

Important information about Syndicate Reports and Accounts

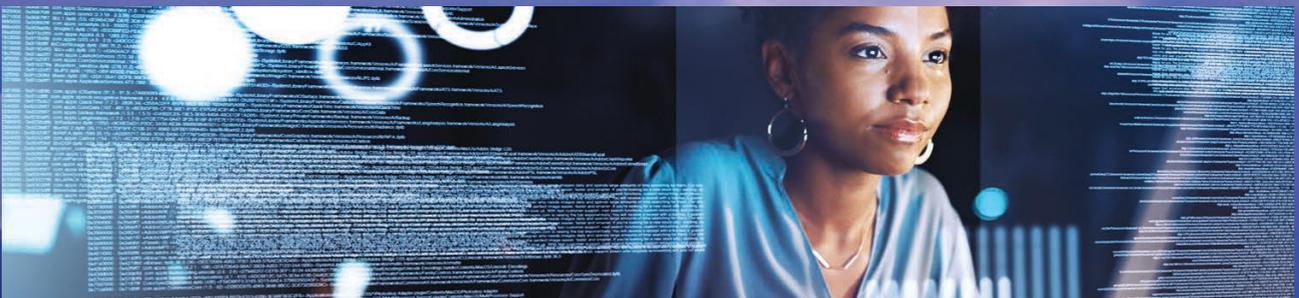
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Brit Syndicate 2988

Report and Accounts 2021



BRIT
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Report of the Directors of the Managing Agent

The Directors of the Managing Agent, Brit Syndicates Limited (BSL) a company registered in England and Wales, present the report and annual accounts of Syndicate 2988 (the Syndicate) for the year ended 31 December 2021.

These annual accounts are 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 (Lloyd's Regulations 2008).

Principal activity and review of the business

The Syndicate's principal activity is the underwriting of general insurance and reinsurance business in the Lloyd's market.

The Syndicate participates only on new and renewal business written by Brit's Syndicate 2987. The strategy is to focus on business with a profitable track record and where there are opportunities to underwrite business that Brit leads or where Brit has a strong market presence. The underwriting strategy reflects the Directors' view of prevailing market conditions in the classes of business written by the Syndicate during the year.

The result for the 2021 calendar year is a loss of £13.4m (2020 loss: £35.2m), reflecting an underwriting loss of £12.7m (2020: loss of £35.3m) with a combined ratio of 107.9% (2020: 128.7%) and a net investment loss of £1.1m (2020: return £0.9m). The result reflects further premium growth, a good attritional performance and favourable back year reserve releases but, once again, a costly year for natural catastrophe events.

The Syndicate's key performance indicators (KPI's) during the year were as follows:

	2021	2020
	£'m	£'m
Gross premiums written	194.7	167.0
Net premiums written	173.9	151.4
Earned premiums, net of reinsurance	160.2	123.0
Underwriting result	(12.7)	(35.3)
Investment return	(1.1)	0.9
Technical result for the financial year	(13.8)	(34.4)
Non-technical account for the financial year	0.4	(0.8)
Result for the financial year	(13.4)	(35.2)
Total comprehensive income for the financial year	(14.0)	(32.2)
Claims ratio	77.7%	94.4%
Expense ratio	30.2%	34.3%
Combined ratio	107.9%	128.7%

Report of the Directors of the Managing Agent (continued)

Gross premiums written

An analysis of gross premiums written by Brit portfolio and division is set out below:

Premium by Portfolio		2021	2020	Variance
		£'m	£'m	%
London Market Direct	Financial and Professional Liability	39.5	27.2	45.2
	Programmes and Facilities	31.2	28.8	8.3
	Property	22.6	18.0	25.6
	Ambridge Transactional	8.4	3.9	115.4
	Specialty	17.0	15.0	13.3
		118.7	92.9	27.8
London Market Reinsurance	Casualty Treaty	13.8	13.0	6.2
	Property Treaty	22.6	19.8	14.1
		36.4	32.8	11.0
Overseas Distribution	Ambridge Specialty Casualty	0.7	2.2	(68.2)
	Ambridge Re	-	0.4	(100.0)
		0.7	2.6	(73.1)
Other	Other	37.6	31.9	17.9
Discontinued	Discontinued	1.3	6.8	(80.9)
Total		194.7	167.0	16.6

The Syndicate's gross premiums written increased 16.6% to £194.7m (2020: £167.0m). When adjusted for constant rates of exchange, premiums increased 23.3% (2020 rebased at 2021 rates: £158.0m). This increase was also ahead of plan and predominantly coming from the 2021 year of account where positive rate achieved surpassed expectations. The estimated risk adjusted rate change on renewed premium was an increase of 13.9% (2020: 10.8%) with rate increases achieved on the majority of lines.

London Market Direct:

Financial and Professional Liability

The Syndicate's London Market Direct portfolio is focused on Cyber and Directors & Officers (D&O), and includes US Professional Indemnity (US PI) and Healthcare Liability. All lines of business achieved positive rate increases with Cyber benefitting from exponential increases of over 74% on a retention in excess of 70%. This is due to the perceived increase in ransomware threats and market constraints as competitors reach their capacity. Cyber continues to be a core class for the Syndicate and the underwriting team deployed Syndicate 2988 capacity across a wide range of risk focusing primarily on open market rather than facilities placements.

Other classes have continued to benefit from strong market conditions, favourable pricing and a number of high-quality new opportunities arising.

Programmes and Facilities

Income from Property Facilities, geared toward North America, increased over the prior year due to a combination of strong retention, larger lines on core business and greater than planned positive rate change. Whilst premiums in the Contingency class saw a small increase in the year, events continued to be disrupted by the COVID-19 pandemic despite expectations that these would return to normal during 2021. COVID-19 also negatively affected Personal Accident premiums with the underwriting team holding firm on communicable disease cover exclusions.

Report of the Directors of the Managing Agent (continued)

Property

The Property divisions within London Market Direct comprise US and International Property risks written on an open market basis. The Syndicate reported a premium increase compared to 2020 as further positive rate change was achieved in both the North American and Worldwide Commercial property books. However, those rates achieved were lower than expected following two successive years of significant rate increase. Property also includes Specie, an emerging class for the Syndicate that benefitted from high single digit rate rises.

Ambridge Transactional

The Syndicate's D&O business is largely sourced through Ambridge Partners LLC, a US-based managing general underwriter which is wholly owned by the Brit group. This enables Brit to influence the flow of business into its managed syndicates. Income from the class more than doubled as the class benefitted from an increase in mergers and acquisitions activity, with growth being achieved across Representations and Warranties and Management Liability segments.

Specialty

Specialty lines include International Public Liability (PL Int), Marine and Cargo, and to a lesser extent Energy. The rating environment of PL Int continues, surpassing plan and achieving almost 15% positive rate change, and a year-on-year premium increase of £4.5m.

Whilst Cargo met its planned premium and rate increases, it appears the hard market has peaked, with rate rises slowing and underwriting and wording changes stabilising. Incumbents are looking to grow, and a swathe of new capacity has entered this market, thereby placing pressure on line sizes.

The Syndicate planned to expand its Energy account. However it could not gain significant traction due to abundant capacity, particularly in the offshore package business. Whilst it is still a relatively small component of the Syndicate's income, Energy saw growth in income compared to the prior year.

London Market Reinsurance:

Casualty Treaty

The Long Tail Reinsurance team writes Treaty Risk and Treaty Catastrophe, with the portfolios being split between Long Tail and Short Tail books.

The Syndicate sought to protect the traction made during 2020 across the portfolio, with a strong business retention of c.85% and positive rate movement. Gains were made in the Short and Long Tail Risk portfolios, offset to an extent by reductions in catastrophe business.

As one of the best performing portfolios within Brit, the Syndicate will continue to gradually increase capacity deployed to this class over time.

Property Treaty

Since the start of 2020, Property Treaty income into Syndicate 2988 has been through a quota share agreement with Syndicate 2987. The Property Treaty market continues to be very competitive which creates a challenge deploying Syndicate 2988's capacity across a diverse portfolio of risks. The quota share agreement gives Syndicate 2988 wider exposure to Property Treaty risks and allows for more diversification in the Syndicate's income from this business. The year-on-year increase reflects both growth and rate achieved by risks written by Syndicate 2987.

Overseas Distribution:

During the year, Brit brought together its US service company platform, Brit Global Specialty USA (BGSU), and its premier MGA, Ambridge Partners LLC (Ambridge). For 2020, a strategic decision was made to reduce exposure to the, then, BGSU classes of business, instead focusing capacity on risks written through the London teams. Income for 2021 related to US Cyber business.

Other:

In 2020, Syndicate 2988 entered into a whole account quota share agreement with Syndicate 2987. The contract was renewed for the 2021 year of account for the same percentage share. This agreement provides significant benefits to the Syndicate, increasing the Syndicate's premium base and the diversity of risks it is exposed to, while allowing it to benefit from the reinsurance protections that 2987 has in place on those risks.

