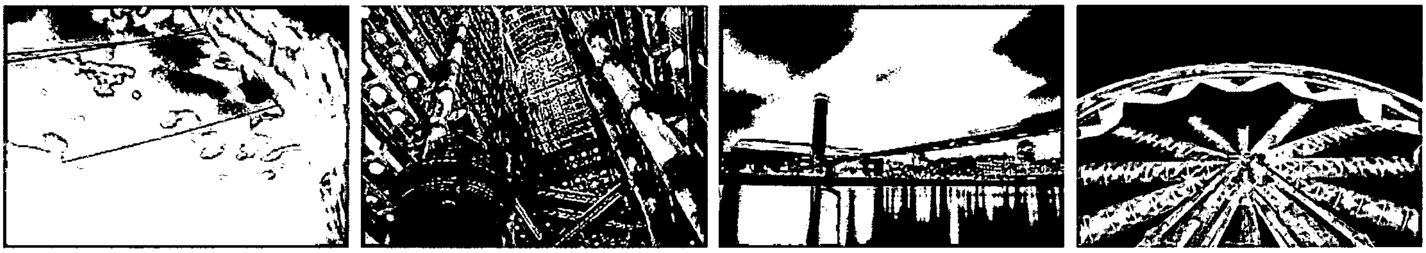
Registered Number: 03200519

AEGIS London

AEGIS ELECTRIC & GAS INTERNATIONAL SERVICES LIMITED



Annual Report and Financial Statements

Year Ended 31 December 2021

COMMERCIAL ADVANTAGE. MUTUAL BENEFIT

Contents

Report of the directors

The directors of AEGIS Electric & Gas International Services Limited ("the Company") present their annual report and audited financial statements for the year ended 31 December 2021.

The Company is, through intermediate holding companies, a wholly owned subsidiary of Associated Electric & Gas Insurance Services Limited ("AEGIS"), incorporated in Bermuda. AEGIS London Holdings Limited ("ALHL") is the Company's immediate parent, ALHL and all its subsidiaries, comprise the AEGIS London Group ("the Group").

1. Directors' report

Directors

T G S Busher	*(Non-Executive Chairman)*
D P Croom-Johnson	*(Chief Executive Officer)*
C D Forbes	*(Non-Executive Director)*
W W von Schack	*(Non-Executive Director)*

The directors of the Company who have served through the period and up to the date of signing are shown above. In January 2022, David Croom-Johnson announced that he will retire on 30 June 2022. David will be succeeded by Alex Powell, current Chief Underwriting Officer ("CUO") for the Group. The Group's CUO position will in turn be succeeded by Matthew Yeldham, current Deputy CUO and Head of Casualty, subject to regulatory approval.

Results and proposed dividend

The Company made a profit after tax of £18.9 million (2020: profit after tax of £27.4 million) and had net assets of £139.1 million (2020: £117.1 million).There is no dividend paid or proposed for the year ended 31 December 2021 (2020: nil).

Going concern

AEGIS Electric and Gas International Services Limited is an active corporate member of Lloyd's and will continue to be for the foreseeable future. The Company will continue to provide Funds at Lloyd's ("FAL") in support of Syndicate 1225 (the "Syndicate"), which is managed by the Company's affiliate, AEGIS Managing Agency Ltd (the "Managing Agent"). The Company's ultimate parent has provided Funds at Lloyd's ("FAL") of $200m (2020: $200m) to support the 2022 year of account underwriting by means of a Letter of Credit in favour of the Corporation of Lloyd's.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The board has considered the impact of COVID-19 and of Russia's invasion of Ukraine in their going concern assessment. Accordingly, they continue to adopt the going concern basis for preparing the annual report and financial statements. The directors are satisfied that the on-going financial performance of the Syndicate is sufficient to enable the Company to operate as a corporate member for the foreseeable future.

Future developments

Details regarding future developments of the Company have been set out in the Strategic Report.

Use of financial instruments

In relation to the use of financial instruments, objectives and policies as well as exposure to risks are discussed in note 3 to these financial statements and in the Strategic Report of the Directors on page 3.

Directors' indemnities

The Company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. The indemnities were in force throughout 2021 and remain so.

Disclosure of information to auditor

Each director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Report of the directors *continued*

Independent auditors

The auditor for the year ended 31 December 2021 was Deloitte LLP. They have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be re-appointed.

2. Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. The directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 ("FRS 102") - and Financial Reporting Standard 103 Insurance Contracts ("FRS 103"), - the financial reporting standard applicable in the UK and Republic of Ireland.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 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. They 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.

Approved by the Board of Directors of AEGIS Electric & Gas International Services Limited on 8th June 2022 and signed on its behalf by:

D P Croom-Johnson
Chief Executive Officer
8th June 2022

Strategic report

Principal activities and review of the business

The principal activity of the Company is to act as a corporate member of Lloyd's. The Company provides 97.39% capacity for Syndicate 1225 for the 2021 year of account; 96.48% for 2020 and 92.96% for 2019 years of account. The Company will continue to act as a corporate member of Lloyd's and participate on all open years of account of the Syndicate.

Future development of the Company

Following the cessation of participation by AEGIS Electric & Gas International Services 5 Limited ("AISL 5"), the Company will provide 100% capacity for the Syndicate for the 2022 year of account. The Syndicate's underwriting capacity will decrease from £695m in 2021 to £654m in 2022.

Section 172(1) of the Companies Act 2006

The directors consider that they have had appropriate regard to the matters set out in section 172(1)(a) to (f) when performing their duties. The directors of the Company are comfortable that the policies and decisions taken by the Managing Agent are appropriate for the Company and have considered the wider impact of strategic decisions on the Company's stakeholders. This included, for example, approval of the Syndicate's business plan for the 2022 year of account.

The Board has identified the Company's stakeholders as those entities and individuals with whom the Group has business relationships, the community, and the shareholder. The directors have detailed below the engagements with these stakeholders.

Business Relationships

The delivery of a first class claims service to brokers and clients is a key strategic initiative. The Managing Agent has been recognised for having outstanding London Market Claims service quality. Underwriting policies aim to meet the changing needs of clients, and proactive communication with brokers is always encouraged.

The directors recognise that a commitment to a high standard of business conduct is critical to the delivery of the Group's strategy. The 'Conduct Risk Policy' is reviewed and approved by the Managing Agent's Board annually.

Community

The directors encourage a positive relationship with the community. Voluntary and fundraising efforts occurred during the year.

