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Talbot Underwriting Ltd Syndicate 1183

Annual Report and Accounts

31 December 2021

Annual Report and Accounts 2021

Contents

Chief Executive Officer's report

Talbot delivered a strong financial performance in 2021 with improved underwriting profitability and premium growth. The combined ratio for the year improved significantly to 83.0% (2020: 110.0%).

The COVID-19 pandemic has continued to impact how our customers and employees live and work. The wellbeing of our staff has remained a key priority, and this in turn has helped us to continue to meet the needs of our customers. Despite the challenges and the changing work environment, during 2021 we have made good progress against our action plans to embed a more inclusive and diverse culture.

Result for the year

Gross premiums written for the year increased by 20.1% to $1,271.6m (2020: $1,059.1m) reflecting growth in our core lines of business and increases in premium rates.

Net claims incurred reduced to $427.0m (2020: $602.7m) following favourable current and prior year loss experience in 2021, offset partly by adverse catastrophic events, including Hurricane Ida and Winter Storm Uri. The improved net claims ratio of 47.3% (2020: 74.4%) reflects the fact that the 2020 result was heavily impacted by COVID-19 losses.

The net expense ratio has reduced to 35.7% (2020: 36.1% at constant exchange), driven by an improvement in the acquisition expense ratio.

The investment return of 0.4% (2020: 2.4%) reflects the impact of unrealised losses due to US credit spread widening.

The overall result for the year was a profit of $155.1m (2020: loss of $42.3m).

Future developments

The syndicate capacity for the 2022 year of account has increased to £870m (2021: £800m; 2020: £760m). Talbot will continue to strategically leverage its position within AIG's General Insurance business from both a commercial and capital perspective. There is opportunity for growth in 2022 where pricing, terms and conditions have improved in recent years. We will continue to closely monitor, plan and respond to the changes in the economic environment, in particular, inflationary pressures from global energy and tradeable goods prices. We will also continue to focus on our responsibilities with regard to Climate Change and how this impacts our business.

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

Chris Rash

Chief Executive Officer, Talbot Underwriting Ltd

3 March 2022

Report of the directors of the Managing Agent

The directors of the Managing Agent, Talbot Underwriting Ltd (Talbot), present their annual report and audited accounts for the year ended 31 December 2021. The annual report is prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Principal activity

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

Talbot writes a diversified portfolio including Marine, Marine Liability, Transport, Energy, Terrorism, Political Risk, Crisis Management, Financial Lines, Property and Treaty Reinsurance classes of business.

Since 2018, Talbot has been an AIG company, with offices located in London, Singapore and New York and more than 350 staff.

Overview

The result for the year was a profit of $155.1m (2020: loss of $42.3m). Gross premiums written during the year were $1,271.6m (2020: $1,059.1m).

Results for the financial year

	2021	2020	2019	2018	2017
	$m	$m	$m	$m	$m
Gross premiums written	1,271.6	1,059.1	985.7	950.5	921.1
Net premiums written	975.0	830.8	791.7	749.9	721.6
Net earned premiums	902.8	809.7	769.8	746.6	742.1
Net claims incurred	(427.0)	(602.7)	(432.1)	(518.8)	(505.7)
Net acquisition costs	(200.9)	(186.2)	(181.9)	(178.4)	(182.7)
Underwriting result before administrative expenses	274.9	20.8	155.8	49.4	53.7
Administrative expenses	(121.2)	(101.9)	(114.5)	(134.6)	(136.9)
Investment return	5.6	34.5	51.5	17.7	18.4
Other income and charges	-	3.1	(3.0)	-	-
Foreign exchange gains /(losses)	(4.2)	1.2	(0.4)	3.8	(3.3)
Profit/(loss) for the financial year	155.1	(42.3)	89.4	(63.7)	(68.1)

Key performance indicators

	2021	2020	2019	2018	2017
Gross premiums written movement year on year (%)	20.1	7.4	3.7	3.2	(5.1)
Net claims ratio (%)	47.3	74.4	56.1	69.5	68.1
Net expense ratio (%)	35.7	35.6	38.5	41.9	43.1
Combined ratio (%)	83.0	110.0	94.6	111.4	111.2

The gross premiums written movement year on year demonstrates growth in the business.

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

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

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

Review of the business

Underwriting

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

	2021 $m	2020 $m	2019 $m	2018 $m	2017 $m
Marine	248.1	229.9	226.6	218.5	226.8
Political Risk	119.5	102.3	102.5	99.4	82.3
Political Violence and War	148.4	135.9	124.8	106.4	113.2
Property	365.9	321.0	289.0	295.6	256.2
Specialty	276.7	177.5	149.0	152.7	148.4
Treaty	113.0	92.5	93.8	77.9	94.2
Total gross premiums written	1,271.6	1,059.1	985.7	950.5	921.1

Premiums were primarily written in the London market. However, group coverholders underwriting on behalf of the syndicate in overseas markets contributed 16.0% (2020: 16.3%) of gross premiums written. Coverholder operations are located in Singapore, New York and Miami.

Gross premiums written increased by $212.5m (20.1%) to $1,271.6m in the calendar year. The majority of gross premiums are written in USD. 2021 gross premiums written represent an increase of 18.4% at constant exchange compared to 2020.

Across the portfolio the risk adjusted rate change for the 2021 underwriting year of account was 11% (2020: 18%). The syndicate continued to exercise underwriting discipline and declined policies where performance has been poor or the risk was not commensurate with pricing. In 2021, the syndicate ceased to underwrite the Contingency class of business.

The syndicate purchases outwards reinsurance principally to limit the impact of catastrophes or multiple large losses. Reinsurance is purchased on both an excess of loss and proportional basis. Reinsurance premiums for the calendar year were $296.6m (2020: $228.3m), an increase of $68.3m (29.9%).

Net claims ratio

The net claims ratio for the year was 47.3% compared to 74.4% for the previous year. Net claims incurred as a percentage of net earned premiums were as follows:-

	2021	2020
Current year notified claims – catastrophe/large losses over $5m net (%)	11.1%	34.0%
Current year claims - other losses (%)	42.5%	45.7%
Change in prior years' net claims (%)	(6.3%)	(5.3%)
Net claims ratio	47.3%	74.4%

The significant improvement in the net claims ratio from 74.4% in 2020 to 47.3% in 2021 mainly reflects the impact in 2020 of COVID-19 losses, arising primarily from event cancellation claims in the Contingency class. The 2020 net claims ratio, excluding COVID-19 losses, was 50.1%.

The 2021 net claims ratio was impacted by catastrophe and large losses, including Hurricane Ida ($30.2m), US Winter Storm Uri ($21.6m) and the South Africa riots ($14.0m). However, improvements in underlying attritional loss ratios and benefits of reinsurance coverage in place during 2021 have contributed to an improved overall net claims ratio. Additionally, the net claims ratio has seen benefit from prior year releases of $57.0m, or 6.3% of net earned premium (2020: $42.8m, or 5.3% of net earned premium). There has been favourable run-off of prior year business for all classes, other than the Specialty class, which experienced adverse development of $26.1m (2020: favourable run-off of $4.6m), primarily due to the Contingency class.