Report of the Directors of the Managing Agent (continued)

Syndicate 2988 benefitted from the positive rate increases achieved across a number of Syndicate 2987's classes of business as well as the increase in top line premium growth.

Discontinued:

Active portfolio management is core to the way Brit manages its business. Over the past several years, decisions have been made to withdraw from underperforming classes for which there was no clear short to medium term path to profitability. These classes are segregated from the ongoing business and reported within the 'Discontinued' portfolio. The premium being report within this portfolio has reduced significantly year-on-year. The decision to exit several classes was made from the end of 2018 and into 2020, notably Engineering & Contractors, Plant and Equipment (CPE) and BGSU Latin American business which resulted in a material amount of income being reported as discontinued in 2020. Further classes were exited during 2021 including Kidnap and Ransom and Legal Expenses, although limited income had been written at the time the decision was made to exit.

Outwards reinsurance

The Syndicate's main reinsurance cover is a catastrophe aggregate excess of loss (Cat agg XL) cover which protects the Syndicate's Property Direct and Reinsurance business. The Syndicate saw an increase in the cost of the Cat agg XL contract in 2021 due to a reduction in the cover's attachment point, the objective being to reduce the potential downside risk to the Syndicate from major loss activity.

The Syndicate renewed its Cyber specific reinsurance protection for 2021. Historically the Syndicate has bought both excess of loss and stop loss protection. However, the 2021 only the stop loss was purchased as the terms being proposed for the excess of loss cover were uneconomical.

Additionally, the Syndicate restructured its composite excess of loss programme with two separate excess of loss contracts for Casualty and Specialty lines. Further income is covered by the policies which has also contributed to an increase in reinsurance spend year on year.

Underwriting Result

The Syndicate reported an underwriting loss of £12.7m (2020 loss: £35.3m) and a combined ratio of 107.9% (2020: 128.7%).

Claims

Major loss activity

The table below sets out the net impact of major losses on the Syndicate's results analysed by event:

	2021	2020
Major losses	£'m	£'m
Hurricane Ida	20.3	-
Texas Winter Storms	10.7	-
European Floods (Bernd)	2.0	-
Hurricane Laura	-	7.4
Hurricane Sally	-	2.9
Hurricane Zeta	-	2.1
Nashville Tornados	-	1.5
US Riots	-	1.3
Total before COVID-19 related losses	33.0	15.2
COVID-19 related losses	3.6	34.6
Total	36.6	49.8
Effect on the COR%	22.8%	40.5%

Report of the Directors of the Managing Agent (continued)

2021 also saw a high level of major loss activity, with an estimated US\$112bn of global insured losses arising from natural catastrophes and man-made events, a 13% increase over 2020, and the fourth-costliest on record. Natural catastrophes, including a winter freeze, floods, thunderstorms, heatwaves and a major hurricane accounted for US\$105bn of the estimate, as well as having a devastating impact on people's lives, homes and businesses. The estimated global economic loss of all 2021 events is approximately US\$259bn (2020: US\$216bn). (Source: Swiss Re).

The main events impacting the Syndicate in 2021 were Hurricane Ida, the Texas Winter Storms and the European floods. The net impact to the Syndicate of the claims incurred from these events was £33.0m, or 20.6% on the combined ratio (2020: £15.2m/12.4%).

Hurricane Ida and the Texas Winter Storms are significant market losses, both of which are bigger than any individual major loss event in 2020. Brit's European Property Treaty exposure is relatively limited and so the European Floods did not result in a significant financial loss to the Syndicate.

The financial impact of COVID-19 on the Syndicate significantly reduced in 2021, with an overall net impact of £3.6m or 2.2% of the combined ratio (2020: £34.6m/28.1%). As with 2020, COVID-19 losses were primarily concentrated in the Contingency class due to event cancellations.

COVID-19 is a highly unusual insurance event, 'earning' over a prolonged period. Estimating the overall cost is highly subjective and there remains uncertainty around losses from the COVID-19. The level of uncertainty around Contingency is expected to reduce overtime, however, within areas of the account such as Casualty Treaty and Property Treaty the ultimate loss outcome is still to emerge and will be influenced by factors such as coverage issues and the interpretation of contract wording.

Attritional losses

The attritional ratio for the 2021 financial year was 56.4%. This was a marked improvement on the prior year (61.6%) as the Syndicate benefited from benign claims experience and favourable pricing experienced in both the 2020 and 2021 years of account. This is mainly on the shorter-tailed classes. For longer-tailed lines, it is too early to recognise any favourable experience.

Prior year development

Favourable prior year development emerged on both the 2019 and 2020 years of account. The Syndicate benefitted from favourable outcomes from subrogation on the 2018 wildfires, partly offset by adverse loss development on the Syndicate's Cyber book.

Expenses

The expense ratio for the 2021 financial year of 30.2% has decreased compared to the prior year (2020: 34.3%). A material element of the Syndicate's administrative expense base is fixed and determined on planned gross premiums. The Syndicate's premium income being above plan has had a positive impact on the expense ratio.

Furthermore, the Syndicate's acquisition costs ratio has reduced. This is as a result of underwriting discipline and the exit of further, more expensive, underperforming longer-tail classes during 2021.

Investment Return

Total investment return net of investment management fees was a loss of £1.1m (2020: profit £0.9m).

The Syndicate's investment portfolio comprises short term, highly liquid Corporate and Government bonds. Although the portfolio remains short duration, which benefited the Syndicate's solvency, investment performance was weakened during the year due to yields rising on government debt.

Report of the Directors of the Managing Agent (continued)

Syndicate outlook

The stamp capacity for the 2022 year of account has increased 21.6% to £211.0m (2021 year of account £173.5m) with the level of planned premium being written off this stamp increasing by 19.7%.

The 2022 plan promotes continued diversification of the Syndicate's portfolio, by growing the 'High Performing', 'Core Growth' and 'Core Opportunistic' segments in such a way as to generate a better balance between Property, Specialty and Casualty lines. Growth in Syndicate 2988 premium is largely a function of greater penetration into Syndicate 2987's business plus selective growth of existing business.

Significant uncertainty continues to exist for the insurance industry.

The frequency of major events and the magnitude of the resulting claims continues to rise, with 2021's experience following on from those of 2017 and 2018, the most costly back-to-back years on record. The impact of medium loss events is also uncertain, with commentators attributing an increase in the frequency and severity of such events to climate change and other factors such as population growth and increasing insured values.

The cost of doing business in the London market remains elevated. The market needs to become more efficient in processing and work with distribution partners to become more competitive in local markets.

Despite the welcome withdrawal of some capacity, available capacity continues to exceed demand. In a number of markets in which the Syndicate operates, competition from local carriers is increasing.

Political and economic uncertainty and challenges continue. 2021 saw the economy start to return to normal, albeit progress was impacted by further COVID-19 related restrictions and supply chain imbalances. Lower, but still above trend, growth is expected through 2022, with heightened volatility as the economy navigates higher inflation and the gradual withdrawal of monetary stimulus.

The Russian invasion of Ukraine is a cause for uncertainty. This uncertainty may have an impact on insurance claims impacting the syndicate or it may impact financial markets which could in turn have consequences on the valuation of the syndicate's investment portfolio. At this time, it is too early to make any informed assessments or judgements on what effect, or effects, that this may have on the Syndicate. Brit continues to monitor developments closely.

However, there are a number of indicators to give cause for optimism, including continued rate increases, the withdrawal of capacity in the market from certain classes and improvement to the attritional claims ratio. In this environment, the Syndicate's clear strategy of embracing data driven underwriting discipline, and rigorous risk selection positions the Syndicate well to respond to the opportunities and challenges ahead.

Going concern

Following a review of the financial performance and position of the Syndicate the Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the report and accounts.

Principal risks and uncertainties

The information on principal risks and uncertainties is disclosed in note 3 to the accounts.

Employee and environmental matters

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

Climate change will have a major impact on Brit's business and all its stakeholders and Brit is committed to responsible business practices and recognises that it is most effective when acting alongside others in the industry.

Report of the Directors of the Managing Agent (continued)

Directors

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 51.

Independent Auditors

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

Statement of disclosure of information to the Auditors

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

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate's auditors in connection with its report, of which the Syndicate's auditors are unaware; and
- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No. 1) Byelaw (No. 18 of 2000) the Managing Agent does not propose holding a Syndicate Annual General Meeting of members of Syndicate 2988. Objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members to the Compliance Officer at the Managing Agent's registered address by 20 April 2022.

