

Registered Number: 00307622

British Reserve Insurance Company Limited

Annual report and financial statements
For the year ended 31 December 2021



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Company information

Registered Company Number: 00307622

Directors:

Executive

A Barlow

S Minshall

P A Rooke

Non-Executive

R Tolle

Dr M Sebold-Bender

D F J Wemmer

Company Secretary:

Hackwood Secretaries Limited

Registered Office:

C/O Hackwood Secretaries Limited

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Auditors

Mazars LLP

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Strategic Report

For the year ended 31 December 2021

The Directors present their Strategic report on the Company for the year ended 31 December 2021.

Principal activity

British Reserve Insurance Company Limited (the "Company") is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Its activities are also covered by the Financial Ombudsman Service. The Company is a member of the Marco Group Holdings Limited ("MCHL") group of companies (the "Group").

The Company ceased underwriting activity in 2015 and since that date has been actively managing the settlement of the remaining insurance contract liabilities. In addition, the Company entered into a Novation Agreement to assume certain legacy asbestos, pollution and health hazard liabilities ("APH") with exposures largely in the United States as described more fully below.

In 2021 the Company entered into a novation agreement over a reinsurance portfolio of general liability business with risks located in the United States. The agreement resulted in the assumption of liabilities of £4.7m in return for consideration of £8.3m.

Business review

The results for the year are set out in the Statement of Comprehensive Income on pages 17 to 18. There was a pre-tax loss for the year of £18k (2020: loss £195k). The result was largely driven by underwriting profits of £3,582k (2020: Profit of £1k) which were offset by expenses of £3,642k (2020: £264k). Administrative expenses have increased due to the focus on growing the business through acquisitions and reinsurance transactions.

The Company ceased to underwrite other specialist insurance in 2009 and musical instrument insurance in 2015. There are a number of ongoing legacy asbestosis, pollution and disease exposures which are 87% reinsured by a highly rated reinsurance counterparty, plus additional APH business reinsured through participation in a Pool which the Company assumed in 2021 through a novation agreement. These liabilities are 26% ceded to external parties.

The Company currently has gross technical liabilities of £8.0m (2020: £2.0m) and net technical liabilities of £4.7m (2020: £0.2m). The liabilities have increased in 2021 due to the novation agreement the Company entered into to assume the liabilities (largely US APH) of an unrelated counterparty.

The Company has continued to operate seamlessly throughout the COVID-19 pandemic. The Company has no known exposure to COVID-19 through the insurance liabilities it has assumed (2020: £Nil) and the Directors are confident that the Company will continue to operate with minimal disruption should there be any future COVID-19 variants.

Key performance indicators

The financial key performance indicators monitored by the Company are profit before tax and net asset value.

The loss before taxation for the year is £18k (2020: £195k). At the year end, the Company had net assets of £6,269k (2020: £6,284k). The Company expects to generate profitable results in 2022 as it grows its portfolio through reinsurance transactions and acquisitions of other insurance entities.

In addition, the Company monitors its solvency capital ratio in accordance with the requirements of Solvency II. The Company has complied with all externally and internally imposed capital requirements throughout the year. At 31 December 2021 the own funds amount to £5.7m (unaudited) with a ratio of eligible own funds to SCR of 197% (2020: own funds amount to £6.2m (unaudited) with a ratio of eligible own funds to SCR of 968% (unaudited)).

Principal risks and uncertainties

The Board of Directors reviews risk appetite annually with regard to both the strategic objectives of the Company and the broader economic climate. The Company has a Risk and Compliance Committee which meets quarterly to provide oversight of the risk framework and to monitor performance against risk appetite using a series of risk and performance indicators.

The principal risks and uncertainties facing the Company are as follows:

Insurance risk

The risk under any one insurance contract is the possibility that an insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

Strategic Report (continued)

For the year ended 31 December 2021

Principal risks and uncertainties (continued)

Insurance risk (continued)

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Reinsurance placement is a core part of the Company's management of insurance risk and the exposures it accepts within the Board's stated risk appetite. Ceded reinsurance is currently in place for a significant portion of the APH and general liabilities that the Company has assumed. Ceded reinsurance will be a key part of the Company's management of new risks it takes on through the growth strategy noted above.

As the Company is no longer underwriting new business, insurance risk is confined to whether actual claims will exceed insurance liabilities. This includes the emergence of new risks and the adverse development of existing claims.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. The Company is exposed to credit risk through its financial assets, reinsurance assets, cash and cash equivalents and other receivables.

The Company manages credit risk for financial assets and cash and cash equivalents by limiting the amount of exposure to individual counterparties. The Company reviews credit ratings of counterparties and other information considered relevant to assess the risks. The Company acts to limit exposures dependent upon credit rating with a broad strategy of maximising returns on assets with an acceptable level of risk.

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long-term exposure from insurance risks reinsurance security is generally limited to highly rated reinsurers that offer the best long-term security. The Company considers the risk associated with the reinsurance assets to be low as these amounts are largely due from highly rated reinsurers.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign currency exchange rates and equity prices will affect the value of the Company's assets and income.

The Company manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner which does not pose undue risk to either its underwriting activities or shareholder's funds.

Interest rate risk is the risk that interest rates will change, adversely affecting the ability of the Company to generate investment income. None of the Company's general insurance contracts include benefits which involve contractual interest payments. The current exposure to interest rate risk is limited because the Company holds all investable assets in cash. The Company intends to invest in gilts/investment grade bonds as the Company grows which will give rise to interest rate risk.

Currency risk is the risk that fluctuations in exchange rates may lead to a material change in the value of currency denominated assets or liabilities.

The Company has a policy of broadly matching its currency liabilities with assets denominated in the same currency in order to minimise currency risk. An assessment of the need to rebalance net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values.

Liquidity risk

Liquidity risk is the risk that cash is not available to settle obligations when they fall due. The Company is exposed to liquidity risk through its insurance contract liabilities. The Company has sufficient liquid assets to meet obligations as they fall due. The market value of the Company's cash and cash equivalents plus other highly liquid financial assets and other receivables at 31 December 2021 amounted to £12,620k (2020: £6,815k). All of the financial assets and cash and cash equivalents are readily realisable. Furthermore, the Company has reinsurance arrangements in place to further reduce its liquidity risk. As a result, the Company's exposure to potential liquidity risk is low.