The Board has applied reserving methodologies consistent with previous years.

Net operating expenses

Net operating expenses for the year are set out below:-

	2021	2020	Movement
	$m	$m	$m
Net acquisition costs	200.9	186.2	14.7
Administrative expenses	121.2	101.9	19.3
Net operating expenses	322.1	288.1	34.0
As % of net earned premiums			
Net acquisition expense ratio (%)	22.3%	23.0%	-0.7%
Administrative expense ratio (%)	13.4%	12.6%	0.8%
Net expense ratio (%)	35.7%	35.6%	0.1%

The net expense ratio includes an adverse impact from foreign exchange as administrative expenses are primarily incurred in GBP and premium income is mainly in USD. The net expense ratio is 35.7% (2020: 36.1% at constant exchange).

Report of the directors of the Managing Agent (continued)

Investment return

The return on syndicate funds by currency is shown below:

	Sterling (£m)	US dollars (US$m)	Canadian dollars (C$m)	Combined US dollars (US$m)
2021				
Average syndicate funds available for investment	240.3	1,064.2	78.1	1,457.0
Investment return for the year	0.3	5.1	-	5.6
Calendar year investment return (%)	0.1%	0.5%	-	0.4%
2020				
Average syndicate funds available for investment	242.0	1,084.4	72.5	1,448.8
Investment return for the year	3.7	28.6	1.6	34.5
Calendar year investment return (%)	1.4%	2.7%	2.2%	2.4%

Syndicate funds are actively managed by AIG Asset Management (Europe) Limited and the returns compared to benchmarks agreed as part of the investment guidelines. Average funds available for investment increased by 0.6% in 2021 and the investment return decreased by 83.7% in 2021 to 0.4%. Investment return was impacted by lower coupon receipts of $6.8m, an increase in net unrealised losses of $21.6m and an increase in realised losses of $2.2m.

Financial position

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

Financial investments

Financial investments consist primarily of debt securities, issued by governments, government agencies, or high-grade corporate entities and comprise 76.7% of the investment portfolio (2020: 81.1%). Investment guidelines do not allow the holding of equities. All investments are traded within liquid markets except for private debt funds which comprise 3.9% of the investment portfolio (2020: 3.9%). The fair value of investments is determined by market prices or by industry standard valuation models except for private debt funds. At 31 December 2021, the fair value of investments was $1,318.4m (2020: $1,414.6m) and the portfolio composition is shown in note 10 to the accounts.

Cash flow

There was an increase of $13.3m (2020: decrease of $18.4m) in cash and cash equivalents during the year. Operating and investment activities generated cash inflows of $161.3m, which was offset by cash outflows to the corporate member of $145.4m. These outflows related to the release of funds in syndicate (FIS) and the distribution made on the 2018 underwriting year of account.

Technical provisions

Technical provisions include a provision for claims outstanding of $1,806.7m (2020: $1,721.8m) and a provision for unearned premiums of $662.5m (2020: $581.1m). The reinsurers' share of technical provisions is $585.3m (2020: $447.4m) in respect of outstanding claims and $87.4m (2020: $76.8m) for unearned premiums.

The provision for outstanding claims is based on evaluations of reported claims and estimates for claims incurred but not reported (IBNR). As claims may not be settled for a number of years after they are incurred, the setting of provisions involves a degree of judgement as to the ultimate exposure to claims. Reserves established in previous periods are adjusted as new information becomes available and claims develop.

Report of the directors of the Managing Agent (continued)

Future developments

Talbot will continue to strategically leverage its position within AIG's General Insurance business from both a commercial and capital perspective. There continues to be opportunity for growth in 2022 where pricing, terms and conditions have improved in recent years. Talbot will also continue to closely monitor plan and respond to the changes in the global, political and economic environment, in particular, inflationary pressures from global energy and tradeable goods prices.

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

Principal risks and uncertainties

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

Environmental Responsibilities and Climate Risks

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

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

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

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

Short to medium term risks

Climate risks in the short to medium term primarily include physical risks which can be event-driven or result from shifts in climate patterns, such as natural catastrophe risk, operational risk, and business continuity risk. These may challenge the ability to effectively underwrite, model and price catastrophe risk, particularly if there is an increase relative to the long term mean in frequency and severity of catastrophic events, such as hurricanes, tornadoes, earthquakes, floods, wildfires, windstorms and other natural disasters. Talbot view these risks as manageable in light of the syndicate's broadly diversified business and through regular reviews of risk appetite and reinsurance strategy. Many of the syndicate's general insurance policies are renewed on an annual basis, enabling Talbot the opportunity to re-underwrite and re-price such risk regularly.

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

Medium and long term risks

Climate risks include regulatory risk, investment and credit risk, litigation and legal risk, reputational risk, and technology risk. Whilst Talbot recognises that the transition to a low-carbon economy is a gradual and relatively slow process, Talbot will monitor and work closely with stakeholders to keep abreast of changes in this area. Talbot holds investments for future periods and, as efforts to move away from a carbon-intensive economy gather pace, Talbot recognises the possibility that financial market participants may fundamentally reassess the value of carbon-intensive assets and the businesses that rely on them. In line with commitments made by the Corporation of Lloyd's, Talbot has committed to no longer make new investments into thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities from 1 January 2022. In recent years the industry has seen an overall increase in various climate-related litigation claims brought forward for a multitude of reasons. Talbot will continue monitoring litigation trends to assess the potential impact of any developments and overall risk mitigation strategies.

Report of the directors of the Managing Agent (continued)

Medium and long term risks (continued)

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

Environmental Strategies

1. Climate Risk Plan

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

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

2. Climate Related Opportunities

The transition period to a low carbon economy is likely to provide opportunities consistent to Talbot's business strategy. With the possibility for new products and services to help clients and customers manage their climate-related risks and improving resource efficiency.

3. Carbon Footprint Reporting

Talbot is committed to reducing its global carbon footprint and is actively tracking and reporting internally on carbon emissions. In 2021, Talbot has continued to reduce office footprints through consolidation, densification and work-from-home strategies and is committed to evolving metrics and reporting presented in this area in the future.

Report of the directors of the Managing Agent (continued)

Directors

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

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

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

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

Active Underwriter

I Peterson	(Appointed 11 January 2021)
DE Morris	(Resigned 11 January 2021)

Company Secretary

M-C Gallagher

Statutory Information

Disclosure of information to auditors

The directors of the Managing Agent who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the syndicate's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themself aware of any relevant audit information and to establish that the syndicate's auditors are aware of that information.

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

Annual General Meeting

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

Report of the directors of the Managing Agent (continued)

Statement of Managing Agent's responsibilities

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

The directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write business unless it is inappropriate to presume that the syndicate will do so.

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

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

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

Chris Rash
Chief Executive Officer
3 March 2022

Independent auditors' report to the member of Syndicate 1183

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1183's annual accounts:

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

We have audited the syndicate annual accounts included within the Annual Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2021; the profit and loss account; the statement of changes in member's balance and the statement of cash flows 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 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 8, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

Independent auditors’ report to the member of Syndicate 1183 (continued)

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

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

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

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

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

Responsibilities for the syndicate annual accounts and the audit

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

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.
Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd’s, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts.

