institutions | **1,708** | **1,708** | **1,708** |
| | | | |
| **Total financial investments** | **126,867** | **127,659** | **126,867** |

| | Carrying value 2020 £000 | Cost 2020 £000 | Listed 2020 £000 |
|---|---|---|---|
| Financial assets measured at fair value through profit or loss | | | |
| Shares and other variable yield securities and units in unit trusts | 83,392 | 83,392 | 83,392 |
| Debt securities and other fixed income securities: | | | |
| Government and supranational securities | 54,555 | 54,475 | 54,555 |
| Deposits with credit institutions | 404 | 404 | 404 |
| | | | |
| Total financial investments | 138,351 | 138,271 | 138,351 |

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

- Level 1 – The fair value is based on the unadjusted quoted prices in an active market, for identical assets or liabilities that the Syndicate
- can access at the measurement date.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 10. Financial investments (continued)

- liabilities, either directly or indirectly.
- Level 3 – Level 3 financial instruments are financial assets and liabilities for which the values are based on prices or valuation techniques that requires inputs that are both unobservable, and significant, to the fair value measurement.

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

| 2021 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | **10,494** | **21,352** | **1,528** | **33,374** |
| Debt securities and other fixed income securities | **26,453** | **65,332** | **-** | **91,785** |
| Loans and deposits with credit institutions | **1,708** | **-** | **-** | **1,708** |
| **Total** | **38,655** | **86,684** | **1,528** | **126,867** |

| 2020 | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| Shares and other variable yield securities and units in unit trusts | 9,021 | 72,842 | 1,528 | 83,391 |
| Debt securities and other fixed income securities | 29,989 | 24,567 | - | 54,556 |
| Loans and deposits with credit institutions | 404 | - | - | 404 |
| Total | 39,414 | 97,409 | 1,528 | 138,351 |

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value are provided below.

Units in unit trusts and other variable yield securities are held in money market funds. These shares and other variable yield securities and units in unit trusts are generally categorised as level 1 in the fair value hierarchy except where they are not actively traded, in which case they are generally measured on prices of recent transactions in the same instrument. The Syndicate has no exposure to hedge funds.

Debt securities comprise of United States Government Treasury Notes and corporate bonds. These are actively traded and are valued using quoted prices provided by external pricing vendor.

At the reporting date all debt instruments assets were valued using valuation techniques based on observable market data.

## 11. Debtors arising out of direct insurance operations

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Amounts due from intermediaries | **11,506** | 8,907 |
| **Due within one year** | **11,506** | 8,907 |

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 12. Debtors arising out of reinsurance operations

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Due from ceding insurers and intermediaries | **35,597** | 33,225 |
| Due from reinsurers and intermediaries | **4,978** | 2,042 |
| **Due within one year** | **40,575** | 35,267 |

## 13. Deferred acquisition costs

The table below shows changes in gross deferred acquisition cost assets during the year.

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Balance at 1 January | **13,008** | 12,299 |
| Incurred costs deferred | **26,386** | 25,380 |
| Amortisation | **(26,013)** | (24,521) |
| Effect of movements in exchange rates | **27** | (150) |
| **Balance at 31 December** | **13,408** | 13,008 |

## 14. Year of account development

The table below shows the development of each year of account to its closure at 36 months.