Strategic Report (continued)

For the year ended 31 December 2021

Principal risks and uncertainties (continued)

Operational risk

This is the risk that errors caused by people, processes, systems or external events lead to losses to the Company. The Company seeks to manage this risk through the Risk & Control Self-Assessment (RCSA) process which includes the maintenance of operational risk registers covering all aspect of operations, facilitated by the risk function. Through the RCSA process, each 'Risk Owner' is responsible for assessing the design and operating effectiveness of their control environment, and, to the extent any gaps or deficiencies exist, assessing the corresponding impacts and level of operational risk. The risk function provides a structured and consistent approach to the RCSAs across the organisation, including the approach/methodology for ratings, and also to provide some independent input and challenge to the risk owners as part of the process. This is supplemented by a structured programme of testing of processes and systems by internal audit.

Conduct risk

Conduct risk is the risk that the Company fails to pay appropriate regard to the interest of its customer and/or fails to treat them fairly at all times. Conduct risk is managed through the application of strong internal controls, conduct and compliance policies and procedures, and through the monitoring of various conduct risk metrics. The Company monitors the effectiveness of the conduct risk framework and reports to the Board on a quarterly basis through the Risk & Compliance Committee which ensures that our framework remains risk sensitive and appropriate for the conduct risk profile of the business as it develops.

Regulatory and compliance risk

Regulatory and compliance risk is considered to be the inability or failure of the Company to comply with UK or overseas regulatory requirements. The Company's operations are subject to regulation by the PRA and the FCA. The PRA's focus is on solvency and risk management, whereas the FCA's focus is on policyholder treatment, financial crime, and sanctions risks. The Company manages this risk through ongoing constructive engagement with the Regulators, investment in an experienced and knowledgeable outsourced Compliance function, and monitoring of market-wide developments and requirements in relation to regulation.

Climate change risk

The Company currently has limited exposure to climate change risk but the Board is keen to maintain awareness of this risk as a significant risk to the industry from an operational and exposure perspective. The Company currently has no known exposure to natural catastrophe covers and no known liability risk through casualty insurance coverage leading to claims activity from clients who may have contributed to climate change or failed to ensure that their companies were sufficiently protected from the effects of climate change. Transition risk involves the risk associated with the transition to a decarbonized society. Such an outcome could lead to impairment of investment assets which the Company is not currently exposed to as it only holds cash. As greater understanding of financial risks from climate change develops, the risk management framework continues to evolve to reflect the distinctive elements of this risk to ensure effective management and oversight, including enhancement of scenario testing in this area.

Future outlook

The Company intends to grow through acquisitions of run-off portfolios of business from other counterparties through loss portfolio transfers, reinsurance arrangements or acquisitions of other companies. The Company will continue to manage the run-off of its existing and future insurance contract liabilities with the same customer-oriented focus and high levels of claims service. The uncertainties surrounding the COVID-19 pandemic are noted above.

Section 172 (1) Companies Act 2006 Statement

The Company's Board of Directors have acted in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholder and in doing so have had regard to the matters set out in section 172 (1) of the Companies Act 2006 (the 'Act'). The following sections explain how the Directors have discharged their obligations under Section 172 when performing their duties.

S172(1) (A) "The likely consequences of any decision in the long term"

The Board appreciates that to achieve sustainable success in a competitive and evolving environment it is imperative for the Company to consider the long-term impact of its decisions. Further the Board recognises that the long-term success of the Company requires it to be prudent in making short-term decisions. As part of this decision-making process, the Board discusses future developments, risks and uncertainties that could impact the Company in the long term, such as insurance risk, credit risk, market risk, liquidity risk, operational risk, conduct risk and regulatory and compliance risk, among others.

S172(1) (B) "The interests of the Company's employees"

The Company currently has no employees and so this consideration does not apply to the Company.

Strategic Report (continued)

For the year ended 31 December 2021

Section 172 (1) Companies Act 2006 Statement (continued)

S172(1) (C) "The need to foster the Company's business relationships with suppliers, customers and others"

Stakeholders, their interests and the manner in which the Company engages with them, are integral to how the Company conducts business. When strategic and operational decisions are considered by the board, the broader impacts on stakeholders are taken into account, and this approach is embedded within the Group governance structure. As the Company's business is now in run-off, the plan is to continue to run-off the Company in line with Solvency II regulations whilst enacting reinsurance transactions and acquiring other businesses within the Board's defined risk appetite. During the year the Board considered its relevant stakeholders in managing the risks within its business from the prior year and in those that were assumed in the current period. Details of the Company's engagement activities in relation to its stakeholders are detailed below.

- **Policyholders/Claimants**

The Company's claims handling services are overseen by the Group's experienced Claims Director. MCHL has agreed Claims Handling Agreements with experienced unrelated counterparties to ensure that claims continue to be serviced by the same client-facing claims staff and no change to service levels are therefore anticipated. The services include ongoing supervision, claims handling skills, maintenance of system records (for both internal and any regulatory purposes) and continuity of service.

- **Other Counterparties**

The Company's strategic initiatives include engaging with other counterparties such as third-party claims administrators, payroll services, financial and tax accounting service providers, actuarial support services, compliance support, and reinsurers. Without these counterparties, the Company's ability to meet its long-term initiatives would likely be limited or more costly than expected. The Company is in frequent communication with these counterparties. The Board receives regular updates and management information detailing how such key relationships are performing.

- **Regulators**

The Company maintains an open and transparent relationship with its key regulators. These relationships involve frequent interaction with the regulators including participation by various Board members, as well as the Company's Compliance function.

On a regular basis, the Board is informed by management of key operating metrics and informational updates. This process helps to ensure that the Board is fully informed of all critical matters so that it is able to give due regard to stakeholders as it makes its decisions.

S172(1) (D) "The impact of the Company's operations on the community and the environment"

The Board and the Company recognise the importance of contributing to the community and developing an environmentally sustainable business model, including considerations of climate change. The Board will be monitoring such developing risks and how it can contribute in a positive way to its community through development of effective social responsibility policies and practices.

S172(1) (E) "The desirability of the Company maintaining a reputation for high standards of business conduct"

The Company is committed to achieving the highest standards of business conduct as well as to adhering to all applicable laws, rules and regulations. The Board oversees the Company's framework for ensuring high standards of business conduct. The Board leads the culture of compliance within the business, ensuring that all those performing services for the Company conduct themselves in an honest and ethical manner. This framework is supported by Board approved policies guiding how we conduct our business and interact in all business relationships.

S172(1) (F) "The need to act fairly as between members of the Company"

The Board acts in good faith to promote the success of the Company for the benefit of its shareholder and recognises that the support of, and engagement with, our shareholder is fundamental to the Company's success.