On behalf of the Board,

Gavin Wilkinson
Chief Financial Officer
03 March 2022

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). The Syndicate 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 annual accounts, the Managing Agent is required to:

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

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

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the members of Syndicate 2988

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2988's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Accounts (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income, the Statement of Cash Flows, and the Statement of Changes in Member's Balances for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 5, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

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

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

Independent auditors' report to the members of Syndicate 2988 (continued)

Reporting on other information

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

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

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

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

Report of the Directors of the Managing Agent

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

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate,

Independent auditors' report to the members of Syndicate 2988 (continued)

they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to estimated pipeline premiums and incurred but not reported claims provisions included in claims outstanding. Audit procedures performed by the engagement team included:

- discussion with the Board, management, compliance function and internal audit of the Managing Agent, including confirming there are no known or suspected frauds or non-compliance with laws and regulations;
- assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of management's investigation of such matters;
- reviewing relevant meeting minutes, including those of the Board, Risk Oversight Committee, Reserving Committee, and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including the Council of Lloyd's, the Prudential Regulatory Authority, and the Financial Conduct Authority;
- testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the estimation of pipeline premiums and incurred but not reported provisions included in claims outstanding;
- identification and testing of journal entries identified as potential indicators of fraud, particularly posted by unexpected users, with unusual words, post close entries, backdated entries, and those with unexpected account combinations; and
- designing audit procedures to incorporate unpredictability around the nature, timing and extent of testing.

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

Independent auditors' report to the members of Syndicate 2988 (continued)

for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

Income Statement

Technical Account – General Business for the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Gross premiums written	4	194.7	167.0
Outward reinsurance premiums		(20.8)	(15.6)
Net premiums written		173.9	151.4
Change in the gross provision for unearned premiums	11	(14.9)	(29.2)
Change in the provision for unearned premiums, reinsurers' share	11	1.2	0.8
Net change in the provision for unearned premiums		(13.7)	(28.4)
Earned premiums, net of reinsurance		160.2	123.0
Allocated investment return transferred from the non-technical account		(1.1)	0.9
Total technical income		159.1	123.9
Claims paid:			
Gross amount	12	(63.8)	(60.9)
Reinsurers' share	12	2.8	5.2
Net claims paid		(61.0)	(55.7)
Change in the provision for claims:			
Gross amount		(64.1)	(57.6)
Reinsurers' share		0.6	(2.9)
Net change in the provision for claims		(63.5)	(60.5)
Claims incurred, net of reinsurance	12	(124.5)	(116.2)
Net operating expenses	5	(48.4)	(42.1)
Total technical charges		(172.9)	(158.3)
Balance on the technical account for general business		(13.8)	(34.4)

The accompanying notes are an integral part of these accounts.

Income Statement

Non - Technical Account for the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Balance on the technical account for general business		(13.8)	(34.4)
Investment income		0.7	0.6
Unrealised (losses) / gains on investments		(1.2)	0.1
Realised (losses) / gains on investments		(0.5)	0.3
Investment management charges		(0.1)	(0.1)
Net investment return	8	(1.1)	0.9
Allocated investment return transferred to general business technical account	8	1.1	(0.9)
Profit / (loss) on exchange		0.4	(0.8)
Result for the financial year		(13.4)	(35.2)

Statement of Comprehensive Income

For the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Result for the financial year		(13.4)	(35.2)
Currency translation differences		(0.6)	3.0
Total comprehensive income for the financial year		(14.0)	(32.2)

The accompanying notes are an integral part of these accounts.

Statement of Changes in Members' Balances

For the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Members' balances as at 1 January		(59.1)	(53.0)
Total comprehensive income for the financial year		(14.0)	(32.2)
Distribution of the closed year of account		18.4	26.1
Members' balances carried forward at 31 December		(54.7)	(59.1)

The Members' balances relate entirely to Underwriting participation.

The accompanying notes are an integral part of these accounts.

Statement of Financial Position

Assets

as at 31 December 2021

	Note	2021 £'m	2020 £'m
Assets			
Investments:			
Financial investments	10,13	149.6	77.3
Deposits with ceding undertakings		0.1	-
		149.7	77.3
Reinsurers' share of technical provisions:			
Provision for unearned premium	11	3.6	2.3
Claims outstanding	12	9.3	8.7
		12.9	11.0
Debtors:			
Debtors due within one year:			
Debtors arising out of direct insurance operations		35.5	30.2
Debtors arising out of reinsurance operations		38.3	32.0
Other debtors	18	0.5	1.0
Debtors due after one year:			
Other debtors	18	0.7	-
		75.0	63.2
Other assets:			
Cash at bank and in hand	13	5.4	7.5
Other	14	11.3	9.3
		16.7	16.8
Prepayments and accrued income:			
Deferred acquisition costs	15	16.1	13.5
Prepayments and accrued income:		0.3	0.1
		16.4	13.6
Total assets		270.7	181.9

Statement of Financial Position

Liabilities

as at 31 December 2021

	Note	2021 £'m	2020 £'m
Members' balances and liabilities			
Members' balances		(54.7)	(59.1)
		(54.7)	(59.1)
Technical provisions:			
Provision for unearned premium	11	85.7	70.2
Claims outstanding	12	226.7	160.9
		312.4	231.1
Creditors:			
Creditors arising out of direct insurance operations	16	1.1	0.9
Creditors arising out of reinsurance operations		8.7	6.2
Other creditors	18	-	(0.3)
		9.8	6.8
Accruals and deferred income		3.2	3.1
Total liabilities		325.4	241.0
Total members' balances and liabilities		270.7	181.9

The accompanying notes are an integral part of these accounts.

The annual accounts on pages 14 to 50 were approved by the Board of Brit Syndicates Limited on 03 March 2022 and signed on its behalf by:

Gavin Wilkinson
Chief Financial Officer

Christiern Dart
Director

Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Cash flows from operating activities			
Result for the financial year		(13.4)	(35.2)
Movement in gross unearned premiums and outstanding claims		79.0	86.8
Movement in reinsurers' share of unearned premiums and outstanding claims		(1.8)	2.1
(Increase)/decrease in debtors		(11.4)	7.4
Increase/(decrease) in creditors		2.9	(44.1)
Movement in other assets/liabilities		(4.5)	(8.8)
Foreign exchange on operating activities		(0.4)	2.2
Investment return		1.1	(0.9)
Net cash flows from operating activities		51.5	9.5
Cash flows from investing activities			
Purchase of equity and debt instruments		(198.5)	(258.9)
Sale of equity and debt instruments		123.1	258.0
Investment income received		0.1	0.8
Net cash flow used in investing activities		(75.3)	(0.1)
Cash flows from financing activities			
Distribution of closed year results		18.4	26.1
Net cash flows from financing activities		18.4	26.1
Net (decrease)/increase in cash and cash equivalents		(5.4)	35.5
Cash and cash equivalents at 1 January		41.8	7.8
Foreign exchange on cash and cash equivalents		0.2	(1.5)
Cash and cash equivalents at 31 December	13	36.6	41.8

Notes to the Accounts

For the year ended 31 December 2021

1 Accounting policies, statement of compliance and basis of preparation

1.1 Statement of compliance and basis of preparation

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (The Regulations 2008), and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by the Syndicate.

The Directors of the Managing Agent have prepared the annual accounts on the going concern basis that the Syndicate will continue to write future business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities.

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

1.2 Product classification

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

1.3 Significant accounting policies

1.3.1 Insurance contracts

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

a. Premiums

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

Premiums during the 2020 calendar year also include a same-day transaction of cash consideration paid and received to reflect the transfer of European Economic Area (EEA) insurance liabilities from the syndicate to Lloyd's Insurance Company S.A. (LIC) and the reinsurance of the same EEA insurance liabilities by LIC back to the Syndicate under a separate reinsurance contract, under a Part VII scheme. More information on the Part VII transfer is disclosed under note 4.

Notes to the Accounts

For the year ended 31 December 2021

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

b. Profit commissions

Income arising from whole account quota share contracts is recognised when the economic benefits are highly probable. These are netted off against commission costs which are included within the 'acquisition costs' line in the income statement.

c. Deferred acquisitions costs

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

d. Claims

Claims incurred comprise claims and claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

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

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims IBNR.

While the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the income statement for the period in which the adjustments are made.

e. Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the technical account in order that revenue is recognised over the period of the risk.

f. Unexpired risks provision

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated having regard to events that are relevant to the provision at the date of the statement of financial position. Unexpired risk surpluses and deficits are offset where business classes are managed together, and a provision is made if an aggregate deficit arises. At 31 December 2021, the Syndicate reported an unexpired risks provision of £nil as the provision from 2020 (£2.4m) was unwound during the calendar year.

g. Reinsurance

The Syndicate assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected.

Notes to the Accounts

For the year ended 31 December 2021

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

Reinstatement premiums on both inwards and outwards business are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the technical account and not subject to amortisation.

If a reinsurance asset is impaired, the Syndicate reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the technical account. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of that asset, that the Syndicate may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer.

h. Expenses and other income receivable

The Managing Agent has charged the Syndicate a fixed fee and has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting and investment management charges. Investment management charges are netted off against investment return as disclosed in note 8. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

The Managing Agent also charges the Syndicate profit commission equal to a fixed percentage of profit for each year of account. An accrual is recognised as and when the year of account becomes profitable, with payment crystallising on closure of the year of account after three years. No such profit commission was charged or accrued for in the calendar year to 31 December 2021 (2020: £nil).

i. Borrowings

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

1.3.2 Investments

a. Financial investments

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) is based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Syndicate uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Notes to the Accounts

For the year ended 31 December 2021

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

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

b. Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the date of the statement of financial position and their valuation at the previous statement of financial position, or purchase price if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

1.3.3 Measurement of other financial assets and financial liabilities

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

1.3.4 Recognition and derecognition of financial assets and financial liabilities

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

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

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

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

1.3.5 Taxation

Under Schedule 19 of the Finance Act 1993, Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to members or their Members' Agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings.