Shareholder Engagement

The directors are committed to communicating effectively and transparently with the shareholder, and continue to work closely with its affiliates.

Principal risks and uncertainties

The principal risks to the business have been evaluated and assessed in conjunction with the Managing Agent through an extensive enterprise risk management (ERM) framework and relate to future uncertainties of claims reserve risk, investment risk, underwriting risks from both catastrophe and non-catastrophe events and market risk. All of these are closely monitored and managed. For further details see note 3 of these financial statements.

The Company has sufficient financial resources to meet its financial needs. Through its membership of the Syndicate, the Company is party to a mature and historically profitable portfolio of insurance risk through an experienced and stable team. The directors believe that the Company is well positioned to manage its business risks.

Climate Change

The directors are aware of climate change and its potential to impact the principal risks affecting the business of the Syndicate. The Managing Agent and its directors monitor the potential impact of climate change through the analysis of various scenarios, including through the Managing Agent's Own Risk and Solvency Assessment processes. This is performed as part of its risk management framework and through the existing ERM infrastructure.

Strategic report *continued*

Streamlined Energy and Carbon Reporting (SECR)

The Company's carbon emissions and energy consumption for the year are expressed in Kilowatt Hours (kWh) and Tonnes of Carbon Dioxide Equivalent (tCO_2e).

	2021	2020
Total Energy Consumption (kWh)	**227,416.32**	172,648.59
Scope 2 emissions (tCO_2e)	**48.10**	39.94
Total Emissions (tCO_2e)	**48.10**	39.94
Intensity Ratio (tCO_2e/Turnover £m)	**0.06**	0.06

Methodology

The 2019 HM Government Environmental Reporting Guidelines, GHG Reporting Protocol – Corporate Standard have been followed and the UK Government's Conversion Factors for Company Reporting (2021) have been used.

Intensity Ratio

The chosen intensity measurement ratio is total gross emissions in metric tonnes CO_2e per £m of turnover.

Energy Efficiency Action

During the year the Managing Agent entered into an operating lease agreement for new high class, energy efficient offices. Measures at the new offices include motion sensing lighting and high efficiency air conditioning. In addition, employees of the Managing Agent are always encouraged to turn off their computers overnight and when not in use for long periods.

Use of financial instruments

The Company makes no use of financial instruments in the management of its risk exposures. Balance Sheet debtors and creditors are valued at fair value.

Approved by the Board of Directors of AEGIS Electric & Gas International Services Limited and signed on its behalf by:

DP Croom-Johnson

D P Croom-Johnson
Chief Executive Officer
8th June 2022

Statement of total comprehensive income
(For the year ended 31 December 2021)

	Notes	2021 £m	2020 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	4	**752.9**	679.6
Outward reinsurance premium		**(419.9)**	(382.8)
Net premiums written		**333.0**	296.8
Change in provision for unearned premiums:	12		
Gross amount		**(61.6)**	(42.7)
Reinsurer's share		**29.3**	22.0
Change in the net provision for unearned premiums		**(32.3)**	(20.7)
Earned premiums, net of reinsurance		**300.7**	276.1
Allocated investment return transferred from the non-technical account		**(2.2)**	16.5
Other technical income, net of reinsurance	7	**12.7**	11.5
Total technical income		**311.2**	304.1
Claims incurred, net of reinsurance			
Gross claims paid		**(285.5)**	(262.5)
Reinsurer's share		**179.2**	155.8
Net claims paid		**(106.3)**	(106.7)
Change in the provision for claims:	12		
Gross amount		**(95.5)**	(121.3)
Reinsurer's share		**64.2**	81.2
Change in the net provision for claims		**(31.3)**	(40.1)
Claims incurred, net of reinsurance		**(137.6)**	(146.8)
Net operating expenses	4, 7	**(127.3)**	(126.0)
Total technical charges		**(264.9)**	(272.8)
Balance on technical account – general business		**46.3**	31.3

The notes on pages 10 to 27 form an integral part of these financial statements.

Statement of total comprehensive income *continued*

(For the year ended 31 December 2021)

	Notes	2021 £m	2020 £m
Non-technical account			
Balance on the general business technical account		**46.3**	31.3
Interest income from investments		**12.0**	12.8
Realised investment gains		**2.3**	3.1
Realised investment losses		**(3.6)**	(1.3)
Unrealised gains on investments		**0.4**	17.5
Unrealised losses on investments		**(13.3)**	(10.5)
Investment expenses and investment management charges		**(0.9)**	(0.9)
Foreign exchange gains/(losses)		**(2.3)**	2.5
		40.9	54.5
Allocated investment return transferred to the general business technical account		**2.2**	(16.5)
Other expenses	8	**(11.9)**	(6.6)
Profit on ordinary activities before tax		**31.2**	31.4
Tax charge on ordinary activities	10	**(12.3)**	(4.0)
Profit on ordinary activities after tax		**18.9**	27.4
Other comprehensive profit / (loss)– foreign exchange loss on conversion to presentational currency		**3.1**	(8.4)
Total comprehensive income for the year		**22.0**	19.1

The total comprehensive income relates entirely to continuing activities.

There were no recognised gains or losses other than those reported in the Statement of total comprehensive income for the financial year.

The notes on pages 10 to 27 form an integral part of these financial statements.

Balance sheet
(As at 31 December 2021)

	Notes	2021	2020
		£m	£m
ASSETS			
Investments			
Financial investments	11	**805.4**	701.2
Other investments - deposits with ceding undertakings	11	**2.0**	-
		807.4	**701.2**
Reinsurer's share of technical provisions	12		
Provision for unearned premiums		**237.0**	200.2
Claims outstanding		**561.0**	489.5
		798.0	689.7
Debtors			
Debtors arising out of direct insurance operations		**234.0**	191.1
Debtors arising out of reinsurance operations		**30.3**	26.9
Amounts due from group undertakings		**20.3**	3.8
Other debtors	16	**10.3**	14.6
		294.9	236.4
Other assets			
Cash at bank and in hand		**24.2**	26.8
Overseas deposits		**72.1**	69.3
		96.3	96.1
Prepayments and accrued income			
Deferred acquisition costs	12	**86.4**	80.4
Other prepayments and accrued income		**6.6**	4.2
		93.0	84.6
Deferred tax asset	15	**0.0**	5.6
TOTAL ASSETS		**2,089.6**	1,813.6

The notes on pages 10 to 27 form an integral part of these financial statements.