By order of the board



P A Rooke
Director
6 April 2022

Directors' Report

For the year ended 31 December 2021

The Directors present their annual report and audited financial statements of the Company for the year ended 31 December 2021.

Directors

The Directors of the Company who were in office during the year are shown on page 2.

Directors' indemnity and insurance

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the last financial year Directors' and officers' liability insurance in respect of itself and its Directors.

Results and dividends

The results for the year are set out in the Statement of Comprehensive Income on pages 17 to 18.

The Directors do not recommend payment of a final dividend (2020: prior to acquisition of the Company by MCHL a dividend of £3,200k was paid to the immediate parent pre acquisition, Allianz insurance plc).

Future outlook

The future outlook for the Company is outlined in the Strategic report on page 5.

Principal risks and uncertainties

The principal risks and uncertainties for the Company are outlined in the Strategic report on page 5.

Going concern

The Directors believe that the Company is well placed to manage its business risks successfully and that there is commitment of the ultimate parent to growing the business profitably within the UK. The acquisition by the Group is for the purpose of using the Company as a vehicle to grow the Group's run-off business in the UK through acquisitions of run-off portfolios of business from other counterparties through loss portfolio transfers, reinsurance arrangements or acquisitions of other companies with UK and worldwide exposures. After considering all available information, including an assessment of the Company's financial, solvency and liquidity condition, its risk mitigation strategy which is principally through the use of reinsurance, the principal risks and uncertainties affecting the Company and the ultimate parent's commitment to growing the Company's business, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the approval of these financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' confirmations

In the case of each Director in office at the date the Directors' report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Post balance sheet event

The invasion of Ukraine by Russia on 24 February 2022 has led to significant sanctions against Russia. The Company has no ongoing exposures to, or investments in, Russian-related interests, and the conflict is not expected to have any impact on the Company at this time.

Directors' Report

For the year ended 31 December 2021

Independent auditors

Mazars LLP were reappointed as the Company's external auditors at a meeting of the Board on 22 September 2021.

By order of the board.



P A Rooke

Director

6 April 2022

Directors Responsibilities Statement

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements 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", FRS 103 "Insurance contracts" and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 and FRS 103, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Independent auditor's report to the members of British Reserve Insurance Company Limited

Opinion

We have audited the financial statements of British Reserve Insurance Company Limited (the 'company') for the year ended 31 December 2021 which comprise the statement of comprehensive income, balance sheet, statement of changes in equity, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Our audit procedures to evaluate the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the company's ability to continue as a going concern;
- Obtaining an understanding of the relevant controls relating to the directors' going concern assessment;
- Making enquiries of the directors to understand the period of assessment considered by them evaluating the assumptions they considered and the implication of those when assessing the company's future financial performance;
- Assessing post-balance sheet events; and
- Evaluating the appropriateness of the directors' disclosures in the financial statements on 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 company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Independent auditor's report to the members of British Reserve Insurance Company Limited (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We summarise below the key audit matters in forming our opinion above, together with an overview of the principal audit procedures performed to address each matter and our key observations arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
<p>Valuation of Technical provision - claims outstanding</p> <p>Gross claims outstanding - £8 million; 2020: £2 million – see Note 6 of the financial statements.</p> <p>The valuation of gross claims outstanding is a key area of judgement and management estimation due to the subjective nature of the estimate of unknown events. Longer tail lines of business typically increase uncertainty, particularly in the case of claims relating to asbestos, environmental pollution and health hazard exposures (collectively “APH”) such as those underwritten by the company.</p> <p>In calculating the estimate of gross claims outstanding, the company uses a variety of estimation techniques, generally based upon industry benchmark survival ratios applied to expected pay out patterns and assumes that the development pattern of the current claims will be consistent with experience.</p>	<p>In conjunction with our actuarial specialists, we performed the following audit procedures:</p> <ul style="list-style-type: none"> - Assessed the design and implementation of controls over reserves; obtained an understanding of management's process of estimating insurance contract liabilities; - Assessed and challenged the methodology and assumptions used by the directors to derive their gross and net of reinsurance claims liabilities as of 31 December 2021, and evaluated whether the calculated insurance contract liabilities are reasonable; - Benchmarked management's key assumptions against those used by similar insurance entities; and - Assessed the appropriateness of the accounting policy and disclosures relating to gross claims outstanding, including disclosures on estimation uncertainty. <p>Our observations:</p> <p>Based on the evidence obtained from audit work performed, we found that the methods and assumptions used for the estimate of gross claims outstanding to be reasonable.</p>

Independent auditor's report to the members of British Reserve Insurance Company Limited (continued)

Key audit matters (continued)

Key Audit Matter	How our scope addressed this matter
<p>Completeness and accuracy of reinsurance novation accounting and occurrence of revenue See Note 5 to the financial statements.</p> <p>During 2021 the Company assumed further reinsurance risk through a Novation agreement of US APH and general liability risks on a Pool dating back to the 1960s and 1970s.</p> <p>There is a risk that not all elements of the reinsurance novation transaction are recorded completely and/or accurately. The "Valuation of Technical provision - claims outstanding" key audit matter includes valuation of technical provisions relating to this Novation agreement of £6 million (2020: £0).</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> - Received and inspected the novation contract to understand the terms of transaction; - Agreed the indemnity premium to the novation contract and traced receipt of the premium to bank statement; - Engaged our actuarial specialists to assess and challenge the methodology and assumptions used by the directors to derive their gross and net of reinsurance claims liabilities of this pool as at 31 December 2021, and evaluated whether the calculated insurance contract liabilities are reasonable. Refer to 'Valuation of Technical provision - claims outstanding' as above; - On a sample basis, agreed the company's share of case reserves in the pool as of 31 December 2021 to the supporting evidence; and - Assessed the appropriateness of recording the transaction on day one including recording of the gain or loss on the Novation contract. <p>Our observations: Based on the evidence obtained from the audit work performed, we concluded that the reinsurance Novation agreement is appropriately recognised for the year ended 31 December 2021.</p>

Our application of materiality and an overview of the scope of our audit

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Independent auditor's report to the members of British Reserve Insurance Company Limited (continued)

Our application of materiality and an overview of the scope of our audit (continued)

Overall materiality	£188,500
How we determined it	3% of Net Assets
Rationale for benchmark applied	In determining our materiality, we considered financial metrics which we believed to be relevant to the users of the financial statements. Given the company's primary focus is the effective run-off of claims and to maintain regulatory solvency capital, we therefore considered the company's net assets to be the most relevant benchmark for materiality. Net assets as benchmark also provides a more stable measure year on year than profit before tax.
Performance materiality	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. We set performance materiality at £151,000, which represents 80% of overall materiality.
Reporting threshold	We agreed with the directors that we would report to them misstatements identified during our audit above £5,600 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements, such as assumptions on significant accounting estimates.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole. We used the outputs of our risk assessment, our understanding of the company, its environment, controls, and critical business processes, to consider qualitative factors to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

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

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

We have nothing to report in this regard.

