

Accounts disclaimer

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Brit Syndicate 2987
Report and Accounts 2022



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 2987 (the Syndicate) for the year ended 31 December 2022. 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).

Amounts are reported in millions of US dollars (\$m) unless otherwise stated.

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 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 2022 calendar year is a loss of \$18.7m (2021: profit of \$65.6m), comprising an underwriting profit of \$16.8m (2021: profit of \$60.2m) with a combined ratio of 99.1% (2021: 95.2%), and a net investment return of \$12.5m (2021: \$6.5m). The result reflects premium growth, a positive and resilient underwriting result, a strong attritional performance partially offset by major loss activity including losses arising from Hurricane Ian and the Russian invasion of Ukraine, a modest investment income and foreign exchange losses. Foreign exchange losses for the year of \$48.0m (2021: loss of \$1.1m) were as a result of adverse core currency rates of exchange movements against the US dollar. Net investment return includes gains on currency derivatives of \$48.8m, which the Syndicate utilises to effectively manage its currency exposure.

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

	2022 \$m	2021 \$m
Gross premiums written	2,948.4	2,727.3
Net premiums written	1,907.7	1,270.1
Earned premiums, net of reinsurance	1,795.4	1,257.4
Underwriting result	16.8	60.2
Technical account investment income	12.5	6.5
Technical result for the financial year	29.3	66.7
Loss on exchange	(48.0)	(1.1)
Non-technical account for the financial year	(48.0)	(1.1)
Result for the Financial Year	(18.7)	65.6
Combined ratio*	99.1%	95.2%

*The combined ratio for the 2021 comparative period includes the effect of a loss portfolio reinsurance contract (LPR). Excluding the effect of the LPR, the combined ratio is 96.0%.

Gross premiums written

An analysis of gross premiums written by the Brit division and class is as follows:

Premium by portfolio		2022 \$m	2021 \$m	Variance %
London Market Direct	Financial and Professional Liability	591.9	551.4	7.3
	Programmes and Facilities	599.0	486.5	23.1
	Property	392.6	360.0	9.1
	Specialty	413.3	382.9	7.9
		1,996.8	1,780.8	12.1
London Market Reinsurance	Casualty Treaty	489.0	430.5	13.6
	Property Treaty	399.8	384.6	4.0
		888.8	815.1	9.0
Other	Other	78.8	72.3	9.0
Discontinued	Discontinued	(16.0)	59.1	(127.1)
Total		2,948.4	2,727.3	8.1

Note: The 2021 figures have been re-presented to reflect the changes to the underwriting class monitoring structure introduced in 2022.

Report of the Directors of the Managing Agent (continued)

Gross premiums written increased by 8.1% to \$2,948.4m (2021: \$2,727.3m). At constant exchange rates, the increase was 10.0%. Direct business increased by 12.1% to \$1,996.8m (2021: \$1,780.8m), while Reinsurance business increased by 9.0% to \$888.8m (2021: \$815.1m).

Other comprises Casualty business written through Brit's formerly owned MGA, Scion, for which premiums increased by 9.0% to \$78.8m (2021: \$72.3m).

Growth in the Financial and Professional lines division was primarily driven by a continued rise in pricing within the Cyber book. Programs and Facilities saw a recovery of the market post Covid-19 on the A&H account, whilst increased lines and rate increases on key Property Facilities renewals further benefited the portfolio. A combination of hard market conditions, pricing strength and renewal growth gave rise to an increase in premiums on the Direct Property portfolio.

Specialty includes the Syndicate's Cargo, Energy Construction and Energy Renewable classes, all achieving increases in premium year on year through growth and rate.

Reinsurance achieved targeted growth and prior year premium development in Casualty Treaty, whilst Property Treaty benefited from reinstatement premiums following major loss events.

The premium increases seen across the Syndicate's main divisions were partially offset by withdrawal from a number of underperforming classes. These have been reported under Discontinued.

The market has continued to benefit from strengthening premium rates during 2022. The risk-adjusted rate increase on renewed business is 11.6%, building on the positive rate increases seen in 2021 (12.9%). Positive rate movements have been seen across most classes, outperforming the plan target by 5.9% on a mix-adjusted basis, most notably in Cyber Privacy & Tech, Property Treaty, and Property Facilities. Risk adjusted rate increases since 1 January 2018 now total over 40%.

The retention rate for the period remains stable at 83.7% (2021: 83.7%). Across all lines, the Syndicate has retained underwriting discipline and remained prepared to discontinue accounts that are believed to be inadequately priced or outside of the Syndicate's appetite.

Outwards reinsurance

Reinsurance expenditure in 2022 was \$1,040.7m or 35.3% of GPW (2021: \$1,457.2m/53.4%), a decrease of \$416.5m, or 28.6%.

The 2021 reinsurance expenditure included a loss portfolio reinsurance contract with RiverStone Managing Agency Limited (for and on behalf of Lloyd's Syndicate 3500) amounting to \$279.2m. Absent this transaction, reinsurance expenditure decreased \$137.3m, or 11.7%. The 2022 figure includes a return premium of \$29.5m following an endorsement to the 2021 loss portfolio reinsurance contract.

The 2021 reinsurance expenditure also included the purchase of a new, \$93.0m, multi-year catastrophe XL contract support by a Brit-sponsored catastrophe bond issued in late 2020 by a protected cell of Sussex Capital UK PCC Limited. Both the XL contract and bond have a four year term, with the aggregate cost of the cover recognised in 2021, and then earned over the term of the cover.

In 2022, there was a measured reduction in proportional reinsurance purchased following a decision to retain a greater amount of the Syndicate's most profitable lines while maintaining a comprehensive level of cover. This was partially offset by inwards premium growth in portfolios covered by adjustable excess of loss contracts and proportional reinsurance treaties.

Underwriting result

The Syndicate reported an underwriting profit of \$16.8m (2021: profit of \$60.2m) and a combined ratio of 99.1% (2021: 95.2%). The 2021 underwriting result includes a profit on the loss portfolio reinsurance contract to RiverStone of \$24.7m. Excluding this contract, the underwriting profit for the 2021 year was \$35.5m, with a combined ratio of 96.0%. The 2022 figure includes a loss of \$0.1m in respect of the endorsement of the 2021 loss portfolio reinsurance contract.

Report of the Directors of the Managing Agent (continued)

Claims

Major loss activity

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

Major losses	2022	2021
	\$m	\$m
Australian floods	8.5	-
Hurricane Ian	146.8	-
Winter storm Elliott	4.5	-
Texas winter storms	-	49.1
Hurricane Ida	-	114.7
European floods (Bernd)	-	9.6
Total natural catastrophe events	159.8	173.4
Claims arising from the Russian invasion of Ukraine	22.6	-
COVID-19 related losses	-	19.7
Total	182.4	193.1

In 2022, the Syndicate delivered a robust underwriting result against a backdrop of another significant natural catastrophe year as well as claims arising from the Russian invasion of Ukraine.

- **Natural catastrophes**

2022 again witnessed a high level of natural catastrophe activity, with insured losses estimated at over \$140bn, marginally below 2021 levels (source: Gallagher Re). Activity was dominated by Hurricane Ian, accounting for 8.2% of the loss figure, while it was another year where climate change, exposure growth and inflation had a significant influence. Of the last six years, only 2019 has recorded insured natural catastrophe losses of under \$100bn.

Major natural catastrophe losses amounted to \$159.8m and added 8.9% the Syndicate's combined ratio in 2022 (2021: \$173.4m / 13.8%), driven by Hurricane Ian (\$146.8m net), Australian floods (\$8.5m net) and winter storm Elliott (\$4.5m net).

- **Russian invasion of Ukraine**

Brit has been shocked and horrified by the unfolding events in Ukraine. Brit's thoughts are with the Ukrainian people and especially with its Fairfax colleagues based there. Following the invasion, Brit took the decision to cancel or non-renew all (re)insurances of entities domiciled in Russia, entities with risk locations solely in Russia, and Russian owned assets and entities.

The Syndicate's provision for losses arising from the Russian invasion of Ukraine totalled \$22.6m net, or 1.3 percentage points (pps) of the Syndicate's combined ratio. This follows an assessment of direct exposures within the Syndicate's Terrorism, Casualty Treaty, Marine War, Contingency and Political and Credit Risk classes, along with potential secondary impacts. The Syndicate does not write Aviation business. Given the ongoing nature of the event, neither the duration nor the ultimate outcome can be predicted with any certainty, and the situation continues to be monitored closely.

Attritional losses

The Syndicate's underlying claims performance in 2022 remained strong, with an attritional claims ratio of 47.8%, (2021: 43.7%). The Syndicate achieved strong pricing and targeted growth in high-performing segments. The 2022 ratio reflects the impact of increased economic uncertainty, including the impact of inflation, while the 2021 attritional ratio benefited from the effects of COVID-19 related restrictions, such as reduce volumes of commercial activity and the suspension of court hearings.