Balance sheet *continued*
(As at 31 December 2021)

	Notes	2021 £m	2020 £m
SHAREHOLDER'S EQUITY & LIABILITIES			
Capital and reserves			
Called up share capital	18	-	-
Share premium	18	69.4	69.4
Profit and loss account		69.7	47.7
		139.1	117.1
Technical provisions	12		
Provision for unearned premium		429.3	361.7
Claims outstanding		882.6	775.7
		1,311.9	1,137.4
Creditors			
Creditors arising out of direct insurance operations		2.6	7.3
Creditors arising out of reinsurance operations		534.1	459.1
Other creditors	17	97.8	89.0
		634.5	555.4
Other provisions			
Deferred tax	15	2.3	-
Accruals and deferred income		1.8	3.7
TOTAL SHAREHOLDER'S EQUITY & LIABILITIES		2,089.6	1,813.6

The financial statements of AEGIS Electric & Gas International Services Limited (registered number: 03200519) were approved by the Board of Directors on 8th of June 2022 and signed on its behalf by:

D P Croom-Johnson
Chief Executive Officer
8th June 2022

The notes on pages 10 to 27 form an integral part of these financial statements.

Statement of changes in shareholder's funds

(As at 31 December 2021)

2021	**Called up share capital and share premium**	**Profit and loss account**	**Shareholder's funds**
	£m	**£m**	**£m**
Brought forward	69.4	47.7	117.1
Profit on ordinary activities	-	18.9	18.9
Other comprehensive expense – foreign exchange loss on conversion to presentational currency	-	3.1	3.1
Total comprehensive income	**-**	**22.0**	**22.0**
Dividend paid	-	-	-
Share capital issued	-	-	-
Carried forward	**69.4**	**69.7**	**139.1**

2020	**Called up share capital and share premium**	**Profit and loss account**	**Shareholder's funds**
	£m	**£m**	**£m**
Brought forward	39.4	28.7	68.1
Profit on ordinary activities	-	27.4	27.4
Other comprehensive income – foreign exchange gain on conversion to presentational currency	-	(8.4)	(8.4)
Total comprehensive income	**-**	**19.0**	**19.0**
Dividend paid	-	-	-
Share capital issued	30.0	-	30.0
Carried forward	69.4	47.7	117.1

Members participate on syndicates by reference to years of account (YOA) and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

The notes on pages 10 to 27 form an integral part of these financial statements.

Notes to the financial statements
(Forming part of the financial statements)

1. Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by financial instruments recognised at fair value and in accordance with FRS 102 and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") issued by the Financial Reporting Council. A cash flow statement has not been prepared as the Company is exempt under FRS 102, being a qualified entity by virtue of being a subsidiary undertaking 90% of the voting rights are within the Group. The Company's financial statements are fully consolidated within the financial statements of the ultimate parent, Associated Electric & Gas Insurance Services Limited (AEGIS) in Bermuda, which are publically available and may be obtained at 1 Meadowlands Plaza, East Rutherford, NJ 07073.

AEGIS Electric & Gas International Services Limited is a private company limited by shares and incorporated under the laws of England and Wales under the Companies Act 2006. The address of the registered office is given on page 31. The nature of Company's operations and its principal activities are set out in the Strategic Report of the Directors on page 3.

The Company has taken advantage of the exemption to disclose related party transactions with its parent undertaking and fellow subsidiary undertakings under FRS 102 Section 33. No contract existed at any time during the year in which a director or key manager was materially interested or which required disclosure as a related party transaction as defined under FRS 102 section 33.

Critical accounting judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In the course of preparing the financial statements, no critical accounting judgements have been made in the process of applying the Company's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements.

Key sources of estimation uncertainty

The most critical element within the Company's financial position is the provision for claims outstanding at the period end, which include the provision for claims that have occurred but have not yet been reported (IBNR) and the related reinsurers' share of those claims. This estimate is critical because it outlines the current liability for future expenses expected to be incurred in relation to claims.

Outstanding Claims and IBNR

The ultimate cost of outstanding claims is estimated using standard claims projection techniques completed by the Managing Agent's in-house actuaries. The main assumption for these techniques is that past claims development experience can be used to project future claims development. The provision for claims also includes amounts in respect of internal and external claims handling costs. Claims handling costs are based on a set percentage of IBNR and outstanding claims; this calculation is reviewed on an annual basis. See notes 3 and 12 of these financial statements.

Premiums

For certain insurance contracts, written premium is initially recognised based on the estimate of ultimate premiums. These estimates and the main assumption underlying theses estimates is that past premium development has been used to project future premium development. The estimation of unearned premiums includes estimates made on the allocation of premiums between accounting periods based on judgements on the profile of the underlying risks associated with the written premium and accordingly how the premium is recognised as earned. See note 12 of these financial statements.

The carrying values of all the above amounts are disclosed on note 12 and on the Balance Sheet.

Principal accounting policies

The principal activity of the Company is to act as a corporate member of Lloyd's. The Company provided 97.39% capacity for Syndicate 1225 for the 2021 year of account (92.96% for 2019 and 96.48% for 2020 years of account). The accounting policies and the risks and uncertainties are therefore derived directly from the syndicate, see note 3 of these financial statements.

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Notes to the Financial Statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

Insurance contracts: premium

Gross premium written comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a straight line basis. For premium written under facilities, such as binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of premium written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the Statement of Comprehensive Income in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Reinsurance premium ceded

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

Member Level Quota Share Reinsurance arrangement premium ('MLRI') is presented gross in the relevant line items of primary statements, representing the reinsurer's share of the member participation of the Syndicate result.

Insurance contracts liabilities: claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the Statement of Comprehensive Income.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision, the underwriting divisions within the Managing Agent have been regarded as groups of business that are managed together.

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, claims incurred but not reported 'IBNR' and future claims handling provisions. Reinsurance recoveries are accounted for in the same way as gross incurred claims.

The provision for claims encompasses amounts set aside for claims outstanding and IBNR. The IBNR amount is an estimate of allowances for claims incurred but not reported, using past experience and trends adjusted for foreseeable events and calculated using widely accepted actuarial statistical techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The provision for IBNR is reviewed biannually by both internal and external actuaries. Critical assumptions are used alongside historical data to form a basis for future claims development. The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims notified and projections for IBNR, net of estimated irrecoverable debt and bad debt also taking into consideration the reinsurance programme in place for each class of business and the claims experience for the year.