| Year of account | 2011 £000 | 2012 £000 | 2013 £000 | 2014 £000 | 2015 £000 | 2016 £000 | 2017 £000 | 2018 £000 | 2019 £000 | 2020 £000 | 2021 £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2011 | **(2,278)** | **(230)** | **164** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,344)** |
| | **-** | **(5,037)** | **270** | **6,564** | **-** | **-** | **-** | **-** | **-** | **-** | | **1,797** |
| 2013 | **-** | **-** | **(4,514)** | **4,545** | **4,402** | **-** | **-** | **-** | **-** | **-** | | **4,433** |
| 2014 | **-** | **-** | **-** | **(5,886)** | **419** | **14,301** | **-** | **-** | **-** | **-** | | **8,834** |
| 2015 | **-** | **-** | **-** | **-** | **(8,762)** | **(4,181)** | **3,191** | **-** | **-** | **-** | | **(9,752)** |
| 2016 | **-** | **-** | **-** | **-** | **-** | **(21,207)** | **(4,784)** | **(3,217)** | **-** | **-** | | **(29,208)** |
| 2017 | **-** | **-** | **-** | **-** | **-** | **-** | **(43,574)** | **1,109** | **1,038** | **-** | | **(41,427)** |
| 2018 | - | - | - | - | - | - | - | **(12,265)** | **(10,518)** | **(26,180)** | | **(48,963)** |
| 2019 | - | - | - | - | - | - | - | - | **(5,484)** | **(3,041)** | **7,530** | **(995)** |
| 2020 | - | - | - | - | - | - | - | - | - | **(23,549)** | **5,945** | **(17,604)** |
| **2021** | | | | | | | | | | **-** | **(6,671)** | **(6,671)** |
| **Calendar year result** | **(2,278)** | **(5,267)** | **(4,080)** | **5,223** | **(3,941)** | **(11,087)** | **(45,167)** | **(14,373)** | **(14,964)** | **(52,770)** | **6,804** | **(141,900)** |

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 15. Claims development tables

The claims development is shown in the tables on the next page, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2021 in all cases.

| Pure underwriting year - gross | 2011 £000 | 2012 £000 | 2013 £000 | 2014 £000 | 2015 £000 | 2016 £000 | 2017 £000 | 2018 £000 | 2019 £000 | 2020 £000 | 2021 £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of incurred gross claims | | | | | | | | | | | | |
| At end of underwriting year | **907** | **18,664** | **26,272** | **26,723** | **31,288** | **50,902** | **69,625** | **33,767** | **24,758** | **45,328** | **32,485** | **360,719** |
| One year later | **4,803** | **31,500** | **40,553** | **51,080** | **68,467** | **98,474** | **97,999** | **83,726** | **65,515** | **78,735** | | **620,852** |
| Two years later | **4,120** | **25,469** | **36,973** | **44,329** | **72,104** | **107,311** | **104,210** | **134,353** | **69,463** | **-** | | **598,332** |
| Three years later | **3,482** | **25,178** | **33,865** | **41,223** | **70,285** | **104,168** | **102,208** | **127,680** | **-** | **-** | | **508,089** |
| Four years later | **3,235** | **24,953** | **33,152** | **41,442** | **71,170** | **114,535** | **100,970** | **-** | **-** | **-** | | **389,457** |
| Five years later | **3,183** | **24,902** | **33,347** | **41,510** | **70,726** | **115,240** | **-** | **-** | **-** | **-** | | **288,908** |
| Six years later | **3,010** | **24,901** | **33,144** | **41,697** | **70,881** | **-** | **-** | **-** | **-** | **-** | | **173,633** |
| Seven years later | **3,008** | **24,891** | **33,206** | **41,692** | **-** | **-** | **-** | **-** | **-** | **-** | | **102,797** |
| Eight years later | **2,989** | **24,900** | **33,107** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | | **60,996** |
| Nine years later | **3,003** | **24,899** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | | **27,902** |
| Ten years later | **3,003** | **-** | | | | | | | | | | **3,003** |
| Gross claims paid | **3,003** | **24,883** | **32,563** | **41,548** | **69,778** | **103,654** | **95,813** | **100,147** | **30,348** | **26,533** | **2,655** | **530,925** |
| **Claims Outstanding per the Balance Sheet** | **-** | **16** | **544** | **144** | **1,103** | **11,586** | **5,157** | **27,533** | **39,115** | **52,202** | **29,830** | **167,230** |