Report of the Directors of the Managing Agent (continued)

Prior year development

The 2022 result includes \$1.9m of prior year reserve strengthening (0.1pps on the combined ratio). This reflects current economic conditions and the potential impact of inflation. Reserve releases reflecting reduced uncertainty surrounding Hurricane Ida and Covid-19 were largely offset by strengthening for the 2021 Texas winter storms. The 2021 comparative includes \$88.9m of prior year reserve releases, reducing the combined ratio by 7.1pps (or by 5.8pps when adjusted for the distorting effect of the loss portfolio reinsurance).

Net operating expenses

Net operating expenses include net commissions and administrative expenses. The net commission expense ratio was 29.8%, an improvement over 2021 (2021: 33.2% when adjusted for the impact of the loss portfolio reinsurance contract). This improvement reflects both the mix impact of writing more business in classes with lower acquisition costs and a continued drive to reduce overall acquisition costs in the current strong market. The 2022 net commission expense ratio improves to 29.3% when adjusted for the endorsement to the loss portfolio reinsurance contract undertaken in 2022.

The administrative expense ratio reduced to 11.2% (2021: 13.1%). Administrative expenses decreased by 0.4% to \$200.5m (2021: \$201.3m). At constant rates of exchange, they increased by 10.4%, reflecting that the majority of our expense base is in sterling. The main contributors to this increase were the fee payable to its managing agent and Lloyd's charges, reflecting the planned growth of the syndicate.

Financial position

Net Technical Reserves

Preserving a strong financial position is critical to the long-term success of an insurance business. The Syndicate's net technical reserves have increased by \$395.5m, or 13.2%, to \$3,389.3m (2021: \$2,993.8m). The Syndicate maintains appropriate loss reserves to cover its estimated future liabilities. Reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims. The reserving process is robust and managed by the Chief Risk Officer and Chief Actuary and under the oversight of the Reserving Committee. Reserving estimates are prepared quarterly and are based on facts and circumstances then known, predictions of future developments, estimates of future trends in claims frequency and severity and other variable factors such as inflation. Movement in these reserves forms an integral element of our operating result.

The Syndicate's reserving policy is to reserve to a best estimate and carry an explicit risk margin above that best estimate. Maintaining reserves is critical to safeguard future obligations to policyholders and the Syndicate's approach provides a secure foundation. It also provides a secure foundation for the pricing of new business which is particularly critical in a soft rating environment.

Financial Investments

The investment portfolio retains a large allocation to cash and cash equivalents (\$107.6m or 4.1%) and fixed income securities (\$2,136.6m or 81.6%), (2021: \$172.8m cash, 6.8%, fixed income securities \$2,126.1m or 84.0%).

Investment return

Net investment return for 2022 totalled \$12.5m, a 92.3% increase (2021: \$6.5m). The fixed income portfolio generated a loss of \$48.8m (2021: loss of \$1.8m). The US government bond yield curve rose across all tenors, with the two-year yield increasing from 0.73% to 4.43%, the five-year yield increasing from 1.26% to 4.00% and the ten-year yield increasing from 1.51% to 3.88%. Investment grade credit and high yield spreads widened over the twelve months as inflation remained elevated and the US Federal Reserve Bank entered an aggressive rate rising cycle, raising rates 425bps over the year, including four consecutive 75bps hikes. Investment grade spreads in the US widened from 0.49% to 0.90% and in Europe from 0.78% to 1.56%, while high yield spreads in the US widened from 2.83% to 4.68% and in Europe widened from 3.12% to 4.90%.

The small risk asset allocation in the Syndicate provided positive returns, outperforming the market and helping offset the fixed income weakness.

Report of the Directors of the Managing Agent (continued)

The Syndicate utilises currency of derivatives to manage its exposure to currency risk. Gains on those derivative instruments \$48.8m are included within net investment return.

Syndicate outlook

Stamp capacity for the 2023 year of account has increased by 27.6% to £2,345.8m (2022 year of account £1,838.6m). As in previous years, Brit continues to actively manage the portfolios by segmenting classes into 'high performing', 'core', 'managed growth', 'overseas distribution' and 'portfolio management'. Growth (excluding RARC) is driven primarily by the 'high performing', 'core' segments, while the largest increases in RARC are targeted on the weakest performing segments of the portfolio.

Going into 2023, the industry faces a number of challenges and uncertainties, driven by the volatile geopolitical and economic landscapes, including ongoing inflationary pressures. Wider challenges also continue to exist such as the potential risk for increased frequency and magnitude of major loss events due to climate change, excess capacity, the cost of doing business in the London Market, and increased competition.

In recent years the market has experienced a level of catastrophe activity significantly in excess of historical levels. We have reviewed the catastrophe strategy of our US Property portfolio, focusing on Property Treaty, Property Facilities and Property Open Market. As a result, the Syndicate has focused on achieving minimum rate requirements, have successfully increased inflationary guards and minimum valuations, and have redistributed capacity away from catastrophe intensive regions. The changes are also expected to reduce reliance on reinsurance which is increasingly expensive given the scarcity of capacity in the hardening market. The actions are expected to result in a gross exposure reduction for Property Catastrophe across the portfolios of Syndicate 2987.

The Syndicate's non-catastrophe reinsurance renewals at 1 January have been successfully completed, with the erosion of coverage minimised despite challenging market conditions. The cost has increased in several lines, but within the Syndicate's business planning assumptions.

The Syndicate's main catastrophe protections renew at 1 April and discussions are currently underway with our reinsurance partners. Currently, we do not foresee any material challenges in placing the required protections.

On 7 January 2023, Brit entered into an agreement to sell Ambridge Group to Amynta Group. The underwriting relationship of the syndicate with Ambridge will continue after the sale.

Brit remains cognisant of the potential impacts of inflation, with work being undertaken collaboratively internally to quantify and mitigate its impact on profitability. There is continued focus on ensuring that underwriting and pricing adequately addresses inflationary trends and Brit continues to review the key drivers of claim settlement costs and frequency by class of business. The Syndicate's reserves continue to be set at a margin above the actuarial best estimate incorporating management's current view of social and economic inflation.

Strong underwriting conditions and favourable market developments continued during 2022. However, the world faces ongoing volatility, continuing challenges arising from inflation, and continued political uncertainty. The insurance market also continues to evolve. We believe the Syndicate's strategy, underwriting discipline and financial strength position it well to take advantage of opportunities as they arise.

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.

Report of the Directors of the Managing Agent (continued)

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's service company, and the full staff cost disclosures will be 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.

Directors

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 57.

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.

On behalf of the Board

Gavin Wilkinson
Chief Financial Officer
01 March 2023

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 member of Syndicate 2987

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 2987's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 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, including 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 2022 (the 'Annual Report'), which comprise: the statement of financial position as at 31 December 2022; the income statement, 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 Member of Syndicate 2987 (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 (the "Managing Agent's Report"), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2022 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Independent Auditors' Report to the Member of Syndicate 2987 (continued)

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

- Discussions with the Board, management, internal audit and the compliance function of the Managing Agent, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of the investigation of such matters;
- Reviewing relevant meeting minutes, including those of the Board, the Risk Oversight Committee, the Reserving Committee, and the 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 in establishing significant accounting estimates, particularly in relation to estimated premium income and incurred but not reported provisions (gross and net of reinsurance) included in claims outstanding;
- Identifying and testing journal entries identified as potential indicators of fraud, in particular, those with unexpected account combinations, those posted by unexpected users or with unusual words, and post close or backdated journal entries; 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 member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Report to the Member of Syndicate 2987 (continued)

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
01 March 2023

Income Statement

Technical Account - General Business for the year ended 31 December 2022

	Note	2022 \$m	2021 \$m
Gross premiums written	4	2,948.4	2,727.3
Outward reinsurance premiums		(1,040.7)	(1,457.2)
Net premiums written		1,907.7	1,270.1
Change in the gross provision for unearned premiums	12	(113.9)	(157.2)
Change in the provision for unearned premiums, reinsurers' share	12	1.6	144.5
Net change in the provision for unearned premiums		(112.3)	(12.7)
Earned premiums, net of reinsurance		1,795.4	1,257.4
Allocated investment return transferred from the non-technical account		12.5	6.5
Total technical income		1,807.9	1,263.9
Claims paid:			
Gross amount	13	(1,342.6)	(1,291.8)
Reinsurers' share	13	631.3	639.6
Net claims paid		(711.3)	(652.2)
Change in the provision for claims:			
Gross amount		(594.4)	(233.7)
Reinsurers' share		262.3	390.2
Net change in the provision for claims		(332.1)	156.5
Claims incurred, net of reinsurance	13	(1,043.4)	(495.7)
Net operating expenses	5	(735.2)	(701.5)
Total technical charges		(1,778.6)	(1,197.2)
Balance on the technical account for general business		29.3	66.7

The accompanying notes are an integral part of these accounts.