Notes to the Financial Statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

Insurance contracts liabilities: claims *continued*

The Managing Agent takes all reasonable steps to ensure that the Syndicate has taken into account all appropriate information regarding its gross and net claims exposures. However, given the uncertainty in establishing such claims provisions, it is likely that the final outcome will prove to be dissimilar from the original estimated liability. Should the provisions prove to be different from the original estimate, adjustments are made to the claims provisions in respect of prior years and are included in the Technical account within the financial statements of the period when such adjustments are made.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made. There have been no changes in assumptions used to measure insurance assets and liabilities during the year.

Investments

Equity investments in non-convertible preference shares and non-puttable ordinary or preference shares are measured at fair value through profit or loss. All debt instruments are designated as fair value through profit or loss and are therefore also measured as such. The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The cost of the Company investments held at the balance sheet date is deemed to be the aggregate of the value of investments held at the balance sheet date, and the cost of any new investments acquired during the year.

Overseas deposits

Overseas deposits are stated at the market value at the balance sheet date.

Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges.

Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year and their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the Non-Technical account. A transfer is then made from the Non-Technical account to the Technical Account.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

In accordance with FRS 102, the functional currency of the Company is US dollars as this is the currency of the primary economic environment in which the entity operates and is the one in which it primarily generates and expends cash. The presentational currency of the Company is Sterling, which is common for a Company at Lloyd's.

Notes to the Financial Statements *continued*
(Forming part of the financial statements)

1. Basis of preparation *continued*

Foreign currencies *continued*

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Company's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Company are included in Non-Technical account. Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded as Other Comprehensive Income as per FRS 103.

Insurance debtors and creditors

In the normal course of business at syndicate level, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, comprise respectively the totals of all the Company's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

For reinsurance balances at member level, the debtor or creditor is presented on a net basis since this is how settlement takes place in practice once a year of account is closed.

Operating expenses

Costs incurred by the Managing Agent exclusively for the Syndicate are charged to the Syndicate on an accruals basis.

Expenses incurred jointly by the Managing Agent and the Syndicate are charged through an annual management charge. The charge reflects the expected costs of services to be provided to the Syndicate and does not include any profit element.

Retirement benefit costs

The Managing Agent operates a defined contribution scheme. Pension contributions relating to employees working for the benefit of the Syndicate are charged to the Syndicate and included within net operating expenses.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the directors (page 1). Its forecasts and projections, taking account of the impact of COVID-19 and the potential impact of Russia's invasion of Ukraine and reasonably possible changes in trading performance, show that the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and financial statements.

2. Principal activities

The principal activity of the Company can be found in the Strategic Report of the directors on page 3.

3. Principal risks and uncertainties

This note presents information about the nature and extent of insurance and financial risks to which the Company is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Company's capital.

Underwriting risk

Through its participation in the Syndicate, the Company accepts underwriting risk in a range of classes of business. In underwriting insurance or reinsurance policies the Syndicate's underwriters use their skill, knowledge and data on past claims experience to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit.

Notes to the Financial Statements *continued*

(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed by the Managing Agent to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. The business plan is subject to Lloyd's scrutiny and monitoring. Progress against this plan is monitored during the year. The Syndicate also operates under an underwriting control framework that determines the maximum liability per policy which can be written for each class and for each underwriter. The framework is subject to an internal escalation process that ensures all material exceptions must be approved by senior management. The Syndicate is also exposed to catastrophe losses which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the reinsurance arrangements section below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, who use their judgement to write risks on our behalf under clear authority levels. The Managing Agent has a regular process of coverholder audits performed during the year.

The insurance liabilities underwritten by the Syndicate are reviewed by the Managing Agent on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise which in aggregate exceed the reserve provision established.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

Reinsurance arrangements

The Syndicate purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. The Syndicate also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover. For information on credit risk in respect of reinsurance debtors see the 'Credit Risk' section.

At the Member level, Member Level Quota Share Reinsurance agreements ("MLRI") are purchased with a reinsurer to reduce exposure of the Corporate Member to the Syndicate's results.

Climate change and transition risk

This is the risk of climate change and the transition to a low carbon economy on the Syndicate's underwriting and investment portfolios. As a global insurer the potential impact of climate change on the business could be material. The Managing Agent has developed a range of tools and techniques to monitor risks arising from climate change including, inter alia, catastrophe management processes and controls, investment management limits, and a suite of risk appetites and tolerances.

Risk appetite

The Managing Agent defines the Syndicate's risk appetite which seeks to limit its maximum net loss from major catastrophe event scenarios.

These maximum losses are expected only to be incurred in extreme events. The Managing Agent on behalf of the Syndicate also adopts risk appetite maximum net limits for a number of other non-elemental scenarios including, for example, a marine collision and an offshore rig loss.

The risk appetite policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

3. Principal risks and uncertainties *continued*

A detailed analysis of catastrophe exposures is carried out every quarter by the Managing Agent and measured against the event risk appetite. The following assumptions and procedures are used in the process:

- the data used reflects the information supplied to the Syndicate by insured and ceding companies. This may prove to be inaccurate or could develop during the policy period;
- the exposures are modelled using a mixture of stochastic models and underwriter input to arrive at 'damage factors' - these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate;
- the reinsurance programme as purchased is applied - a provision for reinsurer counterparty failure is included but may prove to be inadequate; and
- reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be an unmodelled loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

Claims reserves

Claims reserves established by the Managing Agent can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR.

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of legal advisers.

Property catastrophe claims such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled, it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Company. There is uncertainty over the adequacy of information and modelling of major losses for a period of several months after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes, for which a large IBNR has to be established, represent the most difficult classes to reserve because claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for US liability written on a losses occurring basis.

The use of historical development data, adjusted for known changes to wordings or the claims environment, is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a counterparty of the Syndicate fails to perform its contractual obligations, including failure to perform them in a timely manner. Credit risk could therefore have an impact upon the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Company is exposed to credit risk through its share in the Syndicate's investment portfolio and with its premium and reinsurance debtors.

As well as an actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's ability to perform these duties in a timely manner. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

Notes to the Financial Statements *continued*
(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security and exposure limits, prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on rating agency review and the ratings for each reinsurer. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer.