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

Notes to the Accounts

For the year ended 31 December 2021

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

1.3.6 Pension costs

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

1.3.7 Foreign currencies

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

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

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

1.3.8 Offsetting of financial instruments

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

2 Critical accounting estimates and judgements in applying accounting policies

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

2.1 Estimation and judgements in relation to determining the ultimate liability arising from claims made under Insurance contracts

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

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

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

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). Given the early stage of development for the Syndicate, these

Notes to the Accounts

For the year ended 31 December 2021

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

methods have typically relied on benchmark information e.g. from similar business written by BSL into Syndicate 2987;

- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question.
- The initial ultimate selections derived by the actuarial department, along with the underlying key assumptions and methodology, are discussed with class underwriters, divisional underwriting directors and the claims team at 'pre-committee' meetings. The actuarial department may make adjustments to the initial ultimates following these meetings;
- Following the completion of the 'pre-committee' meetings and peer review process within the actuarial department, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Reserving Committee for discussion and debate; and
- Following review of the actuarial estimate, the Reserving Committee recommends the committee estimates to be adopted in the financial statements.

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

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

Brit has adopted a comprehensive approach to reserving for COVID-19 related losses, in line with its policy of reserving on a 'conservative best estimate' basis and carrying an explicit risk margin above that 'conservative best estimate'. A detailed analysis of the principal exposed classes for the year ended 31 December 2021 resulted in net COVID-19 related losses of £3.6m (2020: £34.6m). The Syndicate's main exposures to COVID-19 relates to Contingency and Casualty Treaty accounts, with lower levels of exposure in Property, Property Treaty and Personal Accident. There remains uncertainty around losses from COVID-19. The level of uncertainty around Contingency is expected to reduce overtime, however, within areas of the account, such as Casualty Treaty, the ultimate loss outcome is still to emerge and will be influenced by factors such as coverage issues and the interpretation of contract wording.

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

2.2 Estimation of pipeline premiums

Written premiums include pipeline premium of £67.3m (2020: £53.1m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are derived from ultimate premium estimates which are typically based on actuarial estimates which are benchmarked against the results of standard actuarial projection techniques to assess reasonableness.

2.3 Estimation and judgements in respect of fair value of financial investments

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation.

The Syndicate values investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs and consistent with UK GAAP.

Notes to the Accounts

For the year ended 31 December 2021

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

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); the lowest priority to unobservable inputs that reflect the assumptions that the Syndicate considers market participants would normally use (level three). To the extent that valuations is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one. At 31 December 2021, financial investments amounting to £2.3m (2020: £2.3m) were classified as level three.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect the Syndicate results of operations and reported financial condition. For further information, refer to note 10.

3 Principal risks and uncertainties

3.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Syndicate is exposed to as its primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims.

The areas of insurance risk discussed below include underwriting (including aggregate exposure management), reinsurance and reserving.

a. Underwriting risk

Underwriting risk is the risk that insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Syndicate because of unpredictable events.

The Syndicate is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. Although premium rates have risen over recent years, this follows a number of years of downwards pressure and this trend has been factored into the Syndicate's pricing models and risk management tools and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

The Syndicate writes all of its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Syndicate access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicate to a number of resulting underwriting risks.

(i) Controls over underwriting strategy

The BSL Board sets the Syndicate's underwriting strategy for accepting and managing underwriting risk. The Underwriting Committee, chaired by the Chief Underwriting Officer, meets regularly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is all-encompassing applying underwriting key performance indicators (KPIs), technical pricing management information (MI), premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the Board. The underwriting risk policy also sets out a number of controls, which are summarised below:

The Managing Agent carries out a detailed annual business planning process for each of the Syndicate's underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committee as well as by the Board.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

A dedicated Risk Aggregation team also performs analysis including Realistic Disaster Scenarios (RDS) on a regular basis to ensure that the Syndicate's net losses remain within its risk appetite.

The Managing Agent has developed underwriting guidelines, limits of authority and business plans for the Syndicate which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Syndicate's insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and/or portfolio managers, with regular audits being carried out.

The technical pricing framework ensures that the pricing process in the Syndicate is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Syndicate to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Managing Agent's Internal Audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

(ii) Underwriting risk profile

The core insurance portfolio of property, marine and casualty (including liability), covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of business planning which operates annually and ongoing strategy process and uses inputs from the technical pricing framework. The business plan is approved by the BSL Board and is monitored monthly.

(iii) Geographical concentration of premium

The Syndicate enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicate to benefit from a wide geographic diversification of risk. The principal location of the Syndicate's policyholders is the United States. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

Premiums written	Gross	Net
2021	£'m	£'m
United States	53.4	47.5
United Kingdom	13.0	11.9
Europe (excluding UK)	4.0	3.7
Other (including worldwide)	124.3	110.8
Total	194.7	173.9

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

Premiums written 2020	Gross £'m	Net £'m
United States	53.3	46.9
United Kingdom	9.7	9.0
Europe (excluding UK)	2.8	2.6
Other (including worldwide)	101.2	92.9
Total	167.0	151.4

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

(iv) Portfolio mix

The Syndicate's breakdown of gross premium written by principal categories is summarised below:

Premium by Portfolio		2021 £'m	%	2020 £'m	%
London Market Direct	Financial and Professional Liability	39.5	20%	27.2	16%
	Programmes and Facilities	31.2	16%	28.8	17%
	Property	22.6	12%	18.0	11%
	Ambridge Transactional	8.4	4%	3.9	2%
	Specialty	17.0	9%	15.0	9%
		118.7	61%	92.9	55%
London Market Reinsurance	Casualty Treaty	13.8	7%	13.0	8%
	Property Treaty	22.6	12%	19.8	12%
		36.4	19%	32.8	20%
Overseas Distribution	Ambridge Specialty Casualty	0.7	0%	2.2	1%
	Ambridge Re	-	0%	0.4	0%
		0.7	0%	2.6	1%
Other	Other	37.6	19%	31.9	20%
Discontinued	Discontinued	1.3	1%	6.8	4%
Total		194.7	100%	167.0	100%

The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across several geographic areas which results in a diversification of the Syndicate's portfolio. The business mix is monitored with focus on the short tail vs. long tail split and the proportion of delegated underwriting business. Delegated underwriting represents approximately 32.2% of the portfolio as at 31 December 2021 (2020: 30.2%)

(v) Aggregate exposure management

The Syndicate is exposed to potential large claims from natural catastrophe events. The catastrophe risk tolerances are defined within the Syndicate's risk appetite framework. These are reviewed and set by the Board on an annual basis.

For example, the Syndicate has a tolerance of 24% of its Economic Capital Assessment (ECA) for major catastrophe events (as defined by World Wide All Perils 1-in-30 Aggregate Exceedance Probability (AEP)). This is in addition to other tolerances set within the catastrophe risk appetite framework.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

The Syndicate closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed RDS.

Below are the key RDS losses to the Syndicate for all classes combined as at 31st October 2021 (unaudited):

Lloyd's Prescribed RDS Event £m	Estimated Industry Loss	Modelled Syndicate Loss at 1 October 2021 (i)		Modelled Syndicate Loss at 1 October 2020 (i)	
		Gross	Net	Gross	Net
Gulf of Mexico Windstorm	82,222	80	23	70	27
Florida Miami Windstorm	97,037	84	23	79	27
US North East Windstorm	60,000	78	14	68	16
San Francisco Earthquake	59,259	108	37	98	39
Japan Earthquake	51,292	30	23	31	31
Japan Windstorm	10,900	5	5	6	6
European Windstorm	20,168	8	7	6	6

(i): At 31 December 2021 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be unmodelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

(vi) Sensitivity to changes in net claims ratio

The Syndicate result for the financial year is sensitive to an independent 1% change in the net claims ratio by class of business as follows:

Change in reported result by category of business	Movement in profit year ended 2021		Movement in profit year ended 2020	
	£'m	%	£'m	%
London - Direct	0.9	60%	0.7	62%
London - RI	0.5	37%	0.3	31%
Overseas Distribution	0.1	1%	0.1	2%
Discontinued	0.1	2%	0.1	5%
Total	1.6	100%	1.2	100%

The impact on the member's balance would be the same as that on the result following a change in the net claims ratio.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

b. Reinsurance risk

The Syndicate purchases reinsurance to manage exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicate to mitigate exposure to insurance losses against the risk appetite, reduce volatility of reported results and protect capital.