Income Statement

Non-Technical Account for the year ended 31 December 2022

	Note	2022 \$m	2021 \$m
Balance on the technical account for general business		29.3	66.7
Investment income		41.6	23.2
Unrealised losses on investments		(32.3)	(21.6)
Realised gains on investments		11.7	12.5
Investment management charges		(8.5)	(7.6)
Net investment return	8	12.5	6.5
Allocated investment return transferred to general business technical account	8	(12.5)	(6.5)
Loss on exchange		(48.0)	(1.1)
Result for the financial year		(18.7)	65.6

The accompanying notes are an integral part of these accounts.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the Income Statement. Therefore, no Statement of Other Comprehensive Income has been presented.

Statement of Changes in Member's Balance
for the year ended 31 December 2022

The Member's balance comprises the following:

	Note	2022 \$m	2021 \$m
Member's balance brought forward at 1 January		297.1	31.2
Total comprehensive (loss) / income for the financial year		(18.7)	65.6
Transfer from Funds in Syndicate	21	-	(430.7)
Cash calls		160.3	465.5
Closed year of account (Distribution) / Collection		(160.3)	165.2
Receivables on account in respect of overseas taxation		-	0.3
Member's balance carried forward at 31 December		278.4	297.1

	2022 \$m	2021 \$m
Underwriting participation	278.3	297.0
Payments on account in respect of overseas taxation	0.1	0.1
Member's balance carried forward at 31 December	278.4	297.1

The accompanying notes are an integral part of these accounts.

Statement of Financial Position

Assets

as at 31 December 2022

	Note	2022 \$m	2021 \$m
Assets			
Investments:			
Financial investments	10,11	2,608.6	2,486.3
Deposits with ceding undertakings		9.6	12.2
		2,618.2	2,498.5
Reinsurers' share of technical provisions:			
Provision for unearned premium	12	515.3	521.4
Claims outstanding	13	2,755.6	2,566.1
		3,270.9	3,087.5
Debtors:			
Debtors due within one year:			
Debtors arising out of direct insurance operations		851.7	722.5
Debtors arising out of reinsurance operations		688.6	553.1
Other debtors		0.1	-
		1,540.4	1,275.6
Other assets:			
Cash at bank and in hand	14	8.3	43.9
Other	16	256.5	294.7
		264.8	338.6
Prepayments and accrued income:			
Deferred acquisition costs	17	287.4	281.1
Other prepayments and accrued income		12.1	5.7
		299.5	286.8
Total assets		7,993.8	7,487.0

The accompanying notes are an integral part of these accounts.

Statement of Financial Position

Liabilities

as at 31 December 2022

	Note	2022 \$m	2021 \$m
Member's balance and liabilities			
Member's balance		278.4	297.1
		278.4	297.1
Technical provisions:			
Provision for unearned premium	12	1,234.2	1,142.2
Claims outstanding	13	5,426.0	4,939.1
		6,660.2	6,081.3
Creditors:			
Creditors arising out of direct insurance operations	18	29.5	39.2
Creditors arising out of reinsurance operations		982.8	1,017.2
Derivative contracts	11	1.0	10.1
Other creditors		1.2	-
		1,014.5	1,066.5
Accruals and deferred income		40.7	42.1
Total liabilities		7,715.4	7,189.9
Total member's balance and liabilities		7,993.8	7,487.0

The accompanying notes are an integral part of these accounts.

The annual accounts on pages 13 to 57 were approved by the Board of Brit Syndicates Limited on 01 March 2023 and signed on its behalf by:

Gavin Wilkinson
Chief Financial Officer

Christiern Dart
Director

Statement of Cash Flows
for the year ended 31 December 2022

	Note	2022 \$m	2021 \$m
Cash flows from operating activities			
Result for the financial year		(18.7)	65.6
Movement in unearned premiums and outstanding claims		708.3	390.9
Movement in reinsurers' share of unearned premiums and outstanding claims		(263.9)	(534.7)
Increase in debtors		(238.2)	(137.1)
(Decrease) / increase in creditors		(32.0)	441.7
Movement in other assets/liabilities		(3.7)	(35.1)
Foreign exchange on operating activities		(32.9)	5.1
Net Investment return		(12.5)	(6.5)
Net cash flows (used in)/ from operating activities		106.4	189.9
Cash flows from investing activities			
Purchase of equity and debt instruments		(4,194.0)	(1,734.1)
Sale of equity and debt instruments		3,949.0	642.0
Sales/(Purchases) of derivatives		35.0	(11.0)
Investment income received		44.8	28.0
Other		1.2	(12.4)
Net cash flows from/ (used in) investing activities		(164.0)	(1,087.5)
Cash flows from financing activities			
(Distribution) / collection of Closed Year Result		(160.3)	165.2
Open year cash calls made		160.3	465.5
Release of Funds in Syndicate	21	-	(430.7)
Movement in non-standard personal expenses		-	0.3
Net cash flows from financing activities		-	200.3
Net decrease in cash and cash equivalents		(57.6)	(697.3)
Cash and cash equivalents at 1 January		172.8	868.6
Exchange differences on opening cash		(7.6)	1.5
Cash and cash equivalents at 31 December	14	107.6	172.8

Notes to the Accounts

For the year ended 31 December 2022

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 to all the years presented, 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 financial statements are reported in US dollars (\$m), which is the functional and presentational currency of the Syndicate, and rounded to the nearest \$0.1m, unless otherwise stated.

1.2 Product classification

Insurance contracts are those contracts that transfer significant insurance risk. 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

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 receivable 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 risk differs significantly over 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 recognised where, under an insurance policy that contains a contractual right to reinstatement, a loss event occurs that triggers reinstatement. Premiums are shown net of premium taxes and other levies on premiums. Pipeline premium estimates are derived from ultimate premium estimates which are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

b. Profit commissions

Profit commission 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 technical account.

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

Notes to the Accounts

For the year ended 31 December 2022

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

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 outstanding claims provisions, 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.

Internal costs to negotiate, manage, and settle claims (unallocated loss adjustment expenses) are apportioned to paid claims. The apportionment utilises the annual ULAE assumption that is agreed by the Reserving Committee.

Outstanding claims 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. The Syndicate does not discount its liabilities for unpaid claims, the ultimate cost of which cannot be known with certainty at the date of the statement of financial position.

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 technical account 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 2022, the Syndicate reported an unexpired risks provision of \$nil (2021: nil).

g. Reinsurance

The Syndicate assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the technical account 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. Reinstatement premiums on both inwards and outwards business are accreted to the technical account on a pro rata basis over the term of the original policy to which they relate.

Notes to the Accounts

For the year ended 31 December 2022

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

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 in accordance with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the technical account.

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.

Gains or losses on buying retroactive reinsurance are recognised immediately in the technical account and are not deferred and amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the technical account and statement of financial position as appropriate.

h. Expenses

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.

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, including over-the-counter derivatives, 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.

Gains and losses on investments designated as FVTPL are recognised through the technical account. 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, overseas deposit income and realised and unrealised investment gains and losses. Interest income is recognised using the effective interest rate method.

Notes to the Accounts

For the year ended 31 December 2022

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

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 except to the extent that investment income arises on Funds at Lloyd's retained at the Syndicate level, also known as 'Funds in Syndicate' (FIS), that income remains in the non-technical account.

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 to 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 Derivatives

Derivative financial instruments include foreign exchange contracts, forward rate agreements, interest rate futures, currency and interest rate swaps and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit indices, commodity values or equity instruments. All derivatives are initially recognised in the statement of financial position at their fair value, which represents their cost. They are subsequently remeasured at their fair value, with movements in this value recognised in the technical account. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models.

All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps.

Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Syndicate's exposure to credit risk. The notional

Notes to the Accounts

For the year ended 31 December 2022

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

or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions.

1.3.6 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 a member or the member's agent is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the statement of financial position under the heading 'Member's balance'.

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

1.3.7 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.

1.3.8 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 2987 is the United States dollar (\$). Items included in the annual accounts are measured using the functional currency which is also the Syndicate's presentational currency.

Unless otherwise stated, transactions in sterling, Canadian dollars and euros are translated into the functional currency at the 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.

1.3.9 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

The Syndicate makes various assumptions about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the reported amounts of assets and liabilities within the next financial year.

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.

Notes to the Accounts

For the year ended 31 December 2022

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

2.1 Estimation and judgement 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 internal actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the initial expected loss ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate;
- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- 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 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.

The Syndicate has carefully considered the impact of the higher levels of inflation. Our reserves continue to be set at a margin above the actuarial estimate which is set on a best estimate basis. As part of the year-end reserving exercise, the impact of inflation has been considered in detail by the internal Actuarial team to ensure that assumptions are consistent with the Syndicate's forward looking expectations for claims inflation. Various techniques have been considered in line with guidance from Lloyd's and regulators.