| Pure underwriting year - net | 2011 £000 | 2012 £000 | 2013 £000 | 2014 £000 | 2015 £000 | 2016 £000 | 2017 £000 | 2018 £000 | 2019 £000 | 2020 £000 | 2021 £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Estimate of incurred net claims | | | | | | | | | | | | |
| At end of underwriting year | **907** | **18,664** | **25,788** | **25,631** | **29,939** | **47,675** | **60,058** | **32,215** | **23,388** | **43,317** | **30,473** | **338,055** |
| One year later | **4,803** | **31,500** | **40,058** | **47,906** | **62,806** | **87,963** | **89,725** | **78,646** | **63,246** | **72,542** | | **579,195** |
| Two years later | **4,120** | **25,469** | **36,658** | **41,961** | **67,007** | **96,451** | **96,228** | **105,864** | **68,160** | **-** | | **541,918** |
| Three years later | **3,482** | **25,178** | **33,503** | **39,266** | **64,739** | **93,418** | **94,470** | **100,274** | **-** | **-** | | **454,330** |
| Four years later | **3,235** | **24,953** | **32,805** | **39,352** | **65,110** | **101,084** | **93,191** | **-** | **-** | **-** | | **359,730** |
| Five years later | **3,183** | **24,902** | **33,000** | **39,419** | **64,697** | **101,563** | **-** | **-** | **-** | **-** | | **266,764** |
| Six years later | **3,010** | **24,901** | **32,796** | **39,606** | **64,834** | **-** | **-** | **-** | **-** | **-** | | **165,147** |
| Seven years later | **3,008** | **24,891** | **32,858** | **39,601** | **-** | **-** | **-** | **-** | **-** | **-** | | **100,358** |
| Eight years later | **2,989** | **24,900** | **32,759** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | | **60,648** |
| Nine years later | **3.003** | **24,899** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | | **27,902** |
| Ten years later | **3,003** | | | | | | | | | | | **3,003** |
| Net claims paid | **3,003** | **24,883** | **32,215** | **39,457** | **63,733** | **92,863** | **88,169** | **77,317** | **29,805** | **24,952** | **2,590** | **478,987** |
| **Claims Outstanding per the Balance Sheet** | **-** | **16** | **544** | **144** | **1,101** | **8,700** | **5,022** | **22,957** | **38,355** | **47,590** | **27,883** | **152,312** |

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 16. Technical Provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the year to the end of the year.

| | 2021 Gross provisions £000 | 2021 Reinsurance assets £000 | 2021 Net £000 | 2020 Gross provisions £000 | 2020 Reinsurance assets £000 | 2020 Net £000 |
|---|---|---|---|---|---|---|
| **Incurred claims outstanding:** | | | | | | |
| Claims notified | **54,152** | **(9,497)** | **44,655** | 47,507 | (3,477) | 44,030 |
| Claims incurred but not reported | **114,814** | **(12,623)** | **102,191** | 49,070 | (2,091) | 46,979 |
| Balance at 1 January | **168,966** | **(22,120)** | **146,846** | 96,577 | (5,568) | 91,009 |
| Change in prior year provisions | **31,711** | **(9,147)** | **22,564** | (36,123) | 16,187 | (19,936) |
| Expected cost of current year claims | **30,064** | **4,902** | **34,966** | 188,272 | (46,653) | 141,619 |
| Claims paid during the year | **(64,028)** | **11,574** | **(52,454)** | (72,062) | 12,210 | (59,852) |
| Effect of movements in exchange rates | **517** | **(127)** | **390** | (7,698) | 1,704 | (5,994) |
| | | | | | | |
| **Balance at 31 December** | **167,230** | **(14,918)** | **152,312** | 168,966 | (22,120) | 146,846 |
| | | | | | | |
| Claims notified | **55,415** | **(5,134)** | **50,281** | 54,152 | (9,497) | 44,655 |
| Claims incurred but not reported | **111,815** | **(9,784)** | **102,031** | 114,814 | (12,623) | 102,191 |
| | | | | | | |
| **Balance at 31 December** | **167,230** | **(14,918)** | **152,312** | 168,966 | (22,120) | 146,846 |
| | | | | | | |
| **Unearned premiums** | | | | | | |
| Balance at 1 January | **53,640** | **(3,038)** | **50,602** | 49,476 | (1,937) | 47,539 |
| Premiums written during the year | **110,802** | **(10,881)** | **99,921** | 108,832 | (9,566) | 99,266 |
| Premiums earned during the year | **(107,413)** | **10,461** | **(96,952)** | (113,586) | 10,766 | (102,820) |
| Effect of movements in exchange rate | **215** | **(42)** | **173** | 8,918 | (2,301) | 6,617 |
| | | | | | | |
| **Balance at 31 December** | **57,244** | **(3,500)** | **53,744** | 53,640 | (3,038) | 50,602 |