Proportional quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregations of losses. Quota share reinsurance is also used to manage the Syndicate's net exposure to classes of business where the Syndicate's risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

The Syndicate also has in place a comprehensive programme of excess of loss reinsurances to protect itself from severe size or frequency of losses:

- (i) Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
- (ii) Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate's risk appetite during the business planning exercise.
- (iii) An aggregate catastrophe excess of loss cover is in place to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps, catastrophe bonds and industry loss warranties where they are a cost-efficient means to ensure that the Syndicate remains within its catastrophe risk appetite.

Given the fundamental importance of reinsurance protection to the Syndicate's risk management, the Managing Agent has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain the Syndicate's ability to meet policyholder obligations. The Outwards Reinsurance Committee makes recommendations on the purchase of reinsurance.

The Syndicate remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicate.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.
- Basis risk on reinsurance which responds to something other than the Syndicate's Ultimate Net Loss.

These risks are managed through a combination of techniques and controls including risk aggregation management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

c. Reserving risk

Reserving risk arises where the actual cost of losses for policyholder obligations incurred before 31 December 2021 may differ from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicate as the reserves for unpaid losses represent the largest component of the Syndicate's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of the Syndicate's reserving risk.

The Syndicate has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Syndicate's claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Syndicate's experienced actuaries to establish the IBNR reserve.

These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods, such as using historical information of Syndicate 2987, to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and risk aggregation to ensure that they have a full understanding of the emerging claims experience across the Syndicate.

The Syndicate's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Reserving Committee, as part of the formal governance arrangements for the Syndicate. The estimate agreed by the committees is used as a basis for the Syndicate financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. This margin increases the reserves reflected in the Syndicate financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicate's auditors.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Syndicate but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Syndicate's reserves are considered to be claims from the long-tailed direct and reinsurance classes. The issues contributing to this high uncertainty are common to all entities which write such business.

3.2 Liquidity risk

This is the risk the Syndicate may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Syndicate faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Managing Agent monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Syndicate has in place specific credit facilities available in the event of any liquidity issues. Typically, these will be used prior to the potential of making a call on Members' FAL.

The table below presents the undiscounted value of monetary liabilities of the Syndicate into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

As at 31 December 2021	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	£'m	£'m	£'m	£'m	£'m
Claims outstanding	72.8	72.0	35.9	46.0	226.7
Creditors	13.0	-	-	-	13.0
Total	85.8	72.0	35.9	46.0	239.7

As at 31 December 2020	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	£'m	£'m	£'m	£'m	£'m
Claims outstanding	60.1	52.2	21.4	27.2	160.9
Creditors	9.9	-	-	-	9.9
Total	70.0	52.2	21.4	27.2	170.8

3.3 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation in a timely manner. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Syndicate;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate;
- Investments: through the issuer default of all or part of the value of a financial instrument; and
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Syndicate.

a. Investments credit risk

(i) Investment credit risk management process

The Investment Committee is responsible for the management of investment credit risk. The Investment Guidelines and Investment Policy set out clear limits and controls around the level of investment credit risk. The Syndicate has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicate's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

(ii) Investment credit risk profile

The summary of the investment credit risk exposures for the Syndicate is set out in the tables below:

£'m	AAA	AA	A	BBB	BB or less	Not Rated	Total
As at 31 December 2021							
Shares and other variable yield securities	15.9	15.4	-	-	-	2.3	33.6
Debt securities	94.9	2.6	17.8	0.7	-	-	116.0
Overseas deposits	5.0	1.2	2.8	1.1	1.2	-	11.3
Cash at bank and in hand	-	-	5.3	-	-	0.1	5.4
Total	115.8	19.2	25.9	1.8	1.2	2.4	166.3

£'m	AAA	AA	A	BBB	BB or less	Not Rated	Total
As at 31 December 2020							
Shares and other variable yield securities	26.7	7.6	-	-	-	2.3	36.6
Debt securities	34.7	-	5.8	0.2	-	-	40.7
Overseas deposits	5.4	1.0	1.4	0.7	0.8	-	9.3
Cash at bank and in hand	-	-	-	7.5	-	-	7.5
Total	66.8	8.6	7.2	8.4	0.8	2.3	94.1

b. Insurance credit risk

(i) Insurance credit risk management process

The Credit Committee, chaired by the Brit Group Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral and have been approved for use by the Credit Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current statement of financial position exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board on at least a quarterly basis.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

(ii) Insurance credit risk profile

The summary of the insurance credit risk exposures for the Syndicate is set out in the table below:

£'m	AA	A	Not Rated	Total
As at 31 December 2021				
Reinsurers' share of claims outstanding	5.2	-	4.1	9.3
Debtors arising out of reinsurance operations	0.1	-	38.2	38.3
Total	5.3	-	42.3	47.6

£'m	AA	A	Not Rated	Total
As at 31 December 2020				
Reinsurers' share of claims outstanding	4.4	0.7	3.6	8.7
Debtors arising out of reinsurance operations	1.2	0.5	30.3	32.0
Total	5.6	1.2	33.9	40.7

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Syndicate in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Syndicate in a timely manner).

Collateral of £40.9m (2020: £42.9m) is held in third party trust accounts or as a letter of credit ('LOC') to guarantee Syndicate 2988 against reinsurance counterparties and is available for immediate drawdown in the event of a default. As at 31 December 2021, £1.8m (2020: £3.4m) of reinsurers claims were protected by cash and cash equivalents held in third party trust accounts or by LOC's.

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

£'m	Neither past due nor impaired	Past due	Impaired	Total
As at 31 December 2021				
Shares and other variable yield securities	33.6	-	-	33.6
Debt securities	116.0	-	-	116.0
Overseas deposits	11.3	-	-	11.3
Reinsurer's share of claims outstanding	9.3	-	-	9.3
Debtors arising out of direct insurance operations	36.2	-	-	36.2
Other assets	58.9	-	-	58.9
Cash at bank and in hand	5.4	-	-	5.4
Total	270.7	-	-	270.7

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

£'m	Neither past due nor impaired	Past due	Impaired	Total
As at 31 December 2020				
Shares and other variable yield securities	36.6	-	-	36.6
Debt securities	40.7	-	-	40.7
Overseas deposits	9.3	-	-	9.3
Reinsurer's share of claims outstanding	8.7	-	-	8.7
Debtors arising out of direct insurance operations	30.2	-	-	30.2
Other assets	48.9	-	-	48.9
Cash at bank and in hand	7.5	-	-	7.5
Total	181.9	-	-	181.9

3.4 Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

a. Currency risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Syndicate. The split of assets and liabilities for each of the Syndicate's main currencies converted to £ Sterling is set out in the tables below:

Converted £'m	UK £	US \$	CAD \$	EUR €	Total
As at 31 December 2021					
Total assets	28.4	211.4	19.4	11.5	270.7
Total liabilities	(37.4)	(254.0)	(21.5)	(12.5)	(325.4)
Net assets/ (liabilities) excluding the effect of currency adjustments	(9.0)	(42.6)	(2.1)	(1.0)	(54.7)
Adjustment for foreign exchange purchases and sales	(30.6)	22.4	3.8	4.4	-
Adjusted net assets/ (liabilities)	(39.6)	(20.2)	1.7	3.4	(54.7)
As at 31 December 2020					
Total assets	21.9	141.6	11.6	6.8	181.9
Total liabilities	(33.1)	(185.7)	(12.4)	(9.8)	(241.0)
Net assets/ (liabilities) excluding the effect of currency adjustments	(11.2)	(44.1)	(0.8)	(3.0)	(59.1)
Adjustment for foreign exchange purchases and sales	(31.0)	25.5	1.8	3.7	-
Adjusted net assets/ (liabilities)	(42.2)	(18.6)	1.0	0.7	(59.1)

The non-Sterling denominated net assets of the Syndicate may lead to profit or losses (depending on the mix relative to the liabilities), should Sterling vary relative to these currencies.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

The Syndicate manages its exposure in each of the main currencies and the net asset position is rebalanced periodically. Where mismatches occur, these may lead to foreign exchange gains and losses reported through the income statement.

b. Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result of a percentage movement in the relative strength of Sterling against the value of the US dollar, Canadian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December of each year end:

£'m	Impact on result for the financial year and net assets	
	2021	2020
GBP weakens		
10% against other currencies	(1.5)	(1.7)
20% against other currencies	(3.0)	(3.4)
GBP strengthens		
10% against other currencies	1.5	1.7
20% against other currencies	3.0	3.4

c. Interest rate risk and price risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Syndicate is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

Insurance liabilities are measured on an undiscounted basis and therefore are not sensitive to changes in interest rates.