Notes to the Accounts

For the year ended 31 December 2022

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

The Russia-Ukraine conflict arising from the Russian invasion of Ukraine is a cause for uncertainty. The Syndicate has analysed its potential exposures across its (re)insurance portfolio as well as the wider financial and operational challenges brought about by the conflict. The Syndicate has direct exposures within the Terrorism, Casualty Treaty, Marine War, Contingency and Political and Credit Risk classes, along with secondary impacts across the Cyber class and potential recessionary impacts. The Syndicate does not write Aviation business. The Syndicate's exposures continue to be actively monitored and managed.

The Syndicate has continued to adopt a comprehensive approach to reserving for COVID-19 related losses. COVID-19 related reserves at 31 December 2022 are materially unchanged from those at 31 December 2021.

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 Estimated premium income

Premium income reported by the Syndicate includes estimates of premium for certain contracts, in particular those written under delegated authority agreements. The Syndicate considers relevant information when determining estimates, including information provided by brokers and coverholders, past underwriting experience, market conditions, and the contractual terms of policies. As updated information relating to such variables becomes available, for example when bordereaux are received, adjustments to estimates are recorded in the period in which they are determined, and will impact gross premiums written and provisions for unearned premium in the technical account.

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. 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); and 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 valuation 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 2022, financial investments amounting to \$219.5m (2021: \$171.7m) 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.

Notes to the Accounts

For the year ended 31 December 2022

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 as a result 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. The underwriting and economic environment and the associated impact on premium rates, including trends due to the underwriting cycle and inflation, are 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 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. The Syndicate relies on the efficient functioning of the Lloyd's market. In particular any damage to the brand or reputation of Lloyd's or deterioration in Lloyd's asset base when compared with its liabilities may have a material adverse effect on the Syndicate's ability to write new business.

The Syndicate also benefits from the ability to write business based on the Lloyd's financial rating, which allows the Syndicate to write more business as part of the Lloyd's platform. A downgrade in Lloyd's financial strength ratings may have an adverse effect on the Syndicate.

(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. A dedicated Risk Aggregation team also performs catastrophe modelling and 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.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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, energy and casualty 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 the 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
2022	\$m	\$m
United States	1,598.9	1,030.5
United Kingdom	186.2	109.0
Europe (excluding UK)	90.7	47.3
Other (including worldwide)	1,072.6	720.9
Total	2,948.4	1,907.7

Premiums written	Gross	Net
2021	\$m	\$m
United States	1,501.7	553.1
United Kingdom	157.0	87.4
Europe (excluding UK)	72.6	38.9
Other (including worldwide)	996.0	590.7
Total	2,727.3	1,270.1

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.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

(iv) Portfolio mix

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

Premium by portfolio		2022	2021	Variance
		\$m	\$m	%
London Market Direct	Financial and Professional Liability	591.9	551.4	7.3
	Programmes and Facilities	599.0	486.5	23.1
	Property	392.6	360.0	9.1
	Specialty	413.3	382.9	7.9
		1,996.8	1,780.8	12.1
London Market Reinsurance	Casualty Treaty	489.0	430.5	13.6
	Property Treaty	399.8	384.6	4.0
		888.8	815.1	9.0
Other	Other	78.8	72.3	9.0
Discontinued	Discontinued	(16.0)	59.1	(127.1)
Total		2,948.4	2,727.3	8.1

Note: The 2021 figures have been re-presented to reflect the changes to the underwriting class monitoring structure introduced in 2022.

The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicate's portfolio. The business mix is monitored on an ongoing basis with particular focus on the short tail vs. long tail split and the proportion of delegated underwriting business. Long tail business is currently 44% of the portfolio in the year to 31 December 2022 (2021: 25%) and delegated underwriting represents 42% (2021: 36%). Underwriting risk is mainly driven by US catastrophe exposure. Casualty Treaty is also a driver due to its long-tail exposure.

(v) Aggregate exposure management

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. Climate change impacts natural catastrophe events. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Risk appetites are set by the Board on an annual basis.

Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDSs). Below are the key RDS losses to the Syndicate for all classes combined as at 1st October 2022 (unaudited):

Lloyd's Prescribed RDS Event	Estimated Industry Loss	Modelled Syndicate Loss at 1 October 2022		Modelled Syndicate Loss at 1 October 2021	
		Gross	Net (i)	Gross	Net (i)
\$m					
Gulf of Mexico Windstorm	111,000	1,098	176	1,041	128
Florida Miami Windstorm	131,000	963	127	1,147	97
US North East Windstorm	81,000	1,095	160	1,089	76
San Francisco Earthquake	80,000	1,653	339	1,547	272
Japan Earthquake	60,488	343	145	322	126
Japan Windstorm	12,854	107	46	58	23
European Windstorm	25,487	92	46	97	43

(i): At 31 December 2022 foreign exchange rates.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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 non-modelled 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 2022		Movement in profit* year ended 2021	
	\$m	%	\$m	%
London - Direct	12.1	67%	9.9	79%
London - RI	5.4	30%	3.2	26%
Other	0.4	2%	(0.3)	(3%)
Discontinued	0.1	1%	(0.2)	(2%)
Total	18.0	100%	12.6	100%

*Note: The 2021 figures have been re-presented to reflect the changes to the underwriting class monitoring structure introduced in 2022.

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

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.

In December 2020 Brit issued a catastrophe bond which provides \$300m of reinsurance protection to Syndicate 2987. The bond has a four-year term and covers losses from US named windstorms and US earthquakes. The bond was issued in the UK via Sussex Capital UK PCC Limited.

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

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

appropriate protection of capital and maintain our ability to meet policyholder obligations. The Head of Outwards Reinsurance, the Chief Executive Officer, the Chief Underwriting Officer and Chief Risk Officer/Chief Actuary propose external reinsurance arrangements with input from class underwriters for class level reinsurance. All reinsurance purchases are reviewed by the Outward Reinsurance Committee. The Head of Outwards Reinsurance monitors and reports on the purchase of reinsurance protections.

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.

c. Reserving risk

Reserving risk arises where the actual cost of losses for policyholder obligations incurred before 31 December 2022 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 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. Inflation is considered as part of reserve setting process.

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

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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.

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 also limits the amount of investment in illiquid securities in line with the investment policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled RDS. Contingent liquidity also exists in the form of the Group's revolving credit facility.

The tables below present 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.

As at 31 December 2022

Liabilities (undiscounted values)	Up to a year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	1,502.4	1,732.8	907.0	1,283.8	5,426.0
Derivative contracts	1.0	-	-	-	1.0
Creditors	1,054.2	-	-	-	1,054.2
Total	2,557.6	1,732.8	907.0	1,283.8	6,481.2

As at 31 December 2021

Liabilities (undiscounted values)	Up to a year \$m	1-3 years \$m	3-5 years \$m	Over 5 years \$m	Total \$m
Claims outstanding	1,375.4	1,567.1	822.1	1,174.5	4,939.1
Derivative contracts	10.1	-	-	-	10.1
Creditors	1,098.5	-	-	-	1,098.5
Total	2,484.0	1,567.1	822.1	1,174.5	6,047.7

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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 or derivative 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.

(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 and below	Equities	Not Rated	Total
As at 31 December 2022							
Financial Investments	1,597.0	1.5	281.8	256.3	453.1	10.7	2,600.4
Deposits with ceding undertakings	-	-	-	-	-	9.6	9.6
Derivative contracts	-	-	-	-	-	8.2	8.2
Cash at bank	-	-	1.2	7.1	-	-	8.3
Other	170.2	29.1	28.5	28.3	-	0.4	256.5
Total	1,767.2	30.6	311.5	291.7	453.1	28.9	2,883.0

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

\$m	AAA	AA	A	BBB and below	Equities	Not Rated	Total
As at 31 December 2021							
Financial Investments	1,572.8	284.8	216.9	51.7	342.8	11.3	2,480.3
Deposits with ceding undertakings	-	-	-	-	-	12.2	12.2
Derivative contracts	-	-	-	-	-	6.0	6.0
Cash at bank	22.6	-	2.6	18.7	-	-	43.9
Other	130.1	31.7	29.8	32.9	-	70.2	294.7
Total	1,725.5	316.5	249.3	103.3	342.8	99.7	2,837.1

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.

(ii) Insurance credit risk profile

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

\$m	AAA	AA	A	Collateralised	Not rated	Total
As at 31 December 2022						
Reinsurers' share of claims outstanding	10.8	286.0	758.0	1,626.5	74.3	2,755.6
Insurance and reinsurance receivables	-	-	-	-	1,540.3	1,540.3
Total	10.8	286.0	758.0	1,626.5	1,614.6	4,295.9
As at 31 December 2021						
Reinsurers' share of claims outstanding	7.4	244.1	795.1	1,437.8	81.7	2,566.1
Insurance and reinsurance receivables	-	-	-	-	1,275.6	1,275.6
Total	7.4	244.1	795.1	1,437.8	1,357.3	3,841.7

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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 \$1,143.9m (2021: \$1,464.9m) is held in third party trust accounts or as a letter of credit ('LOC') to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. As at 31 December 2022, collateral of \$1.2m (2021: \$8.4m) had been drawn against reinsurance assets.