Credit risk in respect of premium debt is overseen by the Managing Agent's Counterparty Security Committee. The key controls include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

The following table analyses the credit rating by investment grade of the Company's participation in the Syndicate's financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

2021

	AAA	AA	A	BBB	BBB or less	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and unit trusts	-	-	87.9	31.8	-	8.5	**128.2**
Debt securities	111.2	204.7	134.3	108.6	40.2	-	**599.0**
Loans with credit institutions	19.4	52.1	6.6	-	-	-	**78.1**
Overseas deposits as investments	35.4	14.2	9.0	8.1	-	5.4	**72.1**
Reinsurers' share of claims outstanding	18.2	20.5	522.3	-	-	-	**561.0**
Reinsurance debtors	7.0	5.9	17.6	-	-	-	**30.5**
Cash at bank and in hand	-	-	24.2	-	-	-	**24.2**
Total credit risk	**191.2**	**297.4**	**801.9**	**148.5**	**40.2**	**13.9**	**1,493.1**

2020

	AAA	AA	A	BBB	BBB or less	Not rated	Total
	£m	£m	£m	£m	£m	£m	£m
Shares and unit trusts	-	-	20.8	49.3	-	9.2	**79.3**
Debt securities	124.8	207.4	110.2	67.3	27.4	-	**537.2**
Loans with credit institutions	31.3	39.8	13.6	-	-	-	**84.7**
Overseas deposits as investments	32.5	17.3	7.0	7.9	-	4.5	**69.3**
Reinsurers' share of claims outstanding	5.9	18.6	463.0	-	-	2.0	**489.5**
Reinsurance debtors	0.8	1.6	24.5	-	-	-	**26.9**
Cash at bank and in hand	-	-	26.8	-	-	-	**26.8**
Total credit risk	**195.3**	**197.5**	**665.9**	**124.5**	**27.4**	**102.9**	**1,313.6**

At 31 December 2021, total cash and investments amounted to £901.8m, of which 75.1% relates to debt and other fixed income securities and loans with credit institutions. The residual element of the portfolio relates to cash and overseas deposits. The portfolio remains of high quality, as illustrated by the asset allocation table shown above. The credit ratings on debt securities are composite ratings based on Standard & Poor's, Moody's and Fitch. Collateral held in the form of short term investments and cash in trust of £140.5m (2020: £118.9m) is held as security in support of reinsurer's share of claims outstanding.

Notes to the Financial Statements *continued*
(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

Credit risk *continued*

The following table analyses the age of reinsurance and insurance debtors, that are past due but not impaired:

2021

	Neither due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Total £m
Reinsurance debtors	30.3	-	-	-	-	**30.3**
Insurance debtors	210.1	23.3	0.3	0.2	0.1	**234.0**
Total insurance and reinsurance debtors	**240.4**	**23.3**	**0.3**	**0.2**	**0.1**	**264.3**

2020

	Neither due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Total £m
Reinsurance debtors	26.9	-	-	-	-	**26.9**
Insurance debtors	113.6	77.2	0.1	0.1	0.1	**191.1**
Total insurance and reinsurance debtors	**140.5**	**77.2**	**0.1**	**0.1**	**0.1**	**218.0**

There have been no material changes to the policies and processes for managing credit risk, or its exposure to credit risk, from the prior financial period.

Valuation risk

The Company's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Company's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits, and SSAE 16 reports are obtained. The investment managers operate within guidelines which are set and regularly reviewed by the management of the Managing Agent for investment duration, credit quality and appropriate benchmarks. There have been no material changes to the policies or processes for managing exposure to valuation risk from the prior financial period.

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Company's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security, the greater its price volatility. This risk is mitigated by continual review of our investment strategies. Overall the Company seeks to balance the potential for adverse results arising from interest rate movements against investment return. There have been no material changes to the Company's policies or processes for managing to interest rate risk, or exposure to interest rate risk, from the prior financial period.

An analysis of the Company's sensitivity to interest rate risk is presented in the table below:

	2021 £m	2020 £m
Impact of 50 basis point increase on result	**(8.0)**	(5.9)
Impact of 50 basis point decrease on result	**8.0**	5.9
Impact of 50 basis point increase on net assets	**(8.0)**	(5.9)
Impact of 50 basis point decrease on net assets	**8.0**	5.9

The above sensitivity analysis is calculated using the modified duration of the bonds, scaled down for 50 basis points as this is considered to be a reasonable approximation of possible changes in interest rates.

Notes to the Financial Statements *continued*

(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

Foreign exchange risk

Policyholders' assets are held in the base currencies of Sterling, US dollars, Canadian dollars, Euros, Australian dollars and Japanese Yen, which represent the majority of the Company's liabilities by currency. This limits underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-base currencies. These transactions are converted into sterling at the prevailing spot rate once the premium is received. Consequently there is exposure to currency movements between the exposure being written and the premium being converted. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Company is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk is mitigated by internal monitoring by the Managing Agent which includes asset and liability matching. It is not management's intention to take speculative currency positions in order to make currency gains. Overall the foreign exchange risk appetite seeks to minimise the potential for adverse results arising from foreign exchange rate movements. There have been no material changes to the Company's policies or processes for managing foreign exchange risk, or exposure to foreign exchange risk, from the prior financial period.

A 10% strengthening of sterling against the following currencies at 31 December would have increased/(decreased) the Company's pre-tax profits by the amounts shown below. This analysis assumes no hedging currency and that all other variables remain constant.

	2021 £m	2020 £m
US Dollars	**(14.9)**	(13.3)
Canadian Dollars	**(1.3)**	(3.4)

A 10% weakening sterling against the above currencies at 31 December would have made an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis. Liquid assets are also held in excess of the immediate requirements to avoid the Company having to be a forced seller of any of its assets, which may result in prices below market value being realised, especially in periods of below normal investment market activity. This practice of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch.

Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios. The table below shows the maturity profiles of the Company's claims outstanding and creditor balances.

2021

	0-1 year £m	1-3 years £m	3-5 years £m	>5 years £m	Total £m
Claims outstanding	283.3	349.0	187.6	62.6	**882.6**
Creditors arising out of direct insurance and reinsurance operations	329.8	132.3	55.9	18.7	**536.7**
Total claims outstanding and creditors	**613.1**	**481.3**	**243.5**	**81.3**	**1,419.2**

2020

	0-1 year £m	1-3 years £m	3-5 years £m	>5 years £m	Total £m
Claims outstanding	263.9	313.2	152.0	46.6	**775.7**
Creditors arising out of direct insurance and reinsurance operations	295.7	111.4	45.9	14.5	**466.4**
Total claims outstanding and creditors	**559.6**	**424.6**	**197.8**	**61.1**	**1,242.1**

Notes to the financial statements *continued*

(Forming part of the financial statements)

3. Principal risks and uncertainties *continued*

Regulatory risk

Regulatory risk is the risk that certain entities within the Group fail to meet the applicable regulatory requirements of the Prudential Regulation Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. The Managing Agent has a Compliance Officer who monitors regulatory developments and assesses the impact on policy.

Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Company. The Managing Agent manages these risks through internal compliance monitoring and the use of detailed procedure manuals. In addition, the Managing Agent has an Internal Audit department which assists the business to meet the strategic and operational objectives of the Company through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

4. Segmental analysis

The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

2021	Gross premium written	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance
	£m	£m	£m	£m	£m
Marine, aviation and transport	82.3	80.5	(50.7)	(13.7)	**(18.2)**
Fire and other damage to property	326.4	298.1	(121.1)	(57.5)	**(79.5)**
Third party liability	205.3	182.9	(129.2)	(34.9)	**(11.7)**
Miscellaneous	27.3	15.3	(14.9)	(3.3)	**11.5**
	641.3	**576.8**	**(315.9)**	**(109.4)**	**(97.9)**
Reinsurance acceptances	111.6	114.5	(65.1)	(17.9)	(49.3)
	752.9	**691.3**	**(381.0)**	**(127.3)**	**(147.2)**

Notes to the financial statements *continued*

(Forming part of the financial statements)

4. Segmental analysis *continued*

2020	**Gross premium written**	**Gross premium earned**	**Gross claims incurred**	**Net operating expenses**	**Reinsurance balance**
	£m	**£m**	**£m**	**£m**	**£m**
Marine, aviation and transport	92.3	87.4	(49.9)	(16.9)	(4.7)
Fire and other damage to property	292.4	264.7	(131.1)	(56.1)	(67.6)
Third party liability	166.3	164.7	(119.3)	(33.4)	(21.4)
Miscellaneous	13.0	8.5	(11.3)	(1.6)	4.0
	564.0	**525.3**	**(311.6)**	**(108.0)**	**(89.7)**
Reinsurance acceptances	115.6	111.6	(72.2)	(18)	(34.1)
	679.6	**636.9**	**(383.8)**	**(126.0)**	**(123.8)**

5. Brokerage

Gross premiums written are stated before the deduction of brokerage. Brokerage for the year was £168.7m (2020: £157.5 m).

6. Profit on ordinary activities before taxation

	2021	2020
	£	£
Profit on ordinary activities is stated after charging:		
Auditor's remuneration:		
- Audit of statutory financial statements	**27,209**	26,718

7. Net operating expenses

	2021	2020
	£m	£m
Net acquisition expenses	**168.1**	155.8
Change in net deferred acquisition costs	**(10.1)**	(1.9)
Administrative expenses	**79.9**	60.3
MLRI share of net operating expenses	**(110.6)**	(88.2)
	127.3	126.0

Member's standard personal expenses are included within administrative expenses. Net operating expenses includes the AEGIS Bermuda Quota Share Profit Commission, Managing Agency Fee and Syndicate Management Incentive of £15m (2020: £8.0m) with the reinsurance contribution to it of the same amount. Other technical income, net of reinsurance, includes reinsurance commissions and profit participation income of £12.7m (2020: £11.5m).

8. Other expenses

Other expenses include £11.2m (2020: £5.3m) of profit commission payable to the Managing Agent in relation to Syndicate 1225, and MLRI share of non-technical expenses of £0.6m (2020: £0.3m).

9. Remuneration of directors and employees

The Company does not have any employees and all services to the Company were provided by the Managing Agent. The emoluments of the directors during the period were £nil (2020: £nil) for services provided to the Company. The Company had no employees in 2021 (2020: nil). During the year the amounts paid to non-executive directors totalled £nil (2020: £nil).

10. Tax charge on ordinary activities

a) Analysis of the tax charge in the year

	2021 £m	2020 £m
UK Corporation charge and prior year adjustments	**4.1**	2.7
US taxes	**-**	(0.5)
US tax prior year adjustment	**-**	0.1
Other foreign tax suffered	**0.3**	0.3
Total current tax charge for the year	**4.4**	2.6
Deferred tax charge / (credit) (Note 15)	**7.9**	1.4
Total charge for the year	**12.3**	4.0

b) Factors affecting the tax charge for the year

The tax assessed for the year is higher (2020: lower) than that resulting from applying the blended rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £m	2020 £m
Profit on ordinary activities before tax	**31.2**	31.4
Profit on ordinary activities multiplied by the rate of corporation tax 19% (2019:19%)	**5.9**	6.0
Effects of:		
UK deferred tax movements not recognised	**(2.0)**	(2.3)
Non-taxable / non-deductible items	**0.2**	0.7
Foreign tax suffered	**0.4**	(0.2)
Adjustments in respect of prior periods	**0.2**	0.4
Double taxation relief	**(0.6)**	(0.5)
Overseas deferred tax movements	**7.9**	1.4
Foreign exchange impact to taxes	**-**	0.1
Tax effect of OCI	**0.3**	(1.6)
Total tax charge for the year	**12.3**	4.0

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change has now been substantively enacted.

c) Factors that may affect future tax charges

A 953d election has been made under United States tax legislation effectively treating AEGIS Electric & Gas International Services Limited as a US corporation for tax purposes.

Notes to the financial statements *continued*

(Forming part of the financial statements)

11. Financial investments and other investments

Financial assets measured at fair value through profit or loss

	At valuation		At cost	
	2021	2020	**2021**	2020
	£m	£m	**£m**	£m
Shares and unit trusts	**128.2**	79.3	**128.4**	56.6
Debt securities and other fixed income securities	**599.0**	537.2	**428.8**	504.2
Loans guaranteed by mortgages	**78.2**	84.7	**65.4**	82.7
	805.4	701.2	**622.6**	643.5

Financial assets measured at amortised cost

	2021	2020
	£m	£m
Debtors arising out of direct insurance and reinsurance operations	**264.5**	218.0
Other debtors	**33.7**	18.4
	298.2	236.4

Financial liabilities measured at amortised cost

	2021	2020
	£m	£m
Creditors arising out of direct insurance and reinsurance operations	**536.8**	466.4
Other creditors including taxation and social security	**101.1**	93.5
	637.9	559.9

All overseas deposits of £72.1m (2020: £69.3m) are held at fair value through profit or loss.