Independent auditor's report to the members of British Reserve Insurance Company Limited (continued)

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- the company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Independent auditor's report to the members of British Reserve Insurance Company Limited (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

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.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: regulatory requirements of the PRA and the FCA.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Gaining an understanding of the legal and regulatory framework applicable to the company and the industry in which it operates, and considering the risk of acts by the company which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors, management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

We also considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Companies Act 2006 and UK tax legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance and management bias through judgements and assumptions in significant accounting estimates in particular those involving the valuation of technical provisions and significant, one-off or unusual transactions.

Our procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

The primary responsibility for the prevention and detection of irregularities, including fraud, rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of this report.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of British Reserve Insurance Company Limited (continued)

Other matters which we are required to address


Following the recommendation of the audit committee, we were appointed by the Directors on 31 December 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2020 and 31 December 2021.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the company and we remain independent of the company in conducting our audit.

Our audit opinion is consistent with our additional report to the audit committee.

Use of the audit report

This report is made solely to the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body for our audit work, for this report, or for the opinions we have formed.


Andrew Heffron (Apr 6, 2022 18:29 GMT+1)

Andrew Heffron (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St. Katharine's Way
London
E1W 1DD

6 April 2022

Statement of Comprehensive Income

Technical account

For the year ended 31 December 2021

		2021	2020
	Note	£'000	£'000
Earned premiums, net of reinsurance			
Gross premiums written and earned	5	8,272	-
Total technical income		<u>8,272</u>	<u>-</u>
Claims incurred, net of reinsurance			
Gross insurance claims paid		(429)	(107)
Reinsurers' share of gross insurance claims paid		141	104
Gross change in insurance liabilities		(5,853)	787
Reinsurers' share of gross change in insurance liabilities		<u>1,451</u>	<u>(783)</u>
Claims incurred, net of reinsurance	6	<u>(4,690)</u>	<u>1</u>
Net operating expenses	9	(3,642)	(264)
Balance on the technical account for general business		<u>(60)</u>	<u>(263)</u>

All amounts relate to continuing operations.

The accounting policies and notes on pages 21 to 37 are an integral part of these financial statements.

Statement of Comprehensive Income

Non-technical account

For the year ended 31 December 2021

		2021	2020
	Note	£'000	£'000
Balance on the general business technical account		(60)	(263)
Investment income	11	2	87
Foreign exchange gains/(losses)	12	40	(19)
Loss before taxation		(18)	(195)
Tax on loss	13	3	29
Loss for the financial year		(15)	(166)

There was no other comprehensive income or expenses for 2021 (2020: £Nil).

All amounts relate to continuing operations.

The accounting policies and notes on pages 21 to 37 are an integral part of these financial statements.

Registered number 00307622

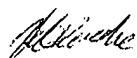
Balance Sheet

As at 31 December 2021

	Note	2021 £'000	2020 £'000
Reinsurers' share of technical provisions			
Claims outstanding	6	3,295	1,812
		<u>3,295</u>	<u>1,812</u>
Debtors			
Reinsurance receivables		32	27
Other receivables		344	50
		<u>376</u>	<u>77</u>
Other assets			
Cash at bank and in hand		12,277	6,765
Total assets		<u>15,948</u>	<u>8,654</u>
Capital and reserves			
Called up share capital	15	5,000	5,000
Retained earnings		1,269	1,284
Total equity		<u>6,269</u>	<u>6,284</u>
Liabilities			
Technical provisions			
Claims outstanding	6	7,987	2,036
		<u>7,987</u>	<u>2,036</u>
Creditors			
Creditors arising out of reinsurance operations		254	9
Other creditors including taxation and social security	17	875	184
Deferred taxation	16	-	39
Accruals and deferred income		<u>563</u>	<u>102</u>
Total liabilities		<u>9,679</u>	<u>2,370</u>
Total equity and liabilities		<u>15,948</u>	<u>8,654</u>

The accounting policies and notes on pages 21 to 37 are an integral part of these financial statements.

The financial statements and accompanying notes on pages 17 to 37 were approved by the Board of Directors and signed on its behalf by:



P A Rooke

Director

6 April 2022

Statement of Changes in Equity

For the year ended 31 December 2021

	Note	Share capital £'000	Retained earnings £'000	Total £'000
At 1 January 2020		5,000	4,650	9,650
Comprehensive loss for the year				
Loss for the financial year		—	(166)	(166)
Total comprehensive loss for the year		—	(166)	(166)
Dividends declared and paid	14	—	(3,200)	(3,200)
At 31 December 2020 and 1 January 2021		5,000	1,284	6,284
Comprehensive loss for the year				
Loss for the financial year		—	(15)	(15)
Total comprehensive loss for the year		—	(15)	(15)
At 31 December 2021		5,000	1,269	6,269

The accounting policies and notes on pages 21 to 37 are an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2021

1. General information

British Reserve Insurance Company Limited is authorised by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. Its activities are also covered by the Financial Ombudsman Service.

The Company ceased underwriting activity in 2015 and since that date has been actively managing the settlement of the remaining insurance contract liabilities. Additional reinsurance has been assumed in 2021 through the novation and assumption of risk from an unrelated counterparty as part of its membership of a Pool.

The Company is a private limited company incorporated and domiciled in England and Wales.

2. Statement of compliance

The individual financial statements of British Reserve Insurance Company Limited 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"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") and the Companies Act 2006. The financial statements have been prepared in accordance with schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies of 2008.

3. Accounting policies

3.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis under the historical cost convention unless otherwise specified within these policies and in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland, FRS 103, "Insurance Contracts" and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires the Company's management to exercise judgement in applying the Company's accounting policies (see note 4).