The following table shows movements in impairment provisions during the year:

\$m	Provision against Reinsurance Assets	Provision against Insurance Receivables
2022		
At 1 January 2022	0.4	1.0
Strengthening for the year	0.1	7.9
Net foreign exchange differences	-	(0.4)
At 31 December 2022	0.5	8.5
2021		
At 1 January 2021	0.5	1.1
Strengthening for the year	-	0.3
Net foreign exchange differences	(0.1)	(0.4)
At 31 December 2021	0.4	1.0

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 2022				
Shares and other variable yield securities and unit trusts	453.1	-	-	453.1
Debt securities	2,136.6	-	-	2,136.6
Loans with credit institutions	10.7	-	-	10.7
Overseas deposits	256.5	-	-	256.5
Derivative assets	8.2	-	-	8.2
Deposits with ceding undertakings	9.6	-	-	9.6
Reinsurer' share of claims outstanding	2,755.6	-	-	2,755.6
Reinsurance debtors*	-	147.6	46.0	193.6
Cash at bank and in hand	8.3	-	-	8.3
Insurance debtors	850.0	1.7	-	851.7
Other debtors	1,309.9	-	-	1,309.9
Total	7,798.5	149.3	46.0	7,993.8

*In respect of the amount subject to impairment, the amount impaired is \$8.5m.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

£'m	Neither past due nor impaired	Past due	Impaired	Total
As at 31 December 2021				
Shares and other variable yield securities and unit trusts	342.8	-	-	342.8
Debt securities	2,126.1	-	-	2,126.1
Loans with credit institutions	11.4	-	-	11.4
Overseas deposits	294.7	-	-	294.7
Derivative assets	6.0	-	-	6.0
Deposits with ceding undertakings	12.2	-	-	12.2
Reinsurer' share of claims outstanding	2,566.1	-	-	2,566.1
Reinsurance debtors*	-	74.6	51.6	126.2
Cash at bank and in hand	43.9	-	-	43.9
Insurance debtors	718.7	3.8	-	722.5
Other debtors	1,235.1	-	-	1,235.1
Total	7,357.0	78.4	51.6	7,487.0

*In respect of the amount subject to impairment, the amount impaired is \$1.0m.

The prior year position excludes \$279.2m of payable balances in respect of the loss portfolio reinsurance transfer. No adjustment is necessary for the current year.

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 US dollars, is set out in the tables below:

Converted \$m	UK £	US \$	CAD \$	EUR €	Total
As at 31 December 2022					
Total assets	973.0	5,916.2	767.2	337.4	7,993.8
Total liabilities	(875.0)	(6,125.9)	(356.6)	(357.9)	(7,715.4)
Net assets / (liabilities) excluding the effect of currency derivatives	98.0	(209.7)	410.6	(20.5)	278.4
Adjustment for foreign exchange derivatives	(135.4)	493.2	(372.4)	14.6	-
Adjusted net assets / (liabilities)	(37.4)	283.5	38.2	(5.9)	278.4

Converted \$m	UK £	US \$	CAD \$	EUR €	Total
As at 31 December 2021					
Total assets	1,143.3	5,315.9	764.0	263.8	7,487.0
Total liabilities	(936.7)	(5,573.2)	(356.4)	(323.6)	(7,189.9)
Net assets / (liabilities) excluding the effect of currency derivatives	206.6	(257.3)	407.6	(59.8)	297.1
Adjustment for foreign exchange derivatives	(164.0)	476.6	(362.9)	50.3	-
Adjusted net assets / (liabilities)	42.6	219.3	44.7	(9.5)	297.1

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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

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

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Syndicate may also choose to utilise foreign currency derivatives manage the risk of reported losses due to changes in foreign exchange rates. The degree to which derivatives are used is dependent on the prevailing cost versus the perceived benefit to the Syndicate from reducing the chance of a reported loss due to changes in foreign exchange rates. The details of all foreign currency derivatives contracts entered into are given in Note 11.

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 the US dollar against the value of the sterling, 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	
	2022	2021
US dollar weakens		
10% against other currencies	(0.5)	7.8
20% against other currencies	(1.0)	15.6
US dollar strengthens		
10% against other currencies	0.5	(7.8)
20% against other currencies	1.0	(15.6)

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 the reported liabilities are not sensitive to changes in interest rates.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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:

\$m As at 31 December 2022	Up to a year	1 - 3 years	3 - 5 years	Over 5 years	Equities	Total
Financial investments	334.4	1,485.9	233.4	90.9	455.8	2,600.4
Deposits with ceding undertakings	-	-	-	-	9.6	9.6
Cash at bank and in hand	8.3	-	-	-	-	8.3
Derivatives	8.2	-	-	-	-	8.2
Other assets	77.0	150.7	26.7	2.1	-	256.5
Total	427.9	1,636.6	260.1	93.0	465.4	2,883.0

\$m As at 31 December 2021	Up to a year	1 - 3 years	3 - 5 years	Over 5 years	Equities	Total
Financial investments	1,410.0	261.1	367.6	92.9	336.5	2,468.1
Deposits with ceding undertakings	-	-	-	-	12.2	12.2
Cash at bank and in hand	43.9	-	-	-	-	43.9
Derivatives	5.7	-	0.3	-	-	6.0
Other assets	193.6	85.2	11.7	4.2	-	294.7
Total	1,653.2	346.3	379.6	97.1	348.7	2,824.9

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	
	2022	2021
Increase		
25 basis points	(13.8)	(9.6)
50 basis points	(27.6)	(19.2)
100 basis points	(55.3)	(38.4)
Decrease		
25 basis points	13.8	9.6
50 basis points	27.6	19.2
100 basis points	55.3	38.4

Analysis of larger movements in yield is not shown above as the relationship between profit and investment yields is linear in respect of Brit's portfolio. Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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 Head of Claims and Operations, 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 Brit Group to ensure Brit's products and services continue to meet the needs of our customers.

3.6 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.

3.6.1 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.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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 recent years, 2022 experienced material losses from catastrophe activity globally, with Hurricane Ian being the most material event.

The three main areas of risk identified for the Syndicate are natural catastrophes, liability claims and investment losses. Scenario analysis has been performed on all three risk types to identify the most material risk types as well as the most exposed segments within each risk as described below.

Climate scenario analysis

Climate scenario analysis is key to understanding the potential impact of climate-related risks on Brit. Analysis performed to date has identified physical risks arising from natural catastrophes as having the highest potential for losses therefore this is an area of greater focus.

PRA stress tests

Syndicate 2987 participated in the PRA Climate Change Biennial Exploratory Stress Test (“CBES”) exercise in 2021-22. The exercise was designed by the PRA to assess the impact of climate change on physical and asset risks over a 30 year time horizon in three policy action scenarios as described below. Key assumptions were also provided by the PRA:

- Early action: Global carbon dioxide emissions are reduced to net-zero by around 2050 and global warming (relative to pre-industrial levels) is successfully limited to 1.8°C by the end of the scenario, falling to around 1.5°C by the end of century
- Late action: Global warming is limited to 1.8°C by the end of the scenario (2050) relative to pre-industrial levels, but then remains around this level at the end of the century.
- No action: The absence of transition policies in this scenario leads to a growing concentration of greenhouse gas emissions in the atmosphere and, as a result, global temperature levels continue to increase, reaching 3.3°C higher relative to pre-industrial levels by the end of the scenario.

It also required general insurance participants to consider the impact of seven PRA designed hypothetical litigation risk scenarios on liability classes as well as articulations of Brit’s current and future risk management actions.

Following the CBES exercise, Brit has incorporated the following risk management initiatives:

- Physical risk: scenario analysis helped identify the region-perils where climate change could have a big impact (hurricanes and wildfires) and quantify the potential long-term impact on those perils. These considerations have been fed into developing Brit’s future catastrophe strategy which includes how much exposure Brit has an appetite to underwrite and how these exposures are managed. Furthermore, Brit’s internal assessment of physical risk is being enhanced, for example by licensing a third party wildfire model.
- Asset risk: Industries and asset types that could be most impacted were identified through CBES. As a result, Brit’s exposures to these are being monitored. ESG is now explicitly considered for any new investment decisions, which helps control exposure to industries exposed to transition risk.
- Litigation risk: The PRA scenarios provided a foundation for more detailed analysis. Liability classes that may have exposure under various scenarios have been identified. We continue to monitor any trends in litigation as well as engage with relevant Underwriters and Legal. Ongoing monitoring of the number of climate change related litigation notifications was also introduced following the exercise.