We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to estimated premium income and incurred but not reported provisions included in claims outstanding. Audit procedures performed included:

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

Profit and loss account

For the year ended 31 December 2021

	Note	2021 $m	2020 $m
Gross premiums written	6	1,271.6	1,059.1
Outwards reinsurance premiums		(296.6)	(228.3)
Net premiums written		975.0	830.8
Change in gross provision for unearned premiums		(82.9)	(26.5)
Reinsurers' share of change in the provision for unearned premium		10.7	5.4
Change in the net provision for unearned premiums		(72.2)	(21.1)
Earned premiums, net of reinsurance		902.8	809.7
Allocated investment return transferred from the non-technical account		5.6	34.0
Gross claims paid		(596.8)	(595.1)
Reinsurers' share of claims paid		119.4	145.5
Claims paid net of reinsurance		(477.4)	(449.6)
Change in the gross provision for claims		(88.1)	(182.4)
Change in the provision for claims, reinsurers' share		138.5	29.3
Change in the net provision for claims		50.4	(153.1)
Claims incurred, net of reinsurance		(427.0)	(602.7)
Net operating expenses	8	(322.1)	(288.1)
Balance on the technical account		159.3	(47.1)
Investment income		27.8	32.8
Realised gains / (losses) on investments		(4.4)	(2.2)
Unrealised gains / (losses) on investments		(16.4)	5.2
Investment expenses and charges		(1.4)	(1.3)
		5.6	34.5
Allocated investment return transferred to the technical account		(5.6)	(34.0)
Other income and charges		-	3.1
Profit / (loss) on exchange		(4.2)	1.2
Profit / (loss) for the financial year		155.1	(42.3)

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

Balance sheet

As at 31 December 2021

	Note	2021 $m	2020 $m
Assets			
Investments	10	1,318.4	1,414.6
Deposits with ceding undertakings		12.5	0.3
Reinsurers' share of technical provisions:			
Provisions for unearned premiums	14	87.4	76.8
Claims outstanding	14	585.3	447.4
		672.7	524.2
Debtors			
Debtors arising out of direct insurance operations*	3(o), 11	326.3	257.6
Debtors arising out of reinsurance operations*	3(o), 12	184.3	160.4
Other debtors	13	6.7	13.9
		517.3	431.9
Other assets			
Cash at bank and in hand		78.2	78.5
Deferred acquisition costs		114.8	102.2
		193.0	180.7
Total assets		2,713.9	2,551.7
Liabilities			
Capital and reserves			
Member's balance		28.0	18.3
Technical provisions			
Provision for unearned premiums	14	662.5	581.1
Claims outstanding	14	1,806.7	1,721.8
		2,469.2	2,302.9
Creditors			
Creditors arising out of direct insurance operations	15	3.0	8.7
Creditors arising out of reinsurance operations	16	148.5	129.4
Other creditors including taxation and social security	17	45.7	79.8
		197.2	217.9
Other Liabilities			
Accrued expenses		3.8	0.6
Reinsurers' share of deferred acquisition costs		15.7	12.0
		19.5	12.6
Total Liabilities		2,713.9	2,551.7

* Prior year comparative amounts for debtors arising out of direct insurance and reinsurance operations have been restated. Refer to note 3(o).

The notes on pages 17 to 41 are an integral part of these financial statements. The financial statements on pages 13 to 41 were approved by the Board of directors on 3 March 2022 and signed on its behalf by:

Chris Rash, Chief Executive Officer, 3 March 2022

Statement of changes in member's balance

For the year ended 31 December 2021

	2021	2020
	$m	$m
Balance at 1 January	18.3	89.9
Profit / (Loss) for the financial year	155.1	(42.3)
Funds in syndicate movement	(60.5)	60.5
Cash distributions	(84.9)	(89.8)
Balance at 31 December	28.0	18.3

The member participates on the syndicate by reference to underwriting year of account.

Statement of cash flows
For the year ended 31 December 2021

	2021 $m	2020 $m
Profit / (Loss) for the year	155.1	(42.3)
Increase in gross technical provisions	171.0	208.9
Increase in reinsurers' share of gross technical provisions	(149.3)	(34.6)
Increase in debtors	(98.9)	(19.6)
Decrease in creditors	(17.4)	(8.3)
Movement in other assets / liabilities	(9.1)	2.3
Investment return	(5.6)	(34.4)
Foreign exchange	5.2	(5.8)
Other	-	(3.1)
Net cash flows from operating activities	51.0	63.1
Cash flows from investing activities		
Purchase of debt instruments	(384.3)	(522.0)
Sale of debt instruments	498.2	459.8
Investment income received	26.4	31.6
Other	(30.0)	(25.1)
Net cash flow from investing activities	110.3	(55.7)
Cash flows from financing activities		
Distribution to member	(84.9)	(115.9)
Funds in syndicate from member	-	60.5
Funds in syndicate returned to member	(60.5)	-
Cash calls from member	-	26.1
Net cash flow from financing activities	(145.4)	(29.3)
Net increase / (decrease) in cash and cash equivalents	15.9	(21.9)
Foreign exchange on cash and cash equivalents	(2.6)	3.5
Cash and cash equivalents at beginning of year	173.7	192.1
Cash and cash equivalents at end of year	**187.0**	**173.7**
Cash at bank and in hand	78.2	78.5
Short term investments - cash equivalents	108.8	95.2
Cash and cash equivalents at end of year	**187.0**	**173.7**

Notes to the financial statements

1 Statement of compliance

The accounts of Syndicate 1183 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Insurance Contracts standard (FRS 103) and Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3 Accounting policies

Basis of preparation

Having assessed the principal risks to the syndicate, the directors consider it appropriate to adopt the going concern basis of accounting in preparing these accounts. These accounts are prepared under the historical cost convention, as modified by certain financial assets measured at fair value through profit and loss.

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

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

(a) Insurance contracts – classification

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

(b) Gross premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of acquisition costs such as brokerage payable and exclude taxes and duties levied on them. Premiums include estimated amounts of premium due but not yet received or notified – refer to note 4 for more details on premium estimates.

(c) Outwards reinsurance premiums

Outwards reinsurance premiums written comprise premiums for contracts incepted during the financial year as well as adjustments made in the year to outwards reinsurance premiums written in prior accounting periods.

(d) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The provision for unearned premiums is calculated on a daily pro rata basis. Outward reinsurance premiums are earned according to the type of policy. For losses occurring during (LOD) contracts, premiums are earned on a straight line basis over the period of coverage. For risks attaching during (RAD) contracts, premiums are earned in line with the gross premiums to which the risk attaching contract relates.

(e) Claims incurred

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

3 Summary of significant accounting policies (continued)

(f) Claims provisions and related reinsurance recoveries

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

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

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

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

Provisions are calculated initially gross of any reinsurance recoveries. The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated non-recoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

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

The factors above bring considerable uncertainty to the process of estimating earned ultimate losses and earned claims provisions. This uncertainty is increased for reinsurance business compared with insurance business due to the increased number of parties in the chain of reporting from the original claimant to the reinsurer.

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

(g) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums under these contracts, after the deduction of any deferred acquisition costs.