Debt securities and other fixed income securities listed on recognised stock exchanges have a carrying value of £480.5m (2020: £384.7m). All investments are held at fair value through profit or loss as per the accounting policy note. All income and expense and unrealised gains and losses as a change in the fair value on these investments are presented on the face of the Statement of Total Comprehensive Income £40.9m (2020: £54.5m).

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

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Prices based on recent transactions in identical assets (either unadjusted or adjusted)
Level 3 - Prices determined using a valuation technique

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

2021

	Level 1 £m	Level 2 £m	Level 3 £m	Balance sheet position £m
Shares and other variable yield securities	-	119.7	8.5	**128.2**
Debt securities and other fixed income securities	342.8	256.2	-	**599.0**
Loans with credit institutions	12.9	65.3	-	**78.2**
Overseas deposits	8.1	64.0	-	**72.1**
Total	**363.8**	**505.2**	**8.5**	**877.5**

Notes to the financial statements *continued*

(Forming part of the financial statements)

11. Financial investments *continued*

2020

	Level 1 £m	Level 2 £m	Level 3 £m	Balance sheet position £m
Shares and other variable yield securities		70.1	9.2	**79.3**
Debt securities and other fixed income securities	337.6	199.6	-	**537.2**
Loans with credit institutions	11.2	73.5	-	**84.7**
Overseas deposits	11.5	57.8	-	**69.3**
Total	**359.9**	**401.4**	**9.2**	**770.5**

The movement in the fair value of level 3 assets of £700k is entirely due to the change in the internal value of the Syndicate loans, with the movement being recognised through profit and loss. There were no purchases, sales, issues, settlements or transfers into or out of the Syndicate loans during the year.

Other investments

Other investments that are deposits with ceding undertakings are held at fair value and represent cash transferred to Lloyd's Insurance Company, SA ("LIC") following the transfer to LIC of all EEA risks from the Syndicate on 30 December 2020. This amount is held by LIC in order to meet claims liabilities as they fall due.

12. Technical provisions

	Provision for unearned premium £m	Provision for claims outstanding £m	Deferred acquisition costs £m	Total £m
Gross				
At 1 January 2021	(361.7)	(775.7)	80.4	(1,057.0)
Movement in technical provision	(61.7)	(95.7)	11.3	(146.1)
Foreign exchange movement	(5.9)	(11.2)	(5.3)	(22.4)
At 31 December 2021	**(429.3)**	**(882.6)**	**86.4**	**(1,225.5)**
Reinsurance				
At 1 January 2021	200.2	489.5	-	689.7
Movement in technical provision	2.9	38.6	-	41.5
Quota Share agreement	38.1	55.3	-	93.4
Foreign exchange movement	(4.2)	(22.4)	-	(26.6)
At 31 December 2021	**237.0**	**561.0**	**-**	**798.0**
Net				
At 31 December 2021	**(192.3)**	**(321.6)**	**86.4**	**(427.5)**
At 31 December 2020	**(161.5)**	**(286.2)**	**80.4**	**(367.3)**

The exchange rate movement reflects the opening provision at opening vs closing rates of exchange together with the difference between the technical account movements at average versus closing rates of exchange.

Notes to the financial statements *continued*

(Forming part of the financial statements)

13. Prior years' claims estimate in the Syndicate accounts

The provision for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2021 £m	2020 £m
Marine, aviation and transport	**8.2**	11.4
Fire and other damage to property	**26.9**	13.3
Third party liability	**(4.2)**	(4.5)
Miscellaneous	**(1.6)**	(1.1)
Favourable movement in technical provisions	**29.3**	19.1

14. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2021 in all cases. Gross claims ratios represent gross ultimate claims divided by gross ultimate premiums, and the net claims ratios represent ultimate claims net of reinsurance divided by ultimate premiums net of reinsurance.

Gross ultimate claims and ratios	**2016 & prior**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
At end of underwriting year	-	70%	65%	62%	62%	70%	
One year later	-	66%	62%	62%	63%		
Two years later	-	65%	59%	65%			
Three years later	-	64%	63%				
Four years later	-	77%					
Total ultimate losses (£m)	2,990.2	296.5	284.1	326.4	363.1	457.8	**4,718.1**
Less: cumulative paid claims (£m)	(2,813.1)	(219.9)	(190.8)	(178.5)	(114.9)	(33.0)	**(3,550.2)**
Less: unearned portion of ultimate losses (£m)	-	-	-	(8.2)	(20.8)	(256.3)	**(285.3)**
Gross claims liabilities (£m)	**177.1**	**76.6**	**93.3**	**139.7**	**227.4**	**168.5**	**882.6**

Net ultimate claims and ratios	**2016 & prior**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
At end of underwriting year	-	62%	58%	57%	57%	66%	
One year later	-	58%	56%	55%	56%		
Two years later	-	58%	54%	54%			
Three years later	-	59%	58%				
Four years later	-	68%					
Total ultimate losses (£m)	1,181.8	117.0	113.5	119.5	140.3	192.6	**1,864.7**
Less: cumulative paid claims (£m)	(1,122.7)	(88.7)	(79.5)	(67.0)	(50.0)	(14.4)	**(1,422.3)**
Less: unearned portion of ultimate losses (£m)	-	-	-	(1.7)	(6.9)	(112.2)	**(120.8)**
Net claims liabilities (£m)	**59.1**	**28.3**	**34.0**	**50.8**	**83.4**	**66.0**	**321.6**

The below tables show the pure year earned claims reserves and cumulative payments, gross and net of reinsurance.