Internal scenario analysis

In addition to the above, Brit performs climate change related scenario analysis for the Syndicate’s ORSA. The 2022 scenario considered the impact of a repeat of the 2017 US natural catastrophe events uplifted to reflect the potential increase in severity due to climate change as well as Financial Institution liability losses. Investment losses from energy related assets were also considered.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

Building on CBES, a more detailed climate change related litigation risk scenario analysis was performed in 2022. This considered the potential gross and net impact of climate change related litigation under three hypothetical scenarios:

- Failure to consider climate change: Insureds sued for not considering climate change for example in strategic decisions (D&O) or advice given (Professional Indemnity);
- Failure to appropriately disclose/ greenwashing: Insureds found to be misleading investors or the public either by understating disclosures or misrepresenting products as environmentally friendly; and
- Directly contributing to Climate Change: Insured sued for their contribution to climate change (e.g. carbon emissions).

The results of these exercises are continually being considered in business and strategic decisions taken by the syndicate.

Climate risk management

Natural catastrophe risk

Relates to the physical risks of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims and could impact Brit in the short to medium-term.

Natural Catastrophe risk is assessed using an external vendor model (AIR) for the most material and established perils. Using external vendor models is a market practice for most general insurance firms as they are built by scientists and specialists. The modelling is supplemented using the Brit View of Risk where there is uncertainty or reliable vendor models do not exist. Scenario analysis performed to date has identified North American Windstorms and Wildfires as being the perils that could be most exposed to climate change.

The natural catastrophe modelling is leveraged in pricing as well as outwards reinsurance purchasing decisions. Brit continuously monitor scientific studies, regularly review the completeness of existing models and the application of the Brit view of risk. The Syndicate's exposure to natural catastrophe risks at an overall and peril-region level at key return periods is monitored on an ongoing basis by the Risk Management Function. Board limits are in place to ensure the Syndicate is not over exposed to natural catastrophe risk.

Liability risk

Climate change could result in additional liability claims arising from litigation against the Syndicate's clients. The claims could arise from firms being held responsible for directly contributing to climate change, not taking climate change into account in business decisions or inadequate disclosures. Scenario analysis found that the Financial and Professional lines as well as Casualty Treaty classes could have exposure to climate change related liability claims.

The Syndicate's exposure is managed by use of limits on gross underwriting exposure, contract wording and through the purchase of reinsurance. The number of climate change litigation related claims notifications is also monitored to enable early identification of any material uptick.

Market risks

Investment losses have the potential to arise from exposure to industries contributing to climate change which could subsequently result in the market value of investments in these industries reducing. This transition risk could occur over the short or long term depending on financial markets movements.

The Syndicate has a diversified investment portfolio, with limits on exposure to individual issuers. 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, are also monitored.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

Overall risk management

Brit is managing the risks associated with climate change in line with the Risk Management Framework which is reviewed annually. Through the use of Board tolerances and management metrics, exposure to the above risk types is managed and monitored. Brit's Solvency II internal models also include an allowance for the impact of climate change. The outputs from these feed into business decision making.

Regulatory requirements and guidance are monitored on an ongoing basis. Brit is compliant with PRA Supervisory Statement SS3/19 which sets expectations for firms regarding their management of financial risks arising from climate change.

Managing climate risk 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.

The Syndicate 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. ESG considerations have been mandated within the Syndicate's investment strategy.

Holdings of industries such as oil and gas, transport and utilities deemed to materially contribute to climate change are also monitored.

3.6.2 Geopolitics

Geopolitical events, such as Russia's invasion of Ukraine, have the potential to cause insurance losses and disruption to financial markets. This could potentially impact the future income and operational costs for the Syndicate. Brit continues to monitor developments closely.

The Syndicate has direct exposures to the Russia-Ukraine conflict within the Terrorism, Casualty Treaty, Marine War, Contingency and Political and Credit Risk classes, along with potential secondary impacts on classes such as Cyber. The Syndicate does not write Aviation business. The Syndicate's exposures are actively monitored and managed.

Geopolitical risk events may also impact the global economy, as discussed in section 3.6.3 below.

3.6.3 Global economic environment

Inflation in the USA and the UK has reached 40-year highs and interest rates worldwide have risen. Recessions are expected in a number of advanced economies, which may impact the frequency and cost of claims, investment results, the likelihood of counterparty defaults and the potential for operational risk events. Brit continues to actively monitor and respond to changes in the economic environment.

Brit has considered the impact of the increased level of inflation and the economic downturn. Increased focus has been placed on ensuring the Syndicate's pricing models adequately address current inflationary trends. Feeding into these models is an enhanced framework assessing the key drivers of claim settlement costs for each class of business. Inflationary impacts were also considered during the year end reserving process.

Brit remains cognisant of the impact of inflation on the underlying portfolio, with work being undertaken collaboratively across Underwriting, Actuarial, Risk and Claims to quantify the impact, mitigate the impact of inflation on profitability and to ensure it has been appropriately considered in our ongoing business and 2023 business plan. Brit continues to review the key drivers of claim settlement costs and frequency by class of business, which in turn will further inform any required recalibration of our pricing models. Our reserves continue to be set at a margin above the actuarial best estimate and incorporate our current view of social and economic inflation.

Notes to the Accounts

For the year ended 31 December 2022

3 Principal risks and uncertainties (continued)

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 2987 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.

3.7 Capital risk management

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. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2022 was 35% of the member's SCR to ultimate.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the member balances reported on the statement of financial position on page 17, represent resources available to meet member and Lloyd's capital requirements.

Capital calculation

The SCR to Ultimate is calculated using a stochastic risk-based capital model developed by the Brit Group which allows the Board of the Managing Agent to identify an appropriate level of capital required. This capital requirement is specific to the actual reserving history, reinsurance programme and business profile of Syndicate 2987 rather than being based on company market averages. The Board of the Managing Agent reviews and approves all capital modelling submissions to Lloyd's.

Notes to the Accounts

For the year ended 31 December 2022

4 Analysis of underwriting result

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

Year ended 31 December 2022	Gross premium written \$m	Gross premiums earned \$m	Gross claims incurred \$m	Gross operating expenses \$m	Reinsurance balance \$m	Total \$m
Direct Insurance:						
Accident and health	49.1	45.4	(17.8)	(17.7)	(6.1)	3.8
Motor (other classes)	-	-	(0.3)	-	0.3	-
Marine aviation and transport Fire and other damage to property	175.6	162.8	(116.6)	(46.8)	21.2	20.6
Third party liability	630.1	612.5	(423.7)	(196.2)	(6.7)	(14.1)
Miscellaneous	748.9	744.1	(535.9)	(172.7)	(42.8)	(7.3)
Miscellaneous	34.1	29.4	(12.0)	(6.4)	(10.3)	0.7
Direct Insurance	1,637.8	1,594.2	(1,106.3)	(439.8)	(44.4)	3.7
Reinsurance	1,310.6	1,240.3	(830.7)	(384.5)	(12.0)	13.1
Total	2,948.4	2,834.5	(1,937.0)	(824.3)	(56.4)	16.8

Year ended 31 December 2021	Gross premium written \$m	Gross premiums earned \$m	Gross claims incurred \$m	Gross operating expenses \$m	Reinsurance balance \$m	Total \$m
Direct Insurance:						
Accident and health	30.1	25.8	(9.7)	(10.9)	0.1	5.3
Motor (other classes)	-	-	(0.1)	-	0.1	-
Marine aviation and transport Fire and other damage to property	153.5	138.7	(66.4)	(42.7)	(12.6)	17.0
Third party liability	585.7	560.0	(323.3)	(184.5)	(68.7)	(16.5)
Miscellaneous	761.0	674.5	(450.5)	(168.4)	(44.5)	11.1
Miscellaneous	26.7	48.8	(13.7)	(17.0)	(10.4)	7.7
Direct Insurance	1,557.0	1,447.8	(863.7)	(423.5)	(136.0)	24.6
Reinsurance	1,170.3	1,122.3	(661.8)	(362.0)	(62.9)	35.6
Total	2,727.3	2,570.1	(1,525.5)	(785.5)	(198.9)	60.2

Commissions on direct insurance gross premiums written during 2022 were \$389.0m (2021: \$387.3m).

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

	2022 \$m	2021 \$m
United States	1,598.9	1,501.7
United Kingdom	186.2	157.0
Europe (excluding UK)	90.7	72.6
Other (including worldwide)	1,072.6	996
Total	2,948.4	2,727.3

Notes to the Accounts

For the year ended 31 December 2022

5 Net operating expenses

	2022	2021
	\$m	\$m
Acquisition costs	637.0	612.8
Change in deferred acquisition costs	(13.2)	(28.6)
Administrative expenses	200.5	201.3
	824.3	785.5
Reinsurance commissions income	(89.1)	(84.0)
Total	735.2	701.5

Member's standard personal expenses of \$19.1m (2021: \$20.7m) are included within administrative expenses.