The provision for unexpired risks is calculated at the whole account level and by underwriting year of account, after taking into account relevant investment return. There are no unexpired risk provisions to be reported in the current or prior year.

(h) Acquisition costs

Acquisition costs, comprising brokerage and taxes and duties levied are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

3 Summary of significant accounting policies (continued)

(i) Foreign currency

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

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

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

	2021		2020	
	Average	Closing	Average	Closing
Sterling	0.73	0.74	0.78	0.73
Canadian dollar	1.25	1.27	1.34	1.27

(j) Investment return

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

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

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

(k) Financial assets and liabilities

Financial assets

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

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

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

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

3 Summary of significant accounting policies (continued)

(k) Financial assets and liabilities (continued)

Financial liabilities

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

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

Insurance debtors and creditors

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

(l) Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate on behalf of the member during the year have been included in the balance sheet under the heading ‘other debtors’.

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

(m) Profit commissions

Profit commissions payable to the managing agency, which are expected to arise on closure of a Lloyd’s year of account are recognised on an accruals basis, taking into consideration any deficit clauses.

(n) Member’s balance and distribution

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

(o) Comparative disclosures

Comparative balances have been reclassified to be consistent with current year presentation. There has been a $21.1m reclassification from debtors arising out of direct insurance operations to debtors arising out of reinsurance operations, reflecting the nature of balances that were receivable from Lloyd’s Brussels. This impacted the balance sheet comparatives and notes 11 and 12.

Notes to the financial statements (continued)

4 Key judgements and uncertainties

Premium estimates

Critical estimates include premium estimates and the earning pattern of recognising premium over the life of a policy. Premium written is initially based on the estimated premium income (EPI) of each policy. Where premium is sourced through binders, the binder EPI is assumed to attach and is therefore written evenly over the binder period. The underwriters adjust their EPI and therefore written premium is adjusted as the underwriting year develops and as new information becomes available. EPI is automatically adjusted to signed premium at set points in time depending on the nature of the policy. A source of uncertainty arises from the fact that, at any given point in time, the EPI could be different to final signed premium. To reduce this uncertainty, management complete detailed reviews of EPI and signed premium to demonstrate reasonableness of the estimates being used.

Premiums are earned on a straight line basis over the life of each policy. At a whole account level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

The majority of premium estimation arises with binder and lineslip estimates where the premium amounts are dependent on the volume of policies that attach to the binder/lineslip over the coverage period.

Claims provision

The most critical estimate impacting the balance sheet is the estimate for insurance losses incurred but not reported (IBNR), which is included in claims outstanding and reinsurers' share of outstanding claims in the balance sheet. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share at 31 December 2021 is $988.0m (2020: $970.6m). The total estimate for insurance losses incurred but not reported net of reinsurers' share at 31 December 2021 is $641.0m (2020: $687.2m).

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

- Future development of inward claims, both reported and unsettled and incurred but not reported claims;
- Corresponding reinsurance recoveries, including reinsurance specific considerations such as the basis of aggregation for the application of retentions and limits; and
- The splits of future claim liabilities between earned and unearned exposures.

Assumptions and expert judgements made to quantify these uncertainties are produced by in-house actuarial, claims and underwriting personnel, and are adopted only after suitable discussion and challenge from management and audit committees. Supporting their production are:

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

The reserving model utilises standard actuarial projection techniques (e.g. Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio, and Generalised Cape Cod) for the attritional and unknown large and catastrophe loss types. Exposure-based approaches supported by claim-specific information are used for known large risk and catastrophe losses, with greater weight being placed on claim-specific information for large risk losses and for large catastrophe losses as the loss in question matures and develops.

4 Key judgements and uncertainties (continued)

Claims provision (continued)

The assumptions and expert judgements are applied in line with the syndicate's stated reserving philosophy, and are intended to state the ultimate claim liability provisions on a best estimate, undiscounted basis. A management reserve margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty.

Specific reserving uncertainties as at 31 December 2021 include the impact of the COVID-19 pandemic and inflation.

Net technical provisions includes $49.0m (2020: $128.9m) relating to the COVID-19 pandemic arising primarily in the Contingency class of business. This class of business was discontinued in 2021. It is not currently possible to determine the exact quantum of COVID-19 claims unless and until they are asserted. At such point the claims will be assessed and adjusted, and any applicable reinsurance recoveries will be made. Various factors feed into COVID-19 reinsurance recoveries and allowance has been made in net technical provisions for uncertainty based on different scenarios. These factors have resulted in longer timeframes for settlement of reinsurance recoveries for COVID-19 related claims and the Financial Risk Committee continues to monitor them (refer to note 5 for changes to management committee structure in 2022). Please refer to note 5(b) for the ageing of reinsurance recoverable balances. In terms of reinsurers' ability to pay balances due, at 31 December 2021, COVID-19 related reinsurance claims are with reinsurers with an A rating or higher.

Talbot monitor and assess the impact of inflation on the syndicate's business. The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target but the twelve-month CPI inflation rose to 5.4% in December 2021 with inflation expected to rise further. This reflects upward pressures from global energy and tradable goods prices. Claims provisions have been stress tested using different inflationary uplifts with allowance made for this uncertainty in net technical provisions.

Allowance is made for future loss adjustment expenses, which are also subject to estimation. Consideration is given to the level of loss adjustment expenses incurred annually, with estimates of loss adjustment expenses considered as a proportion of gross claims reserves, with the reasonableness of the estimate is assessed through benchmarking.

5 Risk management

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

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

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

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

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

As the Managing Agent for the syndicate, Talbot is ultimately responsible for the management of risk at the syndicate level and for formulating the risk appetite for approval by the Board. The Executive Committee maintains a comprehensive risk register and risk management framework on behalf of the syndicate and the companies in the Talbot Group. This allows new risks to be identified and new controls to be put in place as necessary, either to reduce the

5 Risk management (continued)

likelihood of an event or to mitigate its impact once it has happened. The Executive Committee also oversees the management of the key risks with regard to reserves, strategy and relationships with stakeholders.

The Reserve Committee and Planning and Performance Steering Group report on a quarterly basis to the Executive Committee and support the Executive Committee in oversight of reserving and business planning. The responsibilities of these committees are to ensure that all risks recorded on the risk register at both Talbot and syndicate level are managed effectively.

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

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

(a) Insurance risk

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

Underwriting risk

Underwriting risk arises from the fluctuations in timing, frequency and severity of insured events, relative to expectations at the time of underwriting, as well as inappropriate pricing, selection and approval of insurance risks. Underwriting strategy is agreed by the Board and set out in the syndicate business plan that is submitted to the Society of Lloyd's for approval each year. Underwriting is aligned with the syndicate's strategy, agreed business plan and underwriting policy.

The Underwriting Committee meets regularly to drive the underwriting strategy and to monitor performance against plans. The assessment of underwriting performance considers underwriting metrics, technical pricing management information, premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting policy.