The unexpired risk provision at 31 December 2021 was £nil (2020 £1.94m) and is included in gross claims outstanding.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 17. Creditors

| Within one year | 2021 £000 | 2020 £000 |
|---|---|---|
| Creditors arising out of direct insurance | **1,583** | 886 |
| Creditors arising out of reinsurance operations | **10,124** | 6,542 |
| Other creditors | **13** | 4,436 |
| | | |
| **Total financial liabilities at amortised cost** | **11,720** | 11,864 |

| After one year | 2021 £000 | 2020 £000 |
|---|---|---|
| Creditors arising out of direct insurance | **-** | - |
| Creditors arising out of reinsurance operations | **27** | 54 |
| Other creditors | **-** | - |
| | | |
| **Total financial liabilities at amortised cost** | **27** | 54 |

Other creditors include £3k (2020: £4.4m) due to Sirius International Managing Agency Limited.

## 18. Cash and cash equivalents

| | 2021 £000 | 2020 £000 |
|---|---|---|
| Cash at bank and in hand | **12,805** | 6,763 |
| Deposits with credit institutions | **23,623** | 64,149 |
| | | |
| **Total cash and cash equivalents** | **36,428** | 70,912 |

Only deposits with credit institutions with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

## 19. Related parties

For the year to 31 December 2021 managing agent fees of £0.6m were paid to SIMA (2020: £0.6m). No service charges were paid to SIMA in the year(2020 £nil).

SiriusPoint International Insurance Corporation (SINT), the parent company of both SIMA and Sirius International Corporate Member Limited (SICM), provided management services to the Syndicate in 2021. The amount recharged in respect of this was £7.2m (2020: £6.8m). A balance of £20.5m was outstanding at the end of the year (2020: £40.21m). In addition, expenses of £0.5m were paid by SINT on behalf of the Syndicate and recovered (2020: £0.09m). Syndicate 1945 is also accounted for through the Sirius VAT group, and VAT of £0.12m was recovered on behalf of the Syndicate during the year (2020: £0.12m).

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 19. Related parties (continued)

Copies of the audited financial statements of the Managing Agency, the Corporate Member and SiriusPoint International Insurance Corporation (publ) can be obtained by application to the Managing Agent's registered office listed on page 2.The smallest and largest entity that these financial statements are consolidated into is SiriusPoint Limited.

The drawdown facility provided to the Syndicate by SINT remains in place, and permits drawdowns in any settlement currency. The Syndicate repaid the balance during the year (2020: repayments of £2.39m) so that at the end of the year the amount owed was nil (2020: £3.66m). Interest on the drawn balance in 2021 before repayment amounted to £0.07m (2020: £0.14m).

The sole capital provider for the Syndicate is Sirius International Corporate Member Limited, a wholly owned subsidiary of SINT.

SiriusPoint America, a wholly-owned subsidiary of SINT, cedes business to Syndicate 1945. During 2021, premium ceded amounted to £0.5m with related brokerage and commissions of £0.3m and claims incurred of £1.1m (2020 premium £0.8m, brokerage and commissions £0.4m and claims £4.4m). The underwriting balance is £3.4m payable (2020: £nil receivable).

SiriusPoint International Insurance Corporation reinsures Syndicate 1945. During 2021, premiums ceded under these reinsurance contracts amounted to £2.5m with related ceding commission of £0.48m and claims recoverable were £0.39ml (2020 premiums £1.74m, ceding commission £0.17m and recoveries £nil). The outstanding underwriting balance is £2.5m payable. (2020: £1.7m payable).

The Syndicate ceded business to Alstead Reinsurance Limited, a fellow subsidiary of Sirius International Insurance Group Ltd. Ceded premiums amounted to £0.01m (2020: £0.12m) with related brokerage and commissions of £nil (2020: £0.13m) and claims of £0.95m (2020: £0.30m). The outstanding underwriting balance is £0.11m (2020: £0.07m).