The banded durations of the Syndicate's financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

As at 31 December 2021	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
£'m						
Shares and other variable yield securities and unit trusts	31.3	-	-	-	2.3	33.6
Debt securities	12.8	48.9	35.6	18.7	-	116.0
Overseas deposits as investments	7.0	3.6	0.5	0.2	-	11.3
Cash at bank and in hand	5.4	-	-	-	-	5.4
Total	56.5	52.5	36.1	18.9	2.3	166.3
As at 31 December 2020	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
£'m						
Shares and other variable yield securities and unit trusts	34.3	-	-	-	2.3	36.6
Debt securities	0.5	6.2	27.8	6.2	-	40.7
Overseas deposits as investments	4.5	3.6	1.0	0.2	-	9.3
Cash at bank and in hand	7.5	-	-	-	-	7.5
Total	46.8	9.8	28.8	6.4	2.3	94.1

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

The Syndicate takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicate. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration.

d. Sensitivity to changes in investment yields

The sensitivity of the result and net assets to changes in the investment yields is set out in the table below.

£'m	Impact on result for financial year	
	2021	2020
Increase		
25 basis points	(0.9)	(0.4)
50 basis points	(1.8)	(0.9)
100 basis points	(3.6)	(1.8)
Decrease		
25 basis points	0.9	0.4
50 basis points	1.8	0.9
100 basis points	3.6	1.8

3.5 Operational Risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of Brit. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The BSL Operations Committee, chaired by the Group Chief Operating Officer, is a key governance committee reporting to the Executive Committee. The BSL Operations Committee is responsible for managing operational risk in line with the operational risk policy and the risk tolerance and management appetite limits set by the BSL Board and management respectively. Each individual risk committee is provided with relevant operational risk updates and these committees include operational risk owners within executive management who actively manage operational risk within their respective areas (such as Underwriting, Claims, Investments and Finance).

An operational risk management framework is in place to ensure an appropriate standard approach is taken to managing operational risk across the Brit Group. The key elements of this framework are:

- Allocation of responsibility for the identification and assessment of operational risk. Standard tools are used to facilitate these assessments;
- Definition of standard elements of sound operating controls that are expected to be in place to address all identified operational risks;
- A process that integrates with Brit's internal model to support the setting and monitoring of operational risk appetite and tolerances;
- Governance, reporting and escalation for operational risk;
- Infrastructure supporting the operational risk management framework; and
- Operational risk management training and awareness.

A conduct risk framework is in place across the Group to ensure Brit's products and services continue to meet the needs of our customers.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

3.6 COVID-19

Governments have taken various actions to contain the COVID-19 pandemic, including social distancing measures, travel restrictions and lockdowns resulting in the closure of certain businesses. This has given rise to insurance claims from various lines of business, with the most material to the Syndicate being event cancellations. Rising price inflation in the US and UK may also lead to an increase in the cost of settling claims.

The pandemic has also caused significant volatility in the financial markets. Although share prices recovered from significant falls following the news of the vaccine trials' success rates, interest rates remain at depressed, and inflation has increased.

The Syndicate has managed the risks posed by the pandemic in line with the Risk Management Framework (RMF). Management has focused on ensuring staff wellbeing, launching a number of initiatives following the periodic working from home orders to curb the spread of COVID-19. The Managing Agent has been able to maintain a strong operational performance and continue to serve the Syndicate and its customers despite the pandemic. The underwriting and investment portfolios are actively managed to reflect market developments, and actions have been taken in both areas in 2020 and 2021 to ensure it is appropriately positioned for both the pandemic and the recessionary economic conditions.

Risk Management provided reports on the impact of the pandemic on the business throughout 2020 and 2021 to the Board and Risk Committee. COVID-19 will continue to be an area of focus with the key risks going forward being further financial market volatility and uncertainty over the ultimate claims arising from COVID-19. The wellbeing of staff also remains a priority.

3.7 Emerging risks

The Syndicate undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committee and included in the Own Risk & Solvency Assessment (ORSA) report. The review is an important part of the risk identification aspect of the RMF and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks. These risks can then be included in the risk register and managed appropriately as required.

The emerging risk review has previously identified risks such as the United Kingdom's exit from the EU (Brexit) and cyber risk. These risks have been managed throughout their development and are now monitored as part of the business as usual risk management process.

3.7.1 Climate Change

Climate change has been recognised as an emerging risk in the ORSA since 2014 and has been an area of focus since having been identified as a high priority by the Syndicate's 2018 emerging risks analysis. Its potential impact on the insurance industry is an area of focus for the wider insurance market and its regulators. The financial risks to insurers may include the potential for increased frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. In line with previous years, 2021 continued to see wildfires occurring worldwide and the Atlantic hurricane season was the fourth costliest on record.

The three main areas of risk identified for the Syndicate are natural catastrophes, liability claims and investment losses:

- **Natural catastrophe risks** relating to climate change are the physical risks of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims and could impact the Syndicate in the short to medium term. We continuously monitor scientific studies, regularly review the completeness of existing models and the application of the Syndicate's view of risk. The Syndicate's exposure to natural catastrophe risks is monitored and on an ongoing basis by the Risk Management Function.
- Climate change could result in additional **liability claims** arising from increasing climate litigation against the Syndicate's clients. The claims arise from firms contributing to climate change, failing to transition to renewables, greenwashing or directors' breach of fiduciary duties. In line with the nature of these claims could impact the Syndicate in the medium to long term. The Syndicate's exposure is limited through limits on gross underwriting exposure and through the purchase of reinsurance.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

- **Investment losses** have the potential to arise from exposure to industries perceived to be contributing to climate change. This transition risk could adversely impact the Syndicate very quickly as financial markets valuations fluctuate. The Syndicate has a diversified investment portfolio, with limits on exposure to individual issuers. The Syndicate is developing metrics to strengthen its understanding of the potential impacts of climate change on its investments.

The Syndicate is managing the risks associated with climate change in line with the RMF which is reviewed annually and regulatory guidance developments are monitored through the committees and working parties. This will continue to be an area of management, Risk Committee and Board focus, with a multi-disciplinary Climate Change Risk Working Party to consider the financial risks associated with Climate Change.

Climate change scenario analysis has been conducted as part of the ORSA process, and the Syndicate participated in the PRA's Climate Biennial Exploratory Scenario (CBES) testing exercise in 2021. The Syndicate's Solvency II internal model includes an allowance for the impact of climate change. The analysis utilises catastrophe modelling, expert judgement, scenario analysis and selected metrics as tools to monitor and manage exposure to climate-related risks. The outputs from these feed into business decision making. The Syndicate is compliant with PRA Supervisory Statement SS3/19 which sets expectations for firms regarding their consideration of climate risk.

The Syndicate actively considers the potential implications of climate change and sustainability on its investment and underwriting strategies, how it should engage more widely on environmental and ethical issues, and its own sustainability initiatives. An annual review of equity holdings is conducted which includes a review of the ESG strategy of underlying companies within the Syndicate's equity portfolio. Holdings of industries such as oil and gas, transport and utilities deemed to materially contribute to climate change are also monitored.

3.7.2 Geo-political risks

The Russian invasion of Ukraine is a cause for uncertainty. This uncertainty may have an impact on insurance claims impacting the syndicate or it may impact financial markets which could in turn have consequences on the valuation of the syndicate's investment portfolio. At this time, it is too early to make any informed assessments or judgements on what effect, or effects, that this may have on the Syndicate. Brit continues to monitor developments closely.

3.8 Capital risk management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II framework. Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, 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 respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 2988 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 syndicate(s) on which it participates, but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate.

Notes to the Accounts

For the year ended 31 December 2021

3 Principal risks and uncertainties (continued)

Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applying for 2021 was 35% of the member's SCR to ultimate.

Provision of capital by members

The Syndicate is comprised of a number of underwriting members of Lloyd's. As such, each member is only liable for its own share of liabilities on the Syndicate. Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates. Funds in syndicate are not applicable to Syndicate 2988, as participants' capital is held at member level. Accordingly, all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 18, are taken into account when determining the members' Lloyd's capital requirements.

4 Analysis of underwriting result

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

Year ended 31 December 2021	Gross premiums written £'m	Gross premiums earned £'m	Gross claims incurred £'m	Gross operating expenses £'m	Reinsurance balance £'m	Total £'m
Direct Insurance:						
Accident and health	2.2	2.4	(1.1)	(0.9)	-	0.4
Marine aviation and transport	11.0	9.6	(4.9)	(3.3)	(0.3)	1.1
Fire and other damage to property	29.6	28.7	(19.9)	(10.0)	(5.4)	(6.6)
Third party liability	42.2	38.4	(28.5)	(11.3)	(0.7)	(2.1)
Credit and suretyship	4.6	4.3	(3.3)	(1.5)	(0.2)	(0.7)
Total Direct Insurance	89.6	83.4	(57.7)	(27.0)	(6.6)	(7.9)
Reinsurance	105.1	96.4	(70.2)	(21.4)	(9.6)	(4.8)
Total	194.7	179.8	(127.9)	(48.4)	(16.2)	(12.7)

Year ended 31 December 2020	Gross premiums written £'m	Gross premiums earned £'m	Gross claims incurred £'m	Gross operating expenses £'m	Reinsurance balance £'m	Total £'m
Direct Insurance:						
Accident and health	2.3	2.3	(2.0)	(0.9)	(0.1)	(0.7)
Marine aviation and transport	10.2	8.6	(4.1)	(3.1)	(0.3)	1.1
Fire and other damage to property	30.9	30.3	(19.6)	(10.7)	(4.7)	(4.7)
Third party liability	29.0	25.8	(16.9)	(8.3)	(0.8)	(0.2)
Credit and suretyship	3.6	4.1	(23.6)	(1.5)	(0.1)	(21.1)
Total Direct Insurance	76.0	71.1	(66.2)	(24.5)	(6.0)	(25.6)
Reinsurance	91.0	66.7	(52.3)	(17.6)	(6.5)	(9.7)
Total	167.0	137.8	(118.5)	(42.1)	(12.5)	(35.3)

Notes to the Accounts

For the year ended 31 December 2021

4 Analysis of underwriting result (continued)

Commissions on direct insurance gross premiums written during 2021 were £20.4m (2020: £18.3m).