A key contributor to underwriting risk is catastrophe accumulations, whether natural or man-made. Various controls exist within the business to ensure that the syndicate accurately records and monitors these accumulations. In addition, Talbot underwrites across a broad diversity of business lines and also purchases reinsurance, with an appropriate number of reinstatements, to arrive at an acceptable net risk. The nature of the business exposes Talbot to various kinds of natural disaster, such as hurricanes, windstorms, hailstorms, flooding, earthquakes, wildfires, solar storms, and other catastrophes, in which multiple losses can occur and affect multiple lines of business in any given year. Talbot's Risk Appetite Framework establishes and maintains appropriate limits on the material risks identified. A significant proportion of the natural catastrophe-related risks that Talbot underwrites are renewed on an annual basis. This provides Talbot the opportunity to regularly re-underwrite and re-price the risk.

Talbot uses a blend of proprietary and third-party risk models to help better understand the frequency and severity of natural catastrophe risk. Talbot has assembled a collection of hazard and engineering data, client and industry exposure, and loss information, all of which have been used to analyse the external catastrophe models, inform catastrophe model selections, and support catastrophe model calibrations which form the in-house view of catastrophe risks impacting underwriting. For weather perils, Talbot models the following: 1) cyclones, typhoons, and hurricanes, 2) storm surge, 3) flooding, 4) wildfires, 5) severe convective storms, and 6) extratropical storms. Talbot's catastrophe modelling has a clear approach for how catastrophe risk is represented in the Internal Model and this includes validation and governance around model selection, model peril evaluation, model use, and model change.

Notes to the financial statements (continued)

5 Risk management (continued)

(a) Insurance risk (continued)

Reserving risk

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

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

Note 4 contains additional details around the key judgements and uncertainties involved in the estimate for claims provisions. The syndicate also has in place detailed procedures and controls to manage and monitor the handling and assessment of claims and the setting of appropriate reserves. Note 14 includes further detail on claims provisions and claims development triangles.

(b) Credit risk

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

Investment counterparties: Investment guidelines ensure that the syndicate's investments are held in high quality instruments. The portfolio is monitored for concentration with respect to issuers and credit ratings. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. Of the total investments and cash as at 31 December 2021, 83.2% (2020: 84.9%) are with counterparties having a credit agency rating of A or better.

Reinsurance counterparties: Reinsurance is placed with reinsurers who generally have a rating of A or above and who have a good record of claims payment. As at 31 December 2021, 90.0% (2020: 86.2%) of this balance is with reinsurers with a credit agency rating of A or greater.

Broker and coverholder counterparties: Underwriters may only write business through an approved counterparty. New broker counterparties are approved by the Financial Risk Committee, and new coverholder counterparties are approved by the Delegated Authority Oversight Group.

5 Risk management (continued)

(b) Credit risk (continued)

Balances with investment and reinsurance counterparties are rated as follows:

As at 31 December 2021	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	514.6	143.8	255.7	96.0	-	0.5	1,010.6
Shares and other variable yield securities	108.8	-	-	-	-	15.2	124.0
Debt funds	-	-	-	-	-	51.1	51.1
Lloyd's overseas deposits	40.2	13.4	6.7	6.8	36.2	29.4	132.7
Deposits with ceding undertakings	-	-	12.5	-	-	-	12.5
Reinsurers' share of claims outstanding	-	193.6	324.8	-	-	66.9	585.3
Insurance and reinsurance premium receivable	-	-	-	-	-	405.9	405.9
Reinsurance recoveries on paid claims	-	36.2	66.1	-	-	2.4	104.7
Cash at bank and in hand	-	-	78.2	-	-	-	78.2
	663.6	387.0	744.0	102.8	36.2	571.4	2,505.0

As at 31 December 2020	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	653.8	149.7	227.5	115.3	0.1	0.6	1,147.0
Shares and other variable yield securities	95.2	-	-	-	-	15.3	110.5
Debt funds	-	-	-	-	-	55.0	55.0
Lloyd's overseas deposits	44.2	13.1	6.2	5.3	8.1	25.2	102.1
Deposits with ceding undertakings	-	-	-	-	-	0.3	0.3
Reinsurers' share of claims outstanding	-	151.8	225.5	-	-	70.1	447.4
Insurance and reinsurance premium receivable	-	-	-	-	-	342.0	342.0
Reinsurance recoveries on paid claims	-	23.2	50.9	0.1	-	1.8	76.0
Cash at bank and in hand	-	-	78.5	-	-	-	78.5
	793.2	337.8	588.6	120.7	8.2	510.3	2,358.8

5 Risk management (continued)

(b) Credit risk (continued)

The syndicate has premiums receivable and reinsurance recoverables that are past due at the reporting date as follows:

As at 31 December 2021	Up to 3 months past due $m	3 to 6 months past due $m	6 months to 1 year past due $m	Greater than 1 year past due $m	Total $m
Insurance and reinsurance premiums	30.1	18.9	5.8	0.1	54.9
Reinsurance recoveries on paid claims	4.3	11.9	38.7	33.8	88.7
	34.4	30.8	44.5	33.9	143.6

As at 31 December 2020	Up to 3 months past due $m	3 to 6 months past due $m	6 months to 1 year past due $m	Greater than 1 year past due $m	Total $m
Insurance and reinsurance premiums	23.7	18.5	8.8	0.6	51.6
Reinsurance recoveries on paid claims	27.7	8.9	0.7	-	37.3
	51.4	27.4	9.5	0.6	88.9

The amounts past due date are not considered to be impaired based on historical payment behaviour and analysis of credit risk. Refer to note 4.

Notes to the financial statements (continued)

5 Risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that the syndicate is unable to pay debts or meet regulatory funding requirements as they fall due and can arise if the assets held to settle liabilities are either unable to be realised or they are only realisable at materially below market value.

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

At 31 December 2021 the average duration of syndicate funds to maturity was 1.8 years (2020: 1.7 years) compared to 1.9 years (2020: 1.9 years) for syndicate claims outstanding.

At 31 December 2021	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	270.5	454.8	80.0	205.3	1,010.6
Shares and other variable securities	108.8	-	-	-	15.2	124.0
Debt funds	51.1	-	-	-	-	51.1
Lloyd’s overseas deposits	29.4	50.9	40.9	9.7	1.8	132.7
Deposits with ceding undertakings	-	12.5	-	-	-	12.5
Reinsurers' share of technical provisions - claims outstanding	-	284.6	204.2	58.6	37.9	585.3
Insurance and reinsurance premium receivable	-	405.6	0.3	-	-	405.9
Reinsurance recoveries on paid claims	-	104.7	-	-	-	104.7
Other debtors	-	6.7	-	-	-	6.7
Cash at bank and in hand	78.2	-	-	-	-	78.2
	267.5	1,135.5	700.2	148.3	260.2	2,511.7
Financial liabilities						
Technical provisions - claims outstanding	-	878.5	630.2	180.9	117.1	1,806.7
Creditors arising out of direct insurance operations	-	3.0	-	-	-	3.0
Creditors arising out of reinsurance operations	-	148.5	-	-	-	148.5
Other creditors including taxation and social security	-	45.7	-	-	-	45.7
	-	1,075.7	630.2	180.9	117.1	2,003.9

Notes to the financial statements (continued)

5 Risk management (continued)

(c) Liquidity risk (continued)