The following principal accounting policies have been consistently applied:

3.2 Going concern

The Directors believe that the Company is well placed to manage its business risks successfully and that there is commitment of the ultimate parent to growing the business profitably within the UK. The acquisition by the Group is for the purpose of using the Company as a vehicle to grow the Group's run-off business in the UK through acquisitions of run-off portfolios of business from other counterparties through loss portfolio transfers, reinsurance arrangements or acquisitions of other companies with UK and worldwide exposures. After considering all available information, including an assessment of the Company's financial, solvency and liquidity condition, its risk mitigation strategy which is principally through the use of reinsurance, the principal risks and uncertainties affecting the Company and the ultimate parent's commitment to growing the Company's business, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for a period of 12 months from the approval of these financial statements. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

3.3 Exemptions under FRS 102

The Company has taken advantage of the following exemptions:

- from disclosing related party transactions under paragraph 33.1A from the provisions of FRS 102; and
- from preparing a statement of cash flows, under FRS 102 paragraph 1.12(b), on the basis that it is a qualifying entity, and its parent company Macro Capital Holdings Limited includes the Company's cash flows in its own consolidated financial statements.

Notes to the financial statements

For the year ended 31 December 2021

3. Accounting policies (continued)

3.4 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

FRS 102 requires each entity to identify its functional currency and a presentational currency. The functional currency is identified as the currency of the primary economic environment in which the entity operates. The functional currency of the Company is GBP as the majority of the run-off business, cash flows and expenses are denominated in GBP.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions.

As required by FRS103, the Company treats non-monetary assets and liabilities arising from insurance contracts (which include items such as unearned premiums and deferred acquisition costs) the same as monetary assets and liabilities. Consequently, all assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the Balance Sheet date.

Exchange differences are recorded in the non-technical account.

3.5 Insurance contracts

i. Premiums written and earned

Written premium comprises the premiums on contracts entered into during the accounting period irrespective of whether they relate in whole or in part to a later accounting period. Written premiums are disclosed gross of commission or expenses payable and exclude taxes and duties levied on premiums. Premium written is recognised on inward reinsurance at the fair value of the amount received in exchange for the liabilities assumed on the first effective day of the agreement.

Reinsurance premiums accepted are recognised as earned premiums over the period of the policy having regard to the incidence of risk.

ii. Classification of insurance contracts

The Company has exposure on contracts that are classified as insurance contracts as they transfer insurance risk. Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

iii. Claims incurred

Claims incurred comprise all claims losses occurring during the year, whether reported or not, including related handling costs and reduction for the value of salvage and other recoveries together with any other adjustments to claims from previous years.

Claims handling costs include internal and external costs incurred in connection with the negotiation and settlement of claims. Internal costs include all direct expenses of the claims department and any part of the general administrative costs directly attributable to the claims function.

iv. Claims outstanding

Claims provision is made at the year end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of claims incurred but not yet reported to the Company. The estimated cost of claims includes expenses to be incurred in settling claims. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

Notes to the financial statements

For the year ended 31 December 2021

3.5 Insurance contracts (continued)

iv. Claims outstanding (continued)

The estimation of claims incurred but not reported ("IBNR") is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

In calculating the estimated cost of unpaid claims, the Company uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current 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 increase or reduce when compared with the cost of previously settled claims including:

- a. changes in Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- b. changes in the legal environment;
- c. the effects of inflation;
- d. changes in the mix of business;
- e. the impact of large losses; and
- f. movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these, the Company has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Where possible, the Company adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries.

v. Reinsurance recoveries and insurance receivables

Contracts entered into by the Company with reinsurers, under which the Company is compensated for losses on one or more contracts and that meet the classification requirements for insurance contracts are classified as reinsurance contracts.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. Reinsurance recoveries in respect of estimated claims incurred but not reported are assumed to be consistent with the historical pattern of such recoveries, adjusted to reflect changes in the nature and extent of the Company's reinsurance programme over time. The reinsurers' share of claims incurred in the Statement of Comprehensive Income, reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period.

Notes to the financial statements

For the year ended 31 December 2021

3. Accounting policies (continued)

3.6 Cash at bank and in hand

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

3.7 Financial instruments

The Company has chosen to adopt Section 11 and 12 of FRS 102 in respect of financial instruments.

i. Financial assets

Basic financial assets, including other debtors (largely loss funds) 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 a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method. At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income. If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Comprehensive Income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii. Financial liabilities

Basic financial liabilities, including other creditors are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

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

iii. Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements

For the year ended 31 December 2021

3. Accounting policies (continued)

3.8 Investment return

Interest income is recognised in the Statement of Comprehensive Income using the effective interest rate method.

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. In the case of investments included at amortised cost, realised gains and losses are calculated as the difference between sale proceeds and their latest carrying value. Movements in unrealised gains and losses on investments represent the difference between the fair value at the Balance Sheet date and their purchase price or their fair value at the last Balance Sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

3.9 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Statement of Comprehensive Income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date in the countries where the Company operates and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the Company can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date.

3.10 Dividends

Dividends are recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. These amounts are recognised in the statement of changes in equity.

3.11 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from proceeds.

Notes to the financial statements

For the year ended 31 December 2021

4. Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual report and accounts, are described within the significant accounting policies above.

The following are the Company's key sources of estimation uncertainty:

Claims outstanding

Estimating claims reserves and claims expenses requires assumptions regarding reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in legal environments, inflation, loss amplification and other factors. These estimates and judgments are based on numerous considerations and are often revised as a result of (also see note 3.5 iv):

- changes in loss amounts reported by reinsurance companies;
- additional information, experience or other data;
- development of new or improved methodologies; or
- changes in the law.

The claims reserves relating to short-tail property risks are typically reported and settled more promptly than those relating to long-tail risks, including those exposed to asbestos, pollution and health hazards. However, the timeliness of loss reporting can be affected by factors such as the nature of the event causing the loss, the location of the loss, whether the loss is from policies written as direct business or reinsurance. In the case of reinsurance business, the reserving process is highly dependent on the loss information received from insurance companies.

Details of the methodology and key assumptions are provided in note 7. Additionally, further reference is made within the risk management section in relation to insurance risk in note 8.

See note 6 for the carrying amount of claims outstanding.

5. Segmental Reporting

2021						
	Gross premium written	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurance Acceptance	8,272	8,272	(6,282)	(3,642)	1,592	(60)
2020						
	Gross premium written	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Reinsurance Acceptance	-	-	(680)	(264)	(679)	(263)

Notes to the financial statements

For the year ended 31 December 2021

5. Segmental reporting (continued)

In 2021, the Company assumed various US APH and General Liability risks through a Novation Agreement for a reinsurance arrangement for the share of a Pool of various groups of underlying risks at a premium of £8,272k. This amount was fully earned in 2021 having regard to the incidence of risk of the underlying policies. The gross premium written and earned are solely based in the United States of America.