On 25 November 2020 the High Court sanctioned the transfer to Lloyd's Insurance Company S.A. (LIC) of syndicates' European liabilities in accordance with Part VII of the Financial Services and Markets Act 2000. The scheme took effect on 30 December 2020, whereupon all relevant policies (and related liabilities) underwritten by the Group's syndicates for years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance) were transferred to LIC. On the same date, a 100% Quota Share Reinsurance Agreement was entered into whereby LIC reinsured all risks on the same policies back to the relevant open years of account of the syndicates that wrote the transferring policies and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account.

The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there is no impact on the income statement or statement of financial position. Underwriting results for the transferred policies for 2020 have been 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. For 2021 and future years, results relating to these risks are reported under the Reinsurance Accepted class of business, reflecting the new contractual arrangement with LIC. The total cash consideration paid and subsequently received equated to US\$1.7m.

Subsequent to the 2020 year-end, on 4 January 2021, under the 100% Quota Share Reinsurance Agreement between the Syndicate and LIC, the Syndicate was required to set up advanced funds in segregated Part VII settlement accounts managed by the Managing Agent on behalf of LIC from which claims with respect to transferred liabilities will be settled. These amounted to £0.1m as at the end of 31 December 2021 and are reported in the statement of financial position as deposits with ceding undertakings.

The geographical analysis of premiums by the location of the underlying risk is as follows:

	2021	2020
	£'m	£'m
United States	53.4	53.3
United Kingdom	13.0	9.7
Europe (excluding UK)	4.0	2.8
Other (including worldwide)	124.3	101.2
Total	194.7	167.0

5 Net operating expenses

	2021	2020
	£'m	£'m
Acquisition costs	33.9	29.7
Change in deferred acquisition costs	(2.5)	(2.9)
Administrative expenses	17.0	15.3
Total	48.4	42.1

Members' standard personal expenses of £3.2m (2020: £2.8m) are included within administrative expenses.

Notes to the Accounts

For the year ended 31 December 2021

5 Net operating expenses (continued)

The auditors' remuneration and audit services charged to the Syndicate within the fixed fee charged by the Managing Agent and the auditors' remuneration are as follows:

	2021 £'m	2020 £'m
Audit of the Syndicate annual accounts	0.1	0.1
Total	0.1	0.1

6 Staff numbers and costs

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

7 Remuneration of the Directors of Brit Syndicates Limited and Active Underwriter

No remuneration of the Directors of Brit Syndicates Limited has been charged to the Syndicate for the 2021 or 2020 calendar year.

The active underwriter received the following remuneration in respect of the Syndicate. This remuneration was paid to the active underwriter by the Managing Agent from the fixed fee it charged to the Syndicate.

	2021 £'m	2020 £'m
Aggregate remuneration	0.4	0.5
Total	0.4	0.5

No advances, pension contributions or credit were granted by the Managing Agent to any of its directors during the year.

8 Investment return

	2021 £'m	2020 £'m
Income from investments	0.7	0.6
Gains on investments	-	0.5
Losses on investments	(1.7)	(0.1)
Investment management charges	(0.1)	(0.1)
Total investment return	(1.1)	0.9

Notes to the Accounts

For the year ended 31 December 2021

8 Investment return (continued)

Average amount of funds held as cash and cash equivalents during the year:	2021 in currency	2020 in currency
Sterling	6.9	3.5
US dollars	24.0	18.7
Canadian dollars	14.3	6.6
Euros	4.4	1.7
Combined in Sterling	36.6	22.5

Gross calendar year interest yield on cash and cash equivalents		
Sterling	2.04%	0.05%
US dollars	0.66%	0.63%
Canadian dollars	2.10%	0.42%
Euros	0.14%	-
Combined in Sterling	1.18%	0.49%

Overseas deposits have been excluded from the analysis as these are actively management by Lloyd's on behalf of the Syndicate.

9 Claims development tables

The following tables illustrate the development of the estimates of earned ultimate cumulative claims incurred, including claims notified and IBNR, for each successive underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-Sterling cumulative claims estimates and cumulative payments are translated into £ Sterling at the period end rate as at 31 December 2021.

As these tables are on an underwriting year basis, there is an apparent large increase from amounts reported for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Estimate of cumulative gross incurred claims

Estimate of cumulative gross incurred claims

£'m

Underwriting year	2017	2018	2019	2020	2021
At end of underwriting year	60.3	44.3	27.4	64.8	70.8
One year later	91.1	79.5	73.0	116.9	
Two years later	95.8	83.1	79.1		
Three years later	95.3	85.1			
Four years later	93.8				
Current estimate of cumulative claims incurred	93.8	85.1	79.1	116.9	70.8
Cumulative payments	(82.4)	(57.8)	(41.2)	(33.3)	(4.3)
Gross outstanding claims provision as at 31 December 2021	11.4	27.3	37.9	83.6	66.5

Notes to the Accounts

For the year ended 31 December 2021

9 Claims development tables (continued)

Estimate of cumulative net incurred claims £'m

Underwriting year	2017	2018	2019	2020	2021
At end of underwriting year	37.7	43.8	27.1	64.2	70.1
One year later	67.1	78.5	72.2	115.4	
Two years later	69.6	81.9	77.0		
Three years later	68.1	84.0			
Four years later	66.1				
Current estimate of cumulative claims incurred	66.1	84.0	77.0	115.4	70.1
Cumulative payments	(59.3)	(57.6)	(40.7)	(33.3)	(4.3)
Net Outstanding claims provision as at 31 December 2021	6.8	26.4	36.3	82.1	65.8

10 Financial investments

	Market Value		Cost	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Shares and other variable yield securities and units in unit trusts	33.6	36.6	38.6	36.5
Debt securities	116.0	40.7	117.5	40.7
Total	149.6	77.3	156.1	77.2

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

All financial investments have been designated as held at fair value through profit or loss

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy:

	Level 1 £'m	Level 2 £'m	Level 3 £'m	Total £'m
Year ended 31 December 2021				
Shares and other variable yield securities	22.3	9.0	2.3	33.6
Debt Securities	86.2	29.8	-	116.0
Total	108.5	38.8	2.3	149.6
Year ended 31 December 2020				
Shares and other variable yield securities	8.1	26.2	2.3	36.6
Debt Securities	34.4	6.3	-	40.7
Total	42.5	32.5	2.3	77.3

a. Basis for determining the fair value hierarchy of financial instruments

The Syndicate has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

- (i) Level one – quoted prices (unadjusted) in active markets for identical assets

Notes to the Accounts

For the year ended 31 December 2021

10 Financial investments (continued)

- (ii) Level two – inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (iii) Level three – inputs for the assets that are not based on observable market data (unobservable inputs).

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Syndicate determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Syndicate by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

b. Valuation techniques

Level one

These represent assets traded in an active market whose quoted price is readily and regularly available and those prices represent actual and regular transactions on an arm's length basis.

Level two

Inputs include directly or indirectly observable inputs (other than level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non-US government agency securities are priced with over-the-counter (OTC) quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Notes to the Accounts

For the year ended 31 December 2021

10 Financial investments (continued)

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

Level three

Level 3 investments comprise only of a Syndicate loan to the central fund. Lloyd's introduced Syndicate loans to the Central Fund with effect from the 2019 year of account and plan to continue to do so in subsequent years, subject to PRA approval each year. During 2020, two further tranches were collected from the Syndicate on the 2020 year of account. No such loans were collected during the 2021 calendar year.

The proceeds from these loans were used to strengthen Lloyd's central resources and to inject capital into Lloyd's Insurance Company SA (Lloyd's Brussels). Loans will not be repaid before 5 years have elapsed. Interest thereon is determined by reference to the risk-free yield plus a credit spread, and will normally be paid annually on an anniversary of the loan. Interest on all three tranches of loans was received during 2021. These investments have been classified as an equity share for which the fair value cannot be determined using direct or indirect observable inputs, therefore these have been classified as Level 3.