At 31 December 2020	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	268.4	544.0	30.4	304.2	1,147.0
Shares and other variable securities	95.2	-	-	-	15.3	110.5
Debt funds	55.0	-	-	-	-	55.0
Lloyd’s overseas deposits	25.5	-	48.0	24.8	3.8	102.1
Deposits with ceding undertakings	-	0.3	-	-	-	0.3
Reinsurers' share of technical provisions - claims outstanding	-	231.9	149.0	40.8	25.7	447.4
Insurance and reinsurance premium receivable	-	341.3	0.7	-	-	342.0
Reinsurance recoveries on paid claims	-	76.0	-	-	-	76.0
Other debtors	-	13.9	-	-	-	13.9
Cash at bank and in hand	78.5	-	-	-	-	78.5
	254.2	931.8	741.7	96.0	349.0	2,372.7
Financial liabilities						
Technical provisions - claims outstanding	-	892.5	573.5	157.0	98.8	1,721.8
Creditors arising out of direct insurance operations	-	8.7	-	-	-	8.7
Creditors arising out of reinsurance operations	-	129.2	0.2	-	-	129.4
Other creditors including taxation and social security	-	79.8	-	-	-	79.8
	-	1,110.2	573.7	157.0	98.8	1,939.7

5 Risk management (continued)

(d) Market risk

Market risk is the risk that the value of a portfolio of assets will decline due to changes in market factors. These factors include stock market prices, interest rates, foreign exchange rates and commodity prices. As the syndicate does not hold shares or commodities, it is not directly exposed to the price risk relating to them. Further detail of investments is shown in note 10.

Foreign exchange risk

This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the syndicate's reporting currency. While the syndicate's results are reported in US dollars, funds are also held in other non US dollar currencies, primarily sterling. Therefore, there is a risk that fluctuations in exchange rates may have a significant effect on results and net assets. For management of the economic effect of this exposure, funds by currency are reviewed against liabilities on a quarterly basis. Where practical, assets and liabilities are matched by currency after consideration has been given to the overall Talbot group position. The aim is to hold surplus funds in the functional currency of US dollars. If the US dollar had weakened/strengthened against Sterling and Canadian dollar by a further 5% the profit/(loss) on exchange for the year for Canadian dollars would have been higher/lower by $3.6m and Sterling $3.1m (2020: Canadian dollar $1.2m and Sterling $0.4m).

Interest rate risk

This is the risk that an increase in interest rates or volatility in the fixed income markets could result in significant unrealised or realised losses in the market value of the investment portfolio. The syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the syndicate to cash flow interest rate risk. Fixed interest rate assets expose the syndicate to fair value risk. The syndicate's strategy is to invest in high quality, liquid, fixed and floating rate interest securities and cash and actively to manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business. If interest rates had increased/decreased by 0.5%, investment return for the year would have been lower/higher by $12.5m (2020: $12.6m).

(e) Operational Risk

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

Talbot is continually assessing the impact of COVID-19 on the syndicate's business, operations and investments. The impacts initially included a global economic contraction, disruptions in financial markets and increased market volatility. While many of the major global economies continue to recover and global financial markets appear to have largely stabilised, there remains a risk that the disruptions previously experienced could return and new ones emerge as COVID-19 persists or new variants arise. In addition, in response to the crisis, new governmental, legislative and regulatory actions have been taken and more may follow. These may have a negative impact on the syndicate's business, operations and capital.

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

Notes to the financial statements (continued)

6 Segmental information

Year ended 31 December 2021	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Total $m
Direct business						
Accident and health	7.1	7.1	(3.2)	(4.0)	-	(0.1)
Motor	2.2	2.2	(1.4)	(0.9)	(0.2)	(0.3)
Marine	43.2	43.0	(25.3)	(16.2)	(3.3)	(1.8)
Aviation	21.5	20.8	(4.2)	(7.8)	(1.1)	7.7
Transport	31.9	29.5	(6.1)	(11.0)	(1.4)	11.0
Energy – marine	36.4	35.4	(37.7)	(10.2)	8.9	(3.6)
Energy – non-marine	58.8	59.6	(36.6)	(6.2)	(9.2)	7.6
Fire and other damage to property	227.6	204.6	(117.2)	(72.5)	13.7	28.6
Third party liability	181.0	151.2	(91.2)	(42.9)	(5.0)	12.1
Pecuniary loss	92.5	83.8	(68.5)	(28.4)	27.7	14.6
Total direct	702.2	637.2	(391.4)	(200.1)	30.1	75.8
Reinsurance business	569.4	551.5	(293.5)	(157.6)	(22.5)	77.9
Total	1,271.6	1,188.7	(684.9)	(357.7)	7.6	153.7

Year ended 31 December 2020	Gross Premiums written $m	Gross premiums Earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Total $m
Direct business						
Accident and health	7.5	7.1	(4.1)	(3.9)	(0.1)	(1.0)
Motor	7.3	9.1	(7.6)	(3.6)	2.7	0.6
Marine	41.1	41.6	(7.0)	(17.0)	(7.3)	10.3
Aviation	20.9	20.0	(14.2)	(7.5)	(1.8)	(3.5)
Transport	30.4	32.0	(4.0)	(11.9)	(1.1)	15.0
Energy – marine	35.3	37.8	(3.3)	(11.0)	(11.0)	12.5
Energy – non-marine	57.4	50.2	(37.6)	(6.7)	(9.6)	(3.7)
Fire and other damage to property	187.8	195.0	(109.3)	(67.1)	(26.8)	(8.2)
Third party liability	111.5	98.7	(59.1)	(26.3)	(4.1)	9.2
Pecuniary loss	75.6	81.1	(225.2)	(26.2)	55.1	(115.2)
Total direct	574.8	572.6	(471.4)	(181.2)	(4.0)	(84.0)
Reinsurance business	484.3	460.0	(306.1)	(128.9)	(22.1)	2.9
Total	1,059.1	1,032.6	(777.5)	(310.1)	(26.1)	(81.1)

The reinsurance balance represents the credit (charge) to the technical account from the aggregate of all items relating to outwards reinsurance. All premiums written are for contracts concluded in the UK.

Notes to the financial statements (continued)

6 Segmental information (continued)

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

	2021 $m	2020 $m
UK	172.7	148.6
EU countries	106.0	95.3
US	528.7	400.9
Other	464.2	414.3
	1,271.6	1,059.1

7 Movement in prior year's provision for claims outstanding

There has been a reassessment of the net provision for claims outstanding held at the previous year end. The release in 2021 amounted to $57.0m (2020: $42.8m), attributable to the following classes of business:

	2021 $m	2020 $m
Marine	22.5	10.1
Political Risk	3.0	10.6
Political Violence and War	22.8	15.7
Property	20.7	(7.1)
Specialty	(26.1)	4.7
Treaty	14.1	8.8
	57.0	42.8

8 Net operating expenses

	2021 $m	2020 $m
Brokerage and commission	230.7	193.1
Other acquisition costs	14.9	12.8
Acquisition costs	245.6	205.9
Acquisition costs - change in deferred acquisition costs	(9.1)	2.3
Administrative expenses	121.2	101.9
Gross operating expenses	357.7	310.1
Reinsurance commissions and profit participations	(35.6)	(22.0)
	322.1	288.1

Brokerage and commissions for direct insurance business (included within the brokerage and commission total amount above) for the year amounted to $132.6m (2020: $110.0m).