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

	2022	2021
	\$'m	\$'m
Audit of the Syndicate annual accounts	0.4	0.3
Other services pursuant to Regulations and Lloyd's Byelaws	0.2	0.2
Total	0.6	0.5

6 Staff numbers and costs

All staff in the UK are employed by the Group services company, Brit Group Services Limited, and the full staff cost disclosures will be 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 2022 or 2021 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:

	2022	2021
	\$m	\$m
Aggregate remuneration	0.9	0.6
Pension contributions	-	-
Total	0.9	0.6

No advances or credit were granted by the Managing Agent to any of its Directors during the year.

Notes to the Accounts

For the year ended 31 December 2022

8 Investment return

	2022	2021
	\$m	\$m
Income from investments	41.6	23.3
Gains on investments	134.2	103.4
Losses on investments	(154.8)	(112.6)
Investment management charges	(8.5)	(7.6)
	12.5	6.5
Allocated investment return transferred to the general business technical account	12.5	6.5
Total investment return	12.5	6.5

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-US dollar cumulative claims estimates and cumulative payments are translated into US dollars at the period end rate as at 31 December 2022.

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.

Notes to the Accounts

For the year ended 31 December 2022

9 Claims development tables (continued)

Estimate of cumulative gross incurred claims

\$m Underwriting year	2012 & prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
At end of underwriting year		430.6	465.7	443.8	522.2	897.6	806.0	630.5	793.8	838.1	1,019.2
One year later		924.7	1,068.3	986.4	1,216.9	1,623.0	1,483.7	1,377.8	1,422.3	1,599.1	
Two years later		970.5	1,116.5	1,061.0	1,339.3	1,694.6	1,640.8	1,447.6	1,490.3		
Three years later		964.4	1,127.2	1,044.2	1,325.9	1,724.8	1,613.2	1,454.1			
Four years later		982.0	1,115.2	1,013.7	1,341.4	1,713.5	1,637.9				
Five years later		968.4	1,096.9	1,009.7	1,372.1	1,738.9					
Six years later		954.6	1,090.2	1,020.6	1,401.1						
Seven years later		932.0	1,072.6	1,029.0							
Eight years later		919.4	1,072.3								
Nine years later		915.6									
Current estimate of cumulative claims incurred		915.6	1,072.3	1,029.0	1,401.1	1,738.9	1,637.9	1,454.1	1,490.3	1,599.1	1,019.2
Cumulative payments		838.6	962.9	854.3	1,143.5	1,403.4	1,142.4	780.4	711.5	363.4	44.7
Gross outstanding claims provision as at 31 December 2022	313.6	77.0	109.4	174.7	257.6	335.5	495.5	673.7	778.8	1,235.7	974.5

Notes to the Accounts

For the year ended 31 December 2022

9 Claims development tables (continued)**Estimate of cumulative net incurred claims**

\$m	2012 & prior	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Underwriting year											
At end of underwriting year		295.0	329.5	365.9	337.1	459.4	466.4	360.3	464.0	459.7	577.4
One year later		637.6	863.6	690.2	735.3	808.0	835.6	780.5	747.9	861.0	
Two years later		796.2	763.0	725.7	776.6	844.0	916.6	802.0	777.5		
Three years later		667.2	763.3	695.4	776.0	865.4	822.1	817.7			
Four years later		672.1	720.4	670.1	776.3	799.9	824.5				
Five years later		632.3	713.2	666.7	740.9	799.3					
Six years later		619.7	711.2	655.5	752.1						
Seven years later		603.2	686.6	664.6							
Eight years later		585.1	686.1								
Nine years later		579.1									
Current estimate of cumulative claims incurred		579.1	686.1	664.6	752.1	799.3	824.5	817.7	777.5	861.0	577.4
Cumulative payments		550.6	626.4	555.4	653.8	679.9	636.5	440.8	416.3	223.0	39.4
Net outstanding claims provision as at 31 December 2022	153.2	28.5	59.7	109.2	98.3	119.4	188.0	376.9	361.2	638.0	538.0

Notes to the Accounts

For the year ended 31 December 2022

9 Claims development tables (continued)

The 2020 and prior years of account have been impacted by the loss portfolio reinsurance contracts entered into in the 2018 and 2021 calendar years with Riverstone Managing Agency Limited (for and on behalf of Lloyd's Syndicate 3500).

10 Financial investments

	Market Value		Cost	
	2022 \$m	2021 \$m	2022 \$m	2021 \$m
Shares and other variable yield securities and units in unit trusts	463.8	354.2	377.8	380.3
Debt securities and other fixed income securities	2,136.6	2,126.1	2,228.6	2,128.5
Derivative contracts	8.2	6.0	15.3	15.3
Total	2,608.6	2,486.3	2,621.7	2,524.1

\$71.2m (2021: \$33.0m) of 'Shares and other variable yield securities and units in unit trusts' and 'Debt securities and other fixed income securities' are listed. These comprise 2.7% (2021: 1.3%) of the total market value of investments.

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	Level 2	Level 3	Total
Year ended 31 December 2022	\$m	\$m	\$m	\$m
Equity securities	71.0	-	178.5	249.5
Debt securities	1,610.0	526.6	-	2,136.6
Derivative contracts	-	6.5	1.7	8.2
Specialised investment funds	107.8	67.2	39.3	214.3
Total	1,788.8	600.3	219.5	2,608.6

	Level 1	Level 2	Level 3	Total
Year ended 31 December 2021	\$m	\$m	\$m	\$m
Equity securities	32.8	-	128.9	161.7
Debt securities	1,832.7	293.4	-	2,126.1
Derivative contracts	-	2.1	3.9	6.0
Specialised investment funds	132.3	21.3	38.9	192.5
Total	1,997.8	316.8	171.7	2,486.3

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:

1. Level one – quoted prices (unadjusted) in active markets for identical assets
2. 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

Notes to the Accounts

For the year ended 31 December 2022

10 Financial investments (continued)

- 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.

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.

Notes to the Accounts

For the year ended 31 December 2022

10 Financial investments (continued)

Level three

Level three securities contain investments in private equity/limited partnerships/debt where the fund's underlying investments are not traded/quoted in an active market. Pricing models factor in interest rates, bond or credit swap spreads and volatility.

Level three specialised investment funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to net asset values (NAVs) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties. In some instances, certain investment funds are classified as Level three because they may require at least three months' notice to liquidate. This requirement results in an adjustment to the reported value for illiquidity which is unobservable.

Level three equities include investments in limited partnerships where the fund's underlying investments are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months of notice to liquidate. This requirement results in an adjustment to the reported value for illiquidity which is unobservable.

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 and there were no further tranches in 2022.

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 2022. 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 Derivative contracts

The Syndicate purchases derivative financial instruments:

- i. to hedge its foreign currency exposure on future commitments;
- ii. as part of its investment management strategy.

	2022	2021
Assets and liabilities	\$m	\$m
Foreign exchange forward contract assets	6.5	2.1
Equity options	1.7	3.6
Non-currency based inflation options	-	0.3
Other financial investments – derivatives	8.2	6.0
Foreign exchange forward contracts liabilities	(1.0)	(10.1)
Net value of derivatives at 31 December	7.2	(4.1)

The hierarchy of fair values of derivatives contracts is included within the Fair Value Hierarchy in note 10 above.

Notes to the Accounts

For the year ended 31 December 2022

12 Provision for unearned premium

	Gross \$m	Reinsurers' share \$m	Net \$m
Balance at 1 January 2022	1,142.2	(521.4)	620.8
Premiums written in the year	2,948.4	(1,040.7)	1,907.7
Premiums earned in the year	(2,834.5)	1,039.1	(1,795.4)
Effect of movement in exchange rates	(21.9)	7.7	(14.2)
Balance at 31 December 2022	1,234.2	(515.3)	718.9

	Gross \$m	Reinsurers' share \$m	Net \$m
Balance at 1 January 2021	988.6	(378.2)	610.4
Premiums written in the year	2,727.3	(1,457.2)	1,270.1
Premiums earned in the year	(2,570.1)	1,312.7	(1,257.4)
Effect of movement in exchange rates	(3.6)	1.3	(2.3)
Balance at 31 December 2021	1,142.2	(521.4)	620.8

13 Claims outstanding

	Gross \$m	Reinsurers' share \$m	Net \$m
Balance at 1 January 2022	4,939.1	(2,566.1)	2,373.0
Claims incurred in relation to current underwriting year	1,021.9	(442.8)	579.1
Claims incurred in relation to prior underwriting years	915.1	(450.8)	464.3
Claims paid in the year	(1,342.6)	631.3	(711.3)
Effect of movement in exchange rates	(107.5)	72.8	(34.7)
Balance at 31 December 2022	5,426.0	(2,755.6)	2,670.4
Claims reported and loss adjustment expenses Incurred but not reported provisions	1,809.2	(931.3)	877.9
	3,616.8	(1,824.3)	1,792.5
Balance at 31 December 2022	5,426.0	(2,755.6)	2,670.4

	Gross \$m	Reinsurers' share \$m	Net \$m
Balance at 1 January 2021	4,727.8	(2,189.9)	2,537.9
Claims incurred in relation to current underwriting year	851.4	(384.4)	467.0
Claims incurred in relation to prior underwriting years	674.1	(645.4)	28.7
Claims paid in the year	(1,291.8)	639.6	(652.2)
Effect of movement in exchange rates	(22.4)	14.0	(8.4)
Balance at 31 December 2021	4,939.1	(2,566.1)	2,373.0
Claims reported and loss adjustment expenses Incurred but not reported provisions	1,770.8	(928.1)	842.7
	3,168.3	(1,638.0)	1,530.3
Balance at 31 December 2021	4,939.1	(2,566.1)	2,373.0

Notes to the Accounts

For the year ended 31 December 2022

14 Cash and cash equivalents

	2022	2021
	\$m	\$m
Cash at bank and in hand	8.3	43.9
Short-term deposits	99.3	128.9
Total	107.6	172.8

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.