11 Provision for unearned premium

	Gross £'m	Reinsurers' share £'m	Net £'m
Balance at 1 January 2021	70.2	(2.3)	67.9
Premiums written in the year	194.7	(20.8)	173.9
Premiums earned in the year	(179.8)	19.6	(160.2)
Effect of movement in exchange rates	0.6	(0.1)	0.5
Balance at 31 December 2021	85.7	(3.6)	82.1

	Gross £'m	Reinsurers' share £'m	Net £'m
Balance at 1 January 2020	43.6	(1.7)	41.9
Premiums written in the year	167.0	(15.6)	151.4
Premiums earned in the year	(137.8)	14.8	(123.0)
Effect of movement in exchange rates	(2.5)	0.1	(2.4)
Balance at 31 December 2020	70.2	(2.3)	67.9

Notes to the Accounts

For the year ended 31 December 2021

12 Claims outstanding

	Gross £'m	Reinsurers' share £'m	Net £'m
Balance at 1 January 2021	160.9	(8.7)	152.2
Claims incurred in relation to current underwriting year	70.0	(0.6)	69.4
Claims incurred in relation to prior underwriting years	57.9	(2.8)	55.1
Claims paid in the year	(63.8)	2.8	(61.0)
Effect of movement in exchange rates	1.7	-	1.7
Balance at 31 December 2021	226.7	(9.3)	217.4
Claims reported and loss adjustment expenses Incurred but not reported	59.7	(3.4)	56.3
	167.0	(5.9)	161.1
Balance at 31 December 2021	226.7	(9.3)	217.4

	Gross £'m	Reinsurers' share £'m	Net £'m
Balance at 1 January 2020	108.5	(11.7)	96.8
Claims incurred in relation to current underwriting year	67.8	(0.7)	67.1
Claims incurred in relation to prior underwriting years	50.7	(1.6)	49.1
Claims paid in the year	(60.9)	5.2	(55.7)
Effect of movement in exchange rates	(5.2)	0.1	(5.1)
Balance at 31 December 2020	160.9	(8.7)	152.2
Claims reported and loss adjustment expenses Incurred but not reported	52.8	(5.1)	47.7
	105.7	(3.6)	102.1
Unexpired risk reserve	2.4	-	2.4
Balance at 31 December 2020	160.9	(8.7)	152.2

13 Cash and cash equivalents

	2021 £'m	2020 £'m
Cash at bank and in hand	5.4	7.5
Short-term deposits	31.2	34.3
Total	36.6	41.8

Cash and cash equivalents comprise of cash at bank and in hand, short-term deposits and other highly liquid investments with a maturity of three months or less at the date of acquisition. Short-term deposits are presented within Financial Investments on the Statement of Financial Position.

14 Other assets

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

Notes to the Accounts

For the year ended 31 December 2021

15 Deferred acquisition costs

	2021	2020
	£'m	£'m
Balance at 1 January 2021	13.5	10.9
Change in deferred acquisition costs	2.5	2.9
Effect of movement in exchange rates	0.1	(0.3)
Balance at 31 December 2021	16.1	13.5

16 Creditors arising out of direct insurance operations

	2021	2020
	£'m	£'m
Due to intermediaries within one year	1.1	0.9
Total	1.1	0.9

17 Amount due to credit institutions

The Syndicate had a US\$30.0m, or £22.1m at the December 2021 balance sheet rate, revolving credit facility. The expiry date for this facility was 30 September 2021 and it was not renewed as the liquidity position had improved.

18 Other debtors and creditors

Included within other debtors is an amount due from other Brit entities amounting to £1.2m (2020: £0.9m).

19 Related parties

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

The Managing Agent is a wholly-owned subsidiary of Brit Insurance Holdings Limited, which in turn is a subsidiary of Brit Limited. During the year, the Syndicate paid £11.2m (2020: £10.4m) to BSL in respect of management fees and a further £1.7m (2020: £1.5m) in managing agency fees. As at 31 December 2021, there were amounts outstanding of £3.2m (2020: £3.0m). The Syndicate also participates on various Lloyd's consortia managed by BSL. During the year, the Syndicate incurred consortia management fees of £6.5k (2020: £28.6k) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2020: £nil).

b. Brit Insurance Services USA, LLC

Following the purchase of 100% of Ambridge during 2021, from 1 April 2021, Brit combined BGSU with Ambridge to create a single operation under the Ambridge brand.

During the year, the Syndicate paid commissions to Brit Insurance Services USA, LLC, a service company within the Brit Limited group. The amounts in the Income Statement relating to trading with Brit Insurance Services USA, LLC for the year included commission for introducing insurance business of £nil (2020: £0.6m). As at 31 December 2021, no amounts of commission were outstanding (2020: £nil). As at 31 December 2021, Brit Insurance Services USA, LLC owed £0.7m (2020: £3.0m) of premiums to the Syndicate.

Notes to the Accounts

For the year ended 31 December 2021

19 Related parties (continued)

c. Syndicate 2987

BSL also manages Syndicate 2987, a wholly-aligned syndicate of the Brit Limited group. During the year the Syndicate paid commissions to Syndicate 2987, in relation to inter-syndicate quota share agreements. The amounts on the income statement relating to trading with Syndicate 2987 included commissions for transferring insurance risk of £4.4m (2020 £3.9m). As at the 31 December 2021 no amounts of commission were outstanding (2020 £nil). As at 31 December 2021, Syndicate 2987 owed £29.5m (2020: £23.5m) of premiums to the Syndicate.

d. Directors of Brit Syndicates Limited

For information relating to the remuneration of the directors of Brit Syndicates Limited, refer to note 7.

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

e. Ambridge Partners LLC

Ambridge Partners LLC is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including entities within the Brit Limited group.

Following the purchase of 100% of Ambridge during 2021, from 1 April 2021, Brit combined BGSU with Ambridge to create a single operation under the Ambridge brand.

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the Income Statement relating to trading with Ambridge Partners LLC for the year included commission for introducing insurance business of £0.9m (2020: £0.7m). As at 31 December 2021, no amounts of commission were outstanding (2020: nil). As at 31 December 2021, Ambridge Partners LLC owed £1.8m (2020: £1.3m) of premiums to the Syndicate.

The Syndicate also participates on various Lloyd's consortia managed by Ambridge. During the year, the Syndicate incurred consortia management fees of £0.1m (2020: £0.2m) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2020: £nil).

f. Sutton Specialty Risk Inc.

On 2 January 2019, Brit Insurance Holdings, acquired 49% of the issued shares of Sutton Specialty Risk Inc. (Sutton) for a total purchase consideration of CAD\$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian MGU, specialising in Accident and Health business.

Trading with Sutton is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the period from 2 January 2021 to 31 December 2021 included commission for introducing insurance business of £0.3m (2020: £0.2m). As at 31 December 2021, Sutton owed £0.9m (2020: £0.2m) of premiums to the Syndicate.

g. Camargue Underwriting Managers Proprietary Limited

On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and also entered into a call and a put option to purchase the remaining 50% in 2021. On 4 October 2021, Camargue became a 100% subsidiary of the Group and ceased to be an associated undertaking. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit. Trading with Camargue is undertaken on an arm's-length basis and is settled in cash.

The amounts in the income statement relating to trading with Camargue for the year ended 31 December 2021 included commission for introducing insurance business of £0.1m (2020: £0.1m). As at 31 December 2021, Camargue owed £0.1m (2020: £0.1m) of premiums to the Syndicate.

Notes to the Accounts

For the year ended 31 December 2021

19 Related parties (continued)

h. Brit UW Limited

Brit UW Limited, a subsidiary of the Group provided £91.4m (2020: £83.2m) of capacity in respect of the 2021 year of account of the Syndicate. Refer to note 20 for further information on how capacity is funded by the member.

i. Key Management personnel compensation

For the purposes of FRS 102, the active underwriter is deemed to be the key management personnel. Compensation, including share-based payments, incurred by the key management personnel in 2021 was £0.6m (2020: £0.5m).

20 Funds at Lloyd's

Every member is required to provide capital at Lloyd's which is held in trust and known as funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on the UK Prudential Regulation Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including but not limited to the nature and amount of risk to be underwritten by the members and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the control of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

21 Subsequent events

The Russian invasion of Ukraine is a cause for uncertainty. This uncertainty may have an impact on insurance claims impacting the syndicate or it may impact financial markets which could in turn have consequences on the valuation of the syndicate's investment portfolio. At this time, it is too early to make any informed assessments or judgements on what effect, or effects, that this may have on the Syndicate. Brit continues to monitor developments closely.

22 Ultimate holding company

The Managing Agent is a wholly-owned subsidiary of Brit Insurance Holdings Limited, a company registered in England and Wales. The intermediate holding company, in which the Managing Agent's result is consolidated, is Brit Limited, a company registered in England and Wales. Copies of Brit Limited's consolidated accounts can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB, or from the website www.britinsurance.com.

The ultimate parent undertaking is Fairfax Financial Holdings Limited (Fairfax), a company registered in Toronto. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website www.fairfax.ca.

Directors of the Managing Agent

Executive

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

Non-Executive

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

Secretary

Tim James Harmer

Active Underwriter

Simon Bird

Registered Office

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