8 Net operating expenses (continued)

An analysis of the amounts paid to the syndicate's auditors and associates is given below. The audit and non-audit fees are borne by Talbot Underwriting Services Ltd (TUSL) and are incorporated in the management fee charged referred to in note 18.

	2021 $m	2020 $m
Fees payable to the syndicate's auditor's and their associates in respect of:		
Audit of the syndicate annual accounts	0.5	0.5
Other services pursuant to legislation	0.4	0.3
	0.9	0.8

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

9 Employees and directors

The syndicate has no direct employees. The staff and key management personnel who provide services to the syndicate are employed by various group companies. Key management personnel includes Talbot directors and the active underwriter. As disclosed in note 18, these group companies charge management fees to the syndicate for providing services to the syndicate. Therefore staff cost or numbers are not separately identified.

The estimated aggregate emoluments of the active underwriter allowed for within the management fees charged by group companies to the syndicate were as follows:-

	2021 $m	2020 $m
Aggregate emoluments	0.7	0.5
	0.7	0.5

The estimated key management personnel emoluments allowed for within the management fees charged by group companies to the syndicate were as follows:

	2021 $m	2020 $m
Aggregate emoluments	3.0	2.4
	3.0	2.4

Included in the above are the estimated emoluments of the highest paid director as follows:

	2021 $m	2020 $m
Aggregate emoluments	0.6	0.8
	0.6	0.8

10 Investments

	Cost 2021	Cost 2020	Market Value 2021	Market Value 2020
	$m	$m	$m	$m
Investments at fair value				
Debt securities and other fixed income securities	1,016.6	1,132.3	1,010.6	1,147.0
Shares and other variable yield securities	124.0	110.5	124.0	110.5
Debt funds	46.5	53.9	51.1	55.0
Lloyd's overseas deposits	132.7	102.1	132.7	102.1
Total	1,319.8	1,398.8	1,318.4	1,414.6
Investments at fair value analysis				
Government debt	194.8	202.4	194.4	204.1
Quasi Government debt	123.8	135.0	121.9	135.9
Agency debt	-	7.6	-	7.7
Corporate debt	411.9	420.3	406.6	424.6
Supranational debt	85.6	73.5	84.3	73.8
Asset backed securities	10.5	17.2	10.3	16.9
Mortgage backed securities	190.0	276.3	193.1	284.0
Short term investment - cash equivalents	108.8	95.2	108.8	95.2
Debt funds	46.5	53.9	51.1	55.0
Lloyd's overseas deposits	132.7	102.1	132.7	102.1
Loans to Lloyd's Central Fund	15.2	15.3	15.2	15.3
Total	1,319.8	1,398.8	1,318.4	1,414.6

Shares and other variable yield securities include short-term highly liquid investments of $108.8m (2020: $95.2m) and loans to the Lloyd's Central Fund of $15.2m (2020: $15.3m). Short–term highly liquid investments are readily convertible to known amounts of cash with an insignificant risk of change in value, i.e. cash equivalents. Loans to the Lloyd's Central Fund are held at par value of $15.2m as a proxy for fair value. Debt funds represent capital Talbot has provided to a fund company in return for either a limited partner interest or shares in the fund. The fund company will in turn utilise this capital by purchasing a portfolio of private debt and mezzanine securities.

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

Fair value estimation

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

10 Investments (continued)

Fair value estimation (continued)

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

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

The debt funds have been classified as level 3 assets. The valuation techniques adopted by the fund company establishes the fair transaction price of the syndicate's assets based upon modelling techniques and analysis which incorporates unobservable inputs for which market data is unavailable. The syndicate's interest in the fund is a proportionate share of the underlying.

Loans to the Lloyd's Central Fund are classified as level 3 assets.

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

2021	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	400.1	610.5	-	1,010.6
Shares and other variable yield securities	108.8	-	15.2	124.0
Debt funds	-	-	51.1	51.1
Lloyd's overseas deposits	26.2	106.5	-	132.7
Total	535.1	717.0	66.3	1,318.4

2020	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	412.4	734.6	-	1,147.0
Shares and other variable yield securities	95.2	-	15.3	110.5
Debt funds	-	-	55.0	55.0
Lloyd's overseas deposits	25.7	76.4	-	102.1
Total	533.3	811.0	70.3	1,414.6

At 31 December 2021 the syndicate had capital commitments to a number of debt fund companies up to a value of $23.1m (2020: $19.5m).

11 Debtors arising out of direct insurance operations

	2021	2020 Restated
	$m	$m
Premiums due from intermediaries within one year	326.3	257.6
	326.3	257.6

12 Debtors arising out of reinsurance operations

	2021	2020 Restated
	$m	$m
Reinsurance premiums due from ceding insurers and intermediaries within one year	79.3	83.7
Reinsurance premiums due from ceding insurers and intermediaries after one year	0.3	0.7
Reinsurance recoveries on paid claims due from reinsurers and intermediaries within one year	104.7	76.0
	184.3	160.4

13 Other debtors

	2021	2020
	$m	$m
Amounts due from group companies	1.6	1.3
Overseas taxes	-	0.5
Other debtors	0.2	6.0
Accrued interest	4.9	6.1
	6.7	13.9

Amounts owed by group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements (continued)

14 Technical provisions

Year ended 31 December 2021	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	581.1	1,721.8
Movement	82.9	88.1
Exchange adjustment	(1.5)	(3.2)
As at 31 December	662.5	1,806.7
Reinsurers' share of technical provisions		
As at 1 January	76.8	447.4
Movement	10.7	138.5
Exchange adjustment	(0.1)	(0.6)
As at 31 December	87.4	585.3
Net technical provisions		
As at 31 December 2020	504.3	1,274.4
As at 31 December 2021	575.1	1,221.4

Year ended 31 December 2020	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	550.3	1,530.9
Movement	26.5	182.4
Exchange adjustment	4.3	8.5
As at 31 December	581.1	1,721.8
Reinsurers' share of technical provisions		
As at 1 January	71.2	417.3
Movement	5.4	29.3
Exchange adjustment	0.2	0.8
As at 31 December	76.8	447.4
Net technical provisions		
As at 31 December 2019	479.1	1,113.6
As at 31 December 2020	504.3	1,274.4

Notes to the financial statements (continued)

14 Technical provisions (continued)

Claims development triangles

Whole account, underwriting year **Gross earned ultimate claims**	2011 and prior years $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	Total $m
12 months		314.2	311.9	315.2	271.4	269.6	477.2	323.6	286.6	298.4	385.0	
24 months		540.7	564.2	579.6	510.0	578.2	775.7	650.6	743.2	562.8		
36 months		531.2	542.5	617.9	522.2	607.2	798.5	739.5	767.5			
48 months		508.0	539.5	595.4	533.0	608.0	791.5	749.4				
60 months		520.2	539.3	603.3	547.6	618.6	783.3					
72 months		510.5	531.7	595.1	535.2	629.4						
84 months		503.6	504.9	574.6	529.0							
96 months		495.5	491.7	584.8								
108 months		496.2	494.8									
120 months		499.4										
Total gross earned ultimate losses		499.4	494.8	584.8	529.0	629.4	783.3	749.4	767.5	562.8	385.0	
Less paid claims		456.2	466.4	520.3	474.8	516.9	629.2	496.8	436.5	191.1	32.0	
Gross claims liabilities	41.5	43.2	28.4	64.5	54.2	112.5	154.1	252.6	331.0	371.7	353.0	1,806.7