At the beginning of 2021 the ultimate parent of SIMA was China Minsheng Investment Group Corp Ltd which is domiciled in the People's Republic of China. On the 26 February 2021, following the merger of Sirius International Insurance Group, Ltd with Third Point Reinsurance Ltd, to form SiriusPoint, Third Point Reinsurance Ltd became the ultimate parent of SIMA.

## 20. Other debtors

| | 2021<br>£000 | 2020<br>£000 |
|---|---|---|
| Claims Floats | **5,097** | 4,520 |
| Taxes | **164** | 236 |
| Premium Deposit | **10** | 24 |
| Intercompany balance | **121** | |
| **Total other debtors** | **5,392** | 4,780 |

## 21. Lloyd's Part VII transfer

During the prior year 2020, the Syndicate, as comprised for each of the relevant years of account between 2011 and April 2019 (or October 2020 in the case of German reinsurance), transferred all relevant policies (and related liabilities) underwritten by them or those years of account to Lloyd's Insurance Company S.A. ('LIC'), in accordance with Part VII of the Financial Services and Markets Act 2000. All relevant policies are all EEA and Monegasque risks incepted at Lloyd's between 1993 and 12 April for direct business and 29 October 2020 for Inwards German reinsurance business not already written into LIC. On the same date, the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the Syndicate

## Notes to the financial statements for the year ended 31 December 2021 (continued)

### 21. Lloyd's Part VII transfer (continued)

which wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account. The intent of the transfer is to leave the Syndicate in the same economic position as it was prior to the transfer and policy holders should not be impacted by the transfer.

Following the sanction of the scheme by the High Court on 25 November 2020, the scheme took effect on 30 December 2020 and the Members and former Members of the Syndicate transferred the impacted EEA policies and related liabilities to LIC, together with cash of $1,706,863.86 (£1,249,717.28). On the same date, under the Reinsurance Agreement, Lloyd's Brussels reinsured the same risks back, together with an equal amount of cash of $1,706,863.86 (£1,249,717.28).

The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the Syndicate's income statement and no net impact on the balance sheet. No adjustment has been made in the segmental note for transactions that occurred in respect of the transferred business up to the date of the transfer, which is consistent with the income statement presentation. There were no outstanding debtor and creditor balances in respect of the transferred business. Consequently, no reclassification of debtor and creditor balances that were previously classified as arising out of direct reinsurance operations have been reclassified as arising out of reinsurance operations.

The previous year underwriting results for the transferred policies were reported in the same classes of business as in prior years, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were processed on these policies on 31 December 2020. From 2021 onwards, results relating to these risks are reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with LIC.

The effect of the transaction on the primary statements at 31 December 2021 is shown on the next page for each stage of the transaction:

| £'000s | *Stage 1- Part VII transfer to LIC* | *Stage 2-100% RI from LIC* | *Stage 4- transfer of rights to sundry assets* | *TOTAL* | *Stage 3- transfer of cash to float accounts at* 04.01.21 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Gross written premium | **(1,250**) | **1,250** | **-** | - | - |
| **Balance sheet** | | | | | |
| Cash | **(1,250**) | **1,250** | **-** | - | (490) |
| Deposits with ceding undertakings | **-** | **-** | **-** | - | 490 |
| Other creditors | **-** | **-** | **-** | - | - |

The table above shows the effect of Stage 1 (cash transfer in respect of liability transfer to LIC treated as negative written premium), Stage 2 (reinsurance premium paid to Syndicate for assumed reinsurance) and Stage 4 (transfer of rights relating to recovery of loss funds third party coverholder to LIC). Note, the Syndicate has no unearned premium or premium debtors on any transferring business and therefore there are no accounting entries relating to these.

# Notes to the financial statements for the year ended 31 December 2021 (continued)

## 21. Lloyd’s Part VII transfer (continued)

As shown to the right of the table above (Stage 3), on 4th January 2021 funds in the following amounts were transferred from the Syndicate’s bank accounts to settlement float accounts held with Lloyd's Insurance Company: EUR 496k, USD 48k, GBP 7k, CAD 3k. These funds will be used to pay claims falling due on transferred business and will be topped up periodically as required.

## 22. Off-balance sheet items

The Syndicate has not been party to any arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

## 23. Post Balance Sheet events

There are no material post balance sheet events.