15 Other Debtors

Other Debtors amounted to \$0.1m and comprise investment receivables, (2021: \$nil).

16 Other assets

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

17 Deferred acquisition costs

	2022	2021
	\$m	\$m
Balance at 1 January	281.1	253.5
Change in deferred acquisition costs	13.2	28.6
Effect of movement in exchange rates	(6.9)	(1.0)
Balance at 31 December	287.4	281.1

18 Creditors arising out of direct insurance operations

	2022	2021
	\$m	\$m
Due to intermediaries within one year	29.5	39.2
Total	29.5	39.2

Notes to the Accounts

For the year ended 31 December 2022

19 Related parties

a. Group companies

(i) Fairfax Financial Holdings Limited (FFHL)

In June 2015, the parent company of the Managing Agent was acquired by FFHL Group Ltd, a subsidiary of FFHL. The Syndicate has historically entered into various reinsurance arrangements with affiliates of FFHL.

In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of FFHL were as follows:

	2022 \$m	2021 \$m
Gross premiums written	20.0	16.4
Outwards reinsurance premiums	(14.6)	(15.9)
Premiums written, net of reinsurance	5.4	0.5
Change in provision for gross unearned premiums	(1.9)	(1.8)
Change in provision for unearned premiums, reinsurers' share	(1.4)	1.2
Net change in provision for unearned premiums	(3.3)	(0.6)
Earned premiums, net of reinsurance	2.1	(0.1)
Gross claims paid	(7.0)	(13.5)
Reinsurers' share of claims paid	3.3	6.6
Claims paid, net of reinsurance	(3.7)	(6.9)
Change in the provision for claims, gross amount	(3.4)	8.1
Change in the provision for claims, reinsurers' share	3.2	3.5
Net change in the provision for claims	(0.2)	11.6
Commission income	0.8	0.8
Commission expense	(4.6)	(0.9)

The amounts included in the statement of financial position outstanding with affiliates of FFHL and its affiliates as at the respective year ends were as follows:

	2022 \$m	2021 \$m
Debtors arising out of direct insurance and reinsurance operations:		
Insurance premium receivable	5.0	6.3
Recoverable from reinsurers	23.5	20.7
Creditors arising out of direct insurance and reinsurance operations:		
Payable to reinsurers	(7.0)	(5.3)
Unpaid claims liabilities	(43.9)	(41.1)
Deferred acquisition costs	1.8	0.8
Gross unearned premiums	(9.2)	(7.6)
Unearned premium recoverable from reinsurers	3.6	5.0

Notes to the Accounts

For the year ended 31 December 2022

19 Related parties (continued)

(ii) Brit UW Limited

Brit UW Limited, a subsidiary of the Brit Limited Group and the sole corporate member of Syndicate 2987, provided £1,838.6m capacity in respect of the 2022 year of account (2021: £1,725m). Refer to note 20 for further information on how capacity is funded by the member.

(iii) 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 fees to BSL amounting to \$141.0m (2021: \$147.2m). As at 31 December 2022, no amounts were outstanding (2021: \$nil). The Syndicate also participates and leads on various Lloyd's consortia. During the year, the Syndicate incurred consortia management fees of \$4.5m (2021: \$1.0m) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2021: \$nil).

(iv) Brit Reinsurance (Bermuda) Limited (Brit Re)

During the year, the Syndicate ceded reinsurance premiums to Brit Re amounting to \$400.5m (2021: \$215.4m). As at 31 December 2022, the Syndicate owed \$262.4m of premiums to Brit Re (2021: \$106.1m). Collateral available for immediate drawdown in the event of a default includes collateral for Brit Re of up to \$670.6m (2021: \$791.2m).

(v) Brit Insurance Services USA, LLC

From 1 April 2021, Brit combined Brit Global Specialty USA (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, amounting to \$1.3m (2021: \$28.5m). As at 31 December 2022, no amounts of commission were outstanding (2021: \$nil). As at 31 December 2022, Brit Insurance Services USA, LLC owed \$10.6m of premiums to the Syndicate (2021: \$41.2m).

(vi) BGS Services (Bermuda) Limited

During the year, the Syndicate paid commissions to BGS Services (Bermuda) Limited, a service company within the Brit Limited Group, amounting to \$4.2m (2021: \$4.7m). As at 31 December 2022, no amounts of commission were outstanding (2021: \$nil). As at 31 December 2021, BGS Services (Bermuda) Limited owed \$38.4m of premiums to the Syndicate (2021: \$97.1m).

b. 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.

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 to 31 December 2022 included commission for introducing insurance business of \$34.2m (31 December 2021: \$13.0m)

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 31 December 2022 was \$31.5m (2021: \$16.7m).

The amount of fees in the statement of financial position payable to Ambridge Partners LLC as at 31 December 2022 was \$nil (2021: \$nil).

On 7 January 2023, Brit entered into an agreement to sell Ambridge Group to Amynta Group. The underwriting relationship of the syndicate with Ambridge will continue after the sale.

Notes to the Accounts

For the year ended 31 December 2022

19 Related parties (continued)

The Syndicate also participates on various Lloyd's consortia managed by Ambridge. During the year, the Syndicate incurred consortia management fees of \$nil (2021: \$0.6m) and no technical advisor fees or profit commission to BSL in respect of the consortia agreements (2021: \$nil).

c. Syndicate 2988

In December 2016, Brit Syndicates Limited received approval from Lloyd's to set up Syndicate 2988 and underwrite from the 2017 year of account onward. Syndicate 2988 participates only on new and renewal business written by Syndicate 2987. During the year, Syndicate 2988 paid commission to Syndicate 2987 in relation to inter-company quota share agreements. The amounts on the income statement relating to trading with Syndicate 2988 included commissions for transferring insurance risk of \$4.0m (2021: \$6.1m). As at 31 December 2022, no amounts of commission were outstanding (2021: \$nil). As at 31 December 2022 Syndicate 2987 owed \$53.7m (2021: \$40.0m) of premium to Syndicate 2988.

d. 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 2022 included commission for introducing insurance business of \$2.5m (2021: \$2.7m).

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Camargue as at 31 December 2022 and 2021 were not material.

e. Sutton Specialty Risk Inc

On 2 January 2019, Brit Insurance Holdings Limited, 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 year ended 31 December 2022 included commission for introducing insurance business of \$3.5m. (2021: \$3.6m)

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Sutton as at 31 December 2022 were not material.

f. 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 2022 was \$1.3m (2021: \$1.0m).

h. 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 2022, nor for the comparative year ended 31 December 2021.

Notes to the Accounts

For the year ended 31 December 2022

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 member 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 member's FAL to meet liquidity requirements or to settle losses.

21 Funds in Syndicate (FIS) transfer

As at 31 December 2022, the Syndicate held \$nil (2021: \$nil) of undistributed profit as Funds in Syndicate (FIS). During 2021, the balance reported as at 31 December 2020 (\$430.7m) was called upon and injected into the open years of account, and included within cash calls in the Statement of Movement in Member's Balance for that year.

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 (Brit), a company registered in England and Wales. Copies of Brit'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 at the year-end 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
Gavin Leslie Wilkinson
Matthew Dominic Wilson (resigned 15 November 2022)
Mark Andrew Allan
Christiern Robert James Dart

Non-Executive

Simon Philip Guy Lee
Anthony John Medniuk (resigned 26 July 2022)
Caroline Frances Ramsay
Andrea Caroline Natascha Welsch
Pinar Yetgin

Secretary

Tim James Harmer

Active Underwriter

Jonathan Sullivan

Registered Office

The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AB

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London, Riverside
London
SE1 2RT

Brit Syndicates Limited

The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, UK

www.britinsurance.com



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