Whole account, underwriting year **Net earned ultimate claims**	2011 and prior years $m	2012 $m	2013 $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	Total $m
12 months		254.2	254.1	268.2	232.5	232.0	292.8	243.2	215.0	254.3	260.3	
24 months		428.3	460.7	459.2	436.8	476.6	550.0	464.5	558.2	423.3		
36 months		431.9	445.9	479.2	443.7	509.1	561.7	527.0	569.6			
48 months		414.2	442.0	464.0	455.5	515.7	553.6	525.6				
60 months		418.0	440.2	467.3	467.8	519.2	542.1					
72 months		410.8	435.6	472.7	455.7	523.9						
84 months		405.0	423.6	459.5	451.8							
96 months		393.4	414.1	458.9								
108 months		393.5	417.2									
120 months		395.8										
Total net earned ultimate losses		395.8	417.2	458.9	451.8	523.9	542.1	525.6	569.6	423.3	260.3	
Less paid claims		367.8	391.3	419.5	406.9	440.2	438.4	379.5	358.9	148.5	31.1	
Net claims liabilities	35.0	28.0	25.9	39.4	44.9	83.7	103.7	146.1	210.7	274.8	229.2	1,221.4

15 Creditors arising out of direct insurance operations

	2021	2020
	$m	$m
Due within one year	3.0	8.7
	3.0	8.7

16 Creditors arising out of reinsurance operations

	2021	2020
	$m	$m
Due within one year	148.5	129.2
Due after one year	-	0.2
	148.5	129.4

17 Other creditors including taxation and social security

	2021	2020
	$m	$m
Amounts due to group companies	45.6	79.8
Overseas taxes	0.1	-
	45.7	79.8

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

18 Related parties

Parent Companies

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

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

Corporate member

Talbot 2002 Underwriting Capital Ltd (T2002) is the sole corporate member underwriting on the syndicate.

The distributions and cash calls during the year between the syndicate and T2002 are reported in the statement of changes in member's balance.

During the year, the syndicate released $60.5m of funds in syndicate (FIS) back to T2002 (2020: T2002 contributed $60.5m to FIS). Refer to note 20. At 31 December 2021, the amount payable by the syndicate to T2002 is $0.2m (2020: nil).

Managing agent

TUL, the Managing Agent of the syndicate, charges the syndicate an annual management fee and profit commission. The annual fee for 2021 was $11.0m (2020: $8.3m). Profit commission of $0.4m was chargeable in 2021 (2020: nil).

Reinsurance

The syndicate places a limited number of reinsurance contracts with National Union Fire Insurance Company of Pittsburgh, PA (NUFIC), a subsidiary of AIG. These reinsurance contracts are written on an arm's length basis. During the year, reinsurance premiums charged for these policies were $56.6m (2020: $2.1m) and the amount of reinsurance premium earned in 2021 was $30.3m (2020: $2.2m). Reinsurance recoveries on incurred claims for these policies amounted to $4.7m in 2021 (2020: $0.6m). The amount payable by the syndicate to NUFIC at 31 December 2021 was $22.3m (2020: nil).

Coverholders

The following group companies provided services to the syndicate as coverholders and charged management fees to the syndicate on an arm's length basis.

	Management fees charged to the syndicate		(Receivable)/Payable by the syndicate at	
	2021	2020	31.12.2021	31.12.2020
	$m	$m	$m	$m
Talbot Underwriting Risk Services Ltd	-	-	0.7	(0.6)
Talbot Risk Services Pte Ltd	2.4	2.6	0.4	2.6
Talbot Australia	(0.1)	0.2	-	0.8
Validus Specialty Underwriting Services, Inc.	8.6	7.0	(2.2)	2.2
Validus Reaseguros, Inc.	0.6	0.7	(0.2)	0.2
	11.5	10.5	(1.3)	5.2

Management fees are stated before any reallocation to other acquisition costs or claims handling expenses.

18 Related parties (continued)

Service Companies

The following group companies provided services to the syndicate and charged management fees to the syndicate on an arm's length basis.

	Management fees charged to the syndicate		(Receivable)/Payable by the syndicate at	
	2021	2020	31.12.2021	31.12.2020
	$m	$m	$m	$m
Talbot Underwriting Services Ltd	89.4	78.2	42.2	73.4
Talbot Underwriting Ltd	(0.2)	-	(0.1)	(0.5)
Validus Research Inc.	0.6	3.4	(0.2)	0.7
Validus Services (Bermuda) Ltd	-	0.2	(0.1)	(0.1)
Validus America Inc.	2.6	0.7	0.5	(0.1)
Validus Services, Inc.	-	(0.4)	-	-
Western World Insurance Company	-	0.2	-	-
	92.4	82.3	42.3	73.4

Management fees are stated before any reallocation to other acquisition costs or claims handling expenses.

19 Capital

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

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

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

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), assets held within and managed within a syndicate (Funds in Syndicate, refer to note 20) and/or as the member's share of the Solvency II members' balances on each syndicate on which it participates.

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

20 Funds in syndicate (FIS)

The member participates on the syndicate by underwriting year. The balance due/ (from) the member is payable on the closure of an underwriting year usually at the end of three years. Syndicate 1183 is wholly aligned to one member, T2002, and is able to retain closed year profits as capital to support its underwriting activities. The member may also pay additional funds into the syndicate to be held as capital. These are known as FIS. During 2021 the full amount of FIS was released and at 31 December 2021 the value of FIS is $nil (2020: $60.5m).

21 Collateral arrangements

Syndicate 1183 benefits from collateral pledged by ceded reinsurance counterparties, which is not held on the balance sheet. The collateral is held in segregated funds, and acts as additional security in the event of failure of those counterparties to meet their contractual obligations.

The syndicate has not been party to any other arrangements, which is not reflected in its statement of financial position, where material risk and benefits arise for the syndicate.

22 Post balance sheet events

Following the Russian invasion of Ukraine on 24 February 2022, the impact of the current economic and political uncertainty on individuals and businesses could lead to policyholder claims across a number of classes of business. The syndicate has exposure to this in various classes of business, including but not limited to Political Risk, Political Violence and War and Aviation Treaty. There is a high degree of uncertainty in relation to the value of potential insured losses.

There has also been volatility in financial markets due to this event. Whilst there is uncertainty as to the future economic impact of this event, the syndicate does not hold any investments directly in Russia or Ukraine.

Officers and professional advisors

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Managing Agent's registered number
2202362

Directors

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

Company secretary
M-C Gallagher

Syndicate
Syndicate 1183

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I Peterson

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Citibank NA
Royal Bank of Canada
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