6. Claims outstanding

The provision for claims reported by policyholders and claims incurred but not yet reported ("IBNR") are analysed as follows:

	2021			2020		
	Gross claims outstanding	Reinsurers' share of liabilities	Net	Gross claims outstanding	Reinsurers' share of liabilities	Net
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	2,036	(1,812)	224	2,860	(2,632)	228
Claims incurred during the year	6,282	(1,592)	4,690	(680)	679	(1)
Claims paid during the year	(429)	141	(288)	(107)	104	(3)
Foreign exchange adjustment	98	(32)	66	(37)	37	-
At 31 December	7,987	(3,295)	4,692	2,036	(1,812)	224

7. Claims outstanding and reinsurance assets – terms, assumptions and sensitivities

The Company has liabilities remaining in its London Underwriting account, a book of traditional London Market risks, dominated by APH claims, and a Fire and Accident account, a book of traditional UK Personal and Commercial Risks. In addition, the Company has assumed various US APH and General Liability risks in 2021 through a Novation Agreement for a reinsurance arrangement for the share of a Pool of various groups of underlying risks.

The Company adopts a consistent process in the calculation of an adequate provision for these contracts. The overriding aim is to establish reserves which are expected to be adequate and that there is consistency from year to year. However, there is a risk that, due to unforeseen circumstances, the reserves may be insufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

The claims provision at the reporting date comprises the estimated ultimate cost of settlement of all claims incurred in respect of events up to that date, whether reported or not, together with related claims handling expenses, less amounts already paid. This is estimated based on known facts at the Balance Sheet date. The provision is revised quarterly as part of a regular ongoing process as claims experience develops, certain claims are settled, and further claims are reported.

The provision for claims reported by policyholders is generally determined on a case by case basis. Case estimates are generally set by skilled claims technicians, applying their experience and knowledge to the circumstances of individual claims, except for certain business where there is sufficient data available to enable the provision to be calculated by the application of statistical techniques.

The estimation of claims incurred but not reported is generally subject to a greater degree of uncertainty than the estimates of claims already notified, where more information is available. Reserving for IBNR has been based upon updated industry benchmark survival ratios on asbestosis and other long tail exposures and expected pay-out patterns.

Notes to the financial statements

For the year ended 31 December 2021

7. Claims outstanding and reinsurance assets – terms, assumptions and sensitivities (continued)

Loss development triangle

The following tables show the development of claims over a period of time on both gross and net of reinsurance bases.

The tables show that cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at each Balance Sheet date, together with cumulative claims as at the current Balance Sheet date. In the loss development triangles, the cumulative estimates and payments for each accident year are translated into Pounds Sterling at the exchange rates that applied at the Balance Sheet date. The movement in the current accident year (gross and net) relates to the novation agreement signed with an unrelated counterparty for a reinsurance portfolio of general liability business with risks located in the United States.

2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Gross of reinsurance											
Accident year	3,205	3,454	1,739	927	2	-	-	-	-	6,321	15,648
One year later	1,645	2,034	1,666	769	2	-	-	-	-	-	6,116
Two years later	1,645	2,003	1,704	758	2	-	-	-	-	-	6,112
Three years later	1,637	2,009	1,729	757	2	-	-	-	-	-	6,134
Four years later	1,635	2,013	1,729	757	2	-	-	-	-	-	6,136
Five years later	1,635	2,015	1,729	757	2	-	-	-	-	-	6,138
Six years later	1,637	2,015	1,729	757	-	-	-	-	-	-	6,138
Seven years later	1,637	2,015	1,729	-	-	-	-	-	-	-	5,381
Eight years later	1,637	2,015	-	-	-	-	-	-	-	-	3,652
Nine years later	1,637	-	-	-	-	-	-	-	-	-	1,637
Current estimate of cumulative claims	1,637	2,015	1,729	757	2	-	-	-	-	6,321	12,461
Cumulative payments to date	1,637	2,015	1,729	757	2	-	-	-	-	307	6,447
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	1,885
Impacts of Foreign Exchange Movements	-	-	-	-	-	-	-	-	-	88	88
Total gross liability as per the balance sheet (see note 6)	-	-	-	-	-	-	-	-	-	6,102	7,987

Notes to the financial statement

For the year ended 31 December 2021

7. Claims outstanding and reinsurance assets – terms, assumptions and sensitivities (continued)

Loss development triangle (continued)

	2021										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Net of reinsurance	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Accident year	3,205	3,454	1,739	927	2	-	-	-	-	4,729	14,056
One year later	1,645	2,034	1,666	769	2	-	-	-	-	-	6,116
Two years later	1,645	2,003	1,704	758	2	-	-	-	-	-	6,112
Three years later	1,637	2,009	1,729	757	2	-	-	-	-	-	6,134
Four years later	1,635	2,013	1,729	757	2	-	-	-	-	-	6,136
Five years later	1,635	2,015	1,729	757	2	-	-	-	-	-	6,138
Six years later	1,637	2,015	1,729	757	-	-	-	-	-	-	6,138
Seven years later	1,637	2,015	1,729	-	-	-	-	-	-	-	5,381
Eight years later	1,637	2,015	-	-	-	-	-	-	-	-	3,652
Nine Years later	1,637	-	-	-	-	-	-	-	-	-	1,637
Current estimate of cumulative claims	1,637	2,015	1,729	757	2	-	-	-	-	4,729	10,869
Cumulative payments to date	1,637	2,015	1,729	757	2	-	-	-	-	285	6,425
Reserve in respect of prior years	-	-	-	-	-	-	-	-	-	-	182
Impacts of Foreign Exchange Movements	-	-	-	-	-	-	-	-	-	66	66
Total net liability as per the balance sheet (see note 6)	-	-	-	-	-	-	-	-	-	4,510	4,692

Whilst the information in the tables provides a historical perspective on the adequacy of the unpaid claims estimates established on previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The Company believes that the estimate of total claims outstanding at the end of 2021 is adequate. However, due to the inherent uncertainties in the provisioning process, it cannot be assured that such balances will ultimately prove to be sufficient.