Gross reserves and payments	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**
At end of underwriting year	89.8	124.7	122.1	151.3	177.6	201.6
One year later	246.7	265.3	276.6	319.0	342.3	
Two years later	249.2	285.0	288.4	318.2		
Three years later	247.3	287.8	284.1			
Four years later	255.0	296.5				
Five years later	258.8					
Cumulative payments	(212.6)	(219.9)	(190.8)	(178.5)	(114.9)	(33.0)
Estimated balance to pay	**46.3**	**76.6**	**93.3**	**139.6**	**227.4**	**168.6**

Notes to the financial statements *continued*

(Forming part of the financial statements)

14. Claims development *continued*

Net reserves and payments	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m
At end of underwriting year	35.2	43.3	43.5	58.7	66.7	80.4
One year later	93.9	103.4	112.2	124.5	128.5	
Two years later	100.2	113.6	116.4	117.8		
Three years later	98.2	115.2	113.5			
Four years later	99.1	117.0				
Five years later	99.6					
Cumulative payments	(84.4)	(88.7)	(79.5)	(67.0)	(50.0)	(14.4)
Estimated balance to pay	**15.1**	**28.3**	**34.0**	**50.8**	**83.4**	**66.1**

15. Deferred tax

Unrecognised deferred tax

	Underwriting results £m	Other timing differences £m	Total £m
At 1 January 2021	(3.0)	(0.4)	(3.4)
Current year deferred tax movement	**(5.3)**	**3.5**	**(1.8)**
At 31 December 2021	**(8.3)**	**3.1**	**(5.2)**
Offset of UK deferred tax following election to tax as a US corporation	**8.3**	**(3.1)**	**5.2**
Deferred tax balance in balance sheet as at 31 December 2021	-	-	-

The UK deferred tax liability of £5.2m has not been recognised, as the crystallisation of the UK deferred tax liability will give rise to foreign tax credits which the Company considers it will be able to utilise against its US taxes arising from future profits subject to US tax.

Recognised deferred tax

	US deferred earnings £m	Capital gains £m	Total £m
At 1 January 2021	8.6	(3.0)	5.6
Prior year adjustment to deferred tax	0.2	-	0.2
Current year deferred tax movement	**(10.1)**	**2.0**	**(8.1)**
At 31 December 2021	**(1.3)**	**(1.0)**	**(2.3)**
Total deferred tax debit / (credit)	**(9.9)**	**2.0**	**(7.9)**

Notes to the financial statements *continued*

(Forming part of the financial statements)

16. Other debtors

	2021	2020
	£m	£m
Other debtors	8.7	11.0
Corporation tax asset	1.6	3.6
	10.3	14.6

Other debtors primarily represent balances due from group undertakings. The transactions representing these balances have been calculated on an arm's length basis.

17. Other creditors

	2021	2020
	£m	£m
Amount due to AEGIS Managing Agency Limited	28.7	26.0
Amount due to AEGIS London Holdings Limited	62.6	62.1
Corporation tax liability	1.9	-
Other creditors	4.6	0.9
	97.8	89.0

The amount due to the Managing Agent includes the expenses payable by AEGIS Bermuda through AISL in relation to the AEGIS Bermuda Quota Share Profit Commission, Managing Agency Fee and Syndicate Management Incentive. These expenses were £15m for the year ended 31 December 2021 (2020: £8.0m).

18. Share capital & share premium

	2021	2020
	£	£
Authorised - 100 £1 ordinary shares	100	100
Allotted, called up and fully paid - 2 £1 ordinary share	2	2

	2021	2020
	£m	£
Share premium	69.4	69.4

19. Commitments and Funds at Lloyd's

There were no capital or operating lease commitments at 31 December 2021 (2020: £nil). The assets of the Company are subject to restrictions on use or transfer as follows:

a) Assets of the 2019, 2020 and 2021 years of account of Syndicate 1225 as at 31 December 2021 amounting to £747m (as at 31 December 2020 in respect of the 2018, 2019 and 2020 years of account: £642m) are held subject to the Lloyd's Premium Trust Deeds. Profits cannot be fully released from the Premium Trust Fund to the Company until the close of the underwriting years of account.

b) The Company's ultimate parent has provided Funds at Lloyd's ("FAL") of $198m (2020: $198m) to support the 2021 year of account underwriting by means of a Letter of Credit in favour of the Corporation of Lloyd's and $2m in cash. Furthermore as at 31 December 2021 the Company has committed £191m of its assets in favour of the Corporation of Lloyd's to support the Company's 2021 year of account underwriting.

19. Commitments and Funds at Lloyd's *continued*

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with the Solvency II framework.
Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with the Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1225 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate(s) on which it is participating but no other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2021 was 35% (2020: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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

20. Related party transactions

The Company has taken advantage of the exemption allowed by FRS 102 not to disclose related party transactions with its parent undertaking and fellow subsidiary undertakings. No contract existed at any time during the year in which a director or key manager was materially interested or which required disclosure as a related party transaction as defined under FRS 102 section 33.

21. Ultimate parent company

The Company's immediate parent is AEGIS London Holdings Limited, incorporated in the United Kingdom with its registered address at 25 Fenchurch Avenue, London EC3M 5AD, and is the smallest group of undertakings for which group financial statements are prepared. Its ultimate parent is Associated Electric & Gas Insurance Services Limited (AEGIS), incorporated in Bermuda, and is the largest group of undertakings for which group financial statements are prepared. A copy of the group accounts may be obtained from 1 Meadowlands Plaza, East Rutherford, NJ 07073, USA.

22. Event after reporting period

On 24 February 2022, Russia launched a large scale invasion of Ukraine, which is a non-adjusting post balance sheet event. This event may have a negative financial impact on the Company, potentially in the form of losses. As at the date of these financial statements, a reliable estimate of the financial effect of the event cannot be made due to the uncertainties over the evolution and duration of the invasion, and subsequent impacts on the wider economy. The Company will continue to monitor and review exposure and impact.

Independent auditor's report to the members of AEGIS Electric & Gas International Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of AEGIS Electric & Gas International Services Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in shareholder's funds; and
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

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 Financial Reporting Council's (the 'FRC's') Ethical Standard, 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.

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.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. 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 the 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 AEGIS Electric & Gas International Services Limited *continued*

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and internal audit about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, internal audit and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Independent auditor's report to the members of AEGIS Electric & Gas International Services Limited *continued*

Report on other legal and regulatory requirements

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.

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

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

We have nothing to report in respect of these matters.

Use of our 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.

Adam Ely

Adam Ely FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
8th June 2022

Administration

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AEGIS Syndicate 1225 at Lloyd's of London ("Syndicate 1225") commenced operations in 1999. Syndicate 1225 operations are supported by AEGIS Managing Agency Limited ("AMAL"), which provides professional employees and services for Syndicate 1225. AEGIS Electric & Gas International Services Limited ("AISL") is a corporate member of Lloyd's and the main capital provider of Syndicate 1225. AISL, AMAL, AEGIS London Services Limited, AEGIS Electric & Gas International Services 2 Limited, AEGIS Electric & Gas International Services 3 Limited, AEGIS Electric & Gas International Services 4 Limited, and AEGIS Electric & Gas International Services 5 Limited are subsidiaries of AEGIS London Holdings Limited, and ultimately owned by Associated Electric & Gas Insurance Services Limited ("AEGIS").