Notes to the financial statements

For the year ended 31 December 2021

8. Risk management policies

The Company underwrote musical instrument insurance before closing to new business in 2015. Prior to 2010, the Company had also underwritten other specialist insurance in the United Kingdom where the majority of risk exposure is confined. The Company had previously underwritten London Market business but terminated this activity in the 1980's. There are a number of ongoing Asbestosis, Pollution and Disease exposures but the run off of this business is wholly reinsured to a highly rated counterparty. The Company also underwrote a Fire and Accident account, but this business was put into run off in the late 1980's. During 2021 the Company assumed further reinsurance risk through a Novation agreement of US APH risks on a Pool dating back to the 1960s and 1970s.

Insurance risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random, and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

The Company is also exposed to concentration risk on type of exposure, namely APH claims. In 2021, £7.0 m gross reserves (2020: £1.8m) arises from APH-related exposures and £4.5m (2020: £0.2m) on a net basis.

Reinsurance placement is a core part of the Company's management of insurance risk and the exposures it accepts within the Board's stated risk appetite. Ceded reinsurance is currently in place for all but £2.5m (2020: £0.2m) of the APH liabilities.

As the Company is no longer underwriting new business, insurance risk is confined to whether actual claims will exceed insurance liabilities. This includes the emergence of new risks and the adverse development of existing claims. As the remaining exposures are substantially reinsured, the risk to the Company is reduced as any net impact would be minimal.

The concentration of insurance risk before and after reinsurance by territory is summarised below, with reference to the carrying amount of outstanding claims (gross and net of reinsurance) arising from insurance contracts:

		2021	2020
Territory		£'000	£'000
United Kingdom	Gross	943	1,063
	Net	182	224
United States	Gross	7,044	973
	Net	4,510	-
Total	Gross	7,987	2,036
Total	Net	4,692	224

Financial risk

The key financial risk is that the proceeds from the realisation of assets are insufficient to meet the obligations under its insurance contracts. The most important aspects of financial risks comprise market risk, credit risk and liquidity risk.

Market Risk

Market risk is the risk that changes in market prices, such as interest rates, foreign currency exchange rates and equity prices will affect the value of the Company's assets and income.

The Company manages market risk in a conservative manner. Whilst it seeks to maximise returns it does so in accordance with its risk appetite and in a manner, which does not pose undue risk to either its underwriting activities or shareholder's funds.

Notes to the financial statements

For the year ended 31 December 2021

8. Risk management policies (continued)

Market Risk (continued)

i) Interest rate risk

Interest rate risk is the risk that interest rates will change, adversely affecting the ability of the Company to generate investment income. None of the Company's general insurance contracts include benefits which involve contractual interest payments.

The current exposure to interest rate risk is limited because the Company holds all investable assets in cash. The Company intends to invest in gilts/investment grade bonds as the Company grows which will give rise to interest rate risk. In an effort to mitigate this risk the Company maintains a high quality investment portfolio with a relatively short duration to reduce the effect of interest rate changes on book value.

ii) Equity risk

The Company does not invest in equity markets.

iii) Currency risk

Currency risk is the risk that fluctuations in exchange rates may lead to a material change in the value of currency denominated assets or liabilities. The Company is exposed to currency risk on the legacy US APH exposures.

The Company has a policy of broadly matching its currency liabilities with assets denominated in the same currency in order to minimise currency risk. An assessment of the need to rebalance net currency exposure is undertaken at the end of every quarter to reflect changes in either asset or liability values. At 31 December, the largest currency exposures were:

	2021	2020
	£'000	£'000
US Dollars		
Assets	11,582	1,355
Liabilities	(7,844)	(975)

iv) Sensitivity to market risk

The table below shows the sensitivity of the Company's profit or loss (before tax) and equity to changes in market risk factors.

	2021		2020	
	Profit/(loss)	Equity	Profit/(loss)	Equity
	£'000	£'000	£'000	£'000
Currency risk				
10% increase in US Dollar	(374)	(374)	38	31
10% decrease in US Dollar	374	374	(38)	(31)

Notes to the financial statements

For the year ended 31 December 2021

8. Risk management policies (continued)

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts due to the Company in full when they fall due. The Company is exposed to credit risk through its financial assets, reinsurance assets, cash and cash equivalents and other receivables.

The Company manages credit risk for financial assets and cash and cash equivalents by limiting the amount of exposure to individual counterparties. The Company reviews credit ratings of counterparties and other information considered relevant to assess the risks. The Company acts to limit exposures dependent upon credit rating with a broad strategy of maximising returns on assets with an acceptable level of risk.

Reinsurance is used to manage insurance risk. Reinsurance does not discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim for any reason the Company remains liable for the payment to the policyholder. In view of the potential long-term exposure from insurance risks reinsurance security is limited to highly rated reinsurers that offer the best long-term security. The Company considers the risk associated with the reinsurance assets to be low as these amounts are largely due from highly rated reinsurers.

The following table provides information regarding the credit risk exposure of the Company at 31 December by classifying assets according to the credit ratings of counterparties.

	AA	A	BA	BBB	B	Other/ Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2021							
Reinsurance assets	2,994	114	30	43	7	107	3,295
Insurance receivables	34	-	-	-	-	-	34
Other receivables	-	-	-	-	-	342	342
Cash and cash equivalents	-	12,277	-	-	-	-	12,277
Total £'000	3,028	12,391	30	43	7	449	15,948
Percent	19.0	77.7	0.19	0.27	0.04	2.8	100.0
	AA	A	BA	BBB	B	Other/ Unrated	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2020							
Reinsurance assets	1,812	-	-	-	-	-	1,812
Insurance receivables	27	-	-	-	-	-	27
Other receivables	50	-	-	-	-	-	50
Cash and cash equivalents	-	6,765	-	-	-	-	6,765
Total £'000	1,889	6,765	-	-	-	-	8,654
Percent	21.8	78.2	-	-	-	-	100.0

Notes to the financial statements

For the year ended 31 December 2021

8. Risk management policies (continued)

The following table provides information on the carrying value of reinsurance assets and insurance receivables. The Company has no financial assets or cash and cash equivalents that are impaired.

	2021		2020	
	Reinsurance assets	Reinsurance receivables	Reinsurance assets	Reinsurance receivables
	£'000	£'000	£'000	£'000
Neither past due or impaired	3,295	32	1,812	27
Total	3,295	32	1,812	27

Liquidity risk

Liquidity risk is the risk that cash is not available to settle obligations when they fall due. The Company is exposed to liquidity risk through its insurance contract liabilities. The Company has sufficient liquid assets to meet obligations as they fall due. The market value of the Company's cash and cash equivalents at 31 December 2021 amounted to £12.3m (2020: £6.8m) plus other highly liquid financial assets and other receivables available of £0.32m (2020: £Nil). All of the financial assets and cash and cash equivalents are readily realisable. Furthermore, the Company has reinsurance arrangements in place to further reduce its liquidity risk. As a result, the Company's exposure to potential liquidity risk is low.

The table below analyses the maturity of the Company's liabilities. The amounts disclosed in the table represent undiscounted cash flows.

Financial liabilities	No contractual maturity date	<6 months or on demand	Between 6 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	>5 years	Total	Carrying value
2021	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Insurance liabilities	-	-	885	745	1,804	4,553	7,987	7,987
Creditors	345	839	36	472	-	-	1,692	1,692
Total	345	839	921	1,217	1,804	4,553	9,679	9,679

Financial liabilities	No contractual maturity date	<6 months or on demand	Between 6 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	>5 years	Total	Carrying value
2020	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Insurance liabilities	-	-	142	121	310	1,463	2,036	2,036
Creditors	293	-	-	-	-	-	293	293
Total	293	-	142	121	310	1,463	2,329	2,329

Notes to the financial statements

For the year ended 31 December 2021

8. Risk management policies (continued)

Capital Management

The Company maintains sufficient capital to protect policyholders' and creditors' interests and satisfy regulators whilst creating shareholder value.

The Company is regulated in respect of prudential requirements (including capitalisation) by the PRA. The Company aims to hold capital sufficient to satisfy regulatory and shareholder requirements even after the occurrence of one of a series of pre-specified financial market and insurance shocks. This risk appetite provides for a buffer above Solvency Capital Requirement ("SCR") to ensure that the Company is adequately capitalised.

The Company has complied with all externally and internally imposed capital requirements throughout the year. The table below shows the breakdown of the Own Funds and SCR and MCR coverage (unaudited):

	2021	2020	Movement
	£'000	£'000	£'000
Eligible own funds to meet SCR	5,731	6,163	(432)
Eligible own funds to meet MCR	5,731	6,163	(432)
Solvency Capital Requirement (SCR)	2,900	637	2,263
Minimum Capital Requirement (MCR)	3,127	3,257	(130)
Ratio of own funds to SCR	198%	968%	
Ratio of own funds to MCR	183%	189%	

There have been no material changes in the Company's capital management process during the year.

9. Net operating expenses

a Net operating expenses

	2021	2020
	£'000	£'000
Staff costs (note 10)	1,407	-
Transactions costs	1,068	139
Professional services	1,100	66
Other expenses	67	59
	<u>3,642</u>	<u>264</u>

£1,407k (2020: £Nil) staff costs (note 10), £1,052k (2020: £Nil) transaction costs, £1,085k (2020: £Nil) professional services and £29k (2020: £Nil) other expenses have been recharged to the Company from another group member Marco Group Services Limited ("MGSL").

Transaction costs are expenses incurred in the pursuit of new business deals.

b Auditor's remuneration

The total remuneration payable by the Company excluding VAT, to its auditors in respect of the audit of these financial statements, is shown below.

	2021	2020
	£'000	£'000
Fees payable for the audit of the Company's financial statements	<u>30</u>	<u>19</u>

Notes to the financial statements

For the year ended 31 December 2021

10. Employees and directors

The Company has no employees (2020: None). All staff are employed by other group companies and the total recharge of wages and salaries including social security costs for services to the Company amounted to £1,407k (2020: £Nil). Staff costs are allocated on the basis of activities undertaken by employees of Marco Group Services Limited ("MGSL"), a related undertaking, for the benefit of the Company. In 2020 no activities were performed by MGSL or other related undertakings for the benefit of the Company as the Company was acquired towards the end of the year.

The Directors did not receive any emoluments in respect of their services to the Company (2020: £Nil).

11. Investment income

	2021	2020
	£'000	£'000
Interest income from cash and other financial investments	2	87

12. Other non-technical expenses

Net foreign exchange gains of £40k (2020: loss of £19k) are included in the non-technical account.

13. Tax on loss

	2021	2020
	£'000	£'000
Current tax		
Current tax on losses for the year	36	2
Total current tax	36	2
Deferred tax		
Effect of changes in tax rates	-	8
Origination and reversal of timing differences	(39)	(39)
Total deferred tax	(39)	(31)
Total tax credit for the year	(3)	(29)

Factors affecting tax credit for the year

The tax assessed for the year is same as (2020: lower than) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021	2020
	£'000	£'000
Non-technical account		
Loss before taxation	(18)	(195)
Loss before taxation multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(3)	(37)
Effects of:		
Tax rate changes	-	8
Total tax credit for the year	(3)	(29)

Notes to the financial statements

For the year ended 31 December 2021

13. Tax on loss (continued)

Factors that may affect future tax charges

Changes to UK corporation tax rates were substantively enacted by the Finance Bill 2021 (on 24 May 2021). These included an increase in the corporation tax rate from 19% to 25% from 1 April 2023. Deferred tax balances have been remeasured accordingly where appropriate

14. Dividends

	2021	2020
	£'000	£'000
Interim dividend declared and paid	-	3,200

15. Called up share capital

	2021	2020
	£'000	£'000
5,000,000 Ordinary shares of £1 each fully paid	5,000	5,000

16. Deferred taxation

	2021	2020
	£'000	£'000
At beginning of the year	39	70
Credited to Statement of Comprehensive Income non-technical account (note 13)	(39)	(31)
At end of the year	-	39

The deferred taxation balance is made-up as follows:

	2021	2020
	£'000	£'000
Claims equalisation reserve	-	39

17. Other creditors including tax and social security

	2021	2020
	£'000	£'000
Corporation tax	36	2
Amounts owed to group undertakings	839	125
Other creditors	-	57
	875	184

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements

For the year ended 31 December 2021

18. Ultimate controlling party

The immediate and ultimate parent undertaking is Marco Capital Holdings Limited, a company registered in Malta.

The smallest and largest group of undertakings which has produced consolidated financial statements, and of which the Company is a member, is Marco Capital Holdings Limited, a company incorporated in Malta. Group financial statements for this company are available from the Company's registered office 171 Old Bakery Street, Valletta VLT1455.

The ultimate controlling party is Oaktree Capital Group, LLC.

19. Post balance sheet event

The invasion of Ukraine by Russia on 24 February 2022 has led to significant sanctions against Russia. The Company has no ongoing exposures to, or investments in, Russian-related interests, and the conflict is not expected to have any impact on the Company at this time.