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Syndicate 1861 Annual Report & Accounts

As at 31 December 2021

Contents

Syndicate 1861

Directors and Professional Advisors

MANAGING AGENT:

Canopius Managing Agents Limited

Directors

N J Betteridge		
M J Bishop		Appointed 11 May 2021
P Ceurvorst	Non-Executive Director	
L Davison		Resigned 20 May 2021
M P Duffy		
M V Greenwood	Non-Executive Director	Appointed 7 December 2021
P F Hazell	Non-Executive Director	
S Lacy		
P Meader	Non-Executive Director	
N S Meyer		Resigned 2 June 2021
I B Owen	Non-Executive Chairman	
N D Robertson		Appointed 20 October 2021
M C Watson	Non-Executive Director	

Company Secretary
P P Hicks

Registered office
Floor 29
22 Bishopsgate
London
EC2N 4BQ

Managing Agent's registration No. 01514453

FCA firm registration No. 204847

SYNDICATE:

Joint Active Underwriters
C Jarvis
S A Willmont

Bankers
Lloyds Bank PLC
Citibank N.A.
Royal Bank of Canada

Investment Manager
BlackRock - 12 Throgmorton Avenue, London, EC2N 2DL
Federated – Nuffield House, 41-46 Piccadilly, London, W1J 0DS
Lloyd's – One Lime Street, London, EC3M 7HA
Wellington – Cardinal Place, 80 Victoria Street, London, Sw1E 5JL
Barings – 20 Old Bailey, London, EC4M 7BF

Statutory Auditor
Ernst & Young LLP ("EY")
25 Churchill Place, Canary Wharf, London, E14 5EY

Report of the Directors of the Managing Agent

The directors of Canopius Managing Agents Limited ("CMA"), the managing agent for Syndicate 1861 (the 'Syndicate'), present the annual report and audited financial statements for the Syndicate for the year ended 31 December 2021.

These financial statements 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 Republic of Ireland" ("FRS102"), Financial Reporting Standard 103, "Insurance Contracts" and the Companies Act 2006. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Review of the business

Syndicate 1861 is a syndicate at Lloyd's managed by CMA. Its principal activity is the underwriting of insurance and reinsurance business at Lloyd's, transacted through direct channels and via delegated underwriting. The Syndicate did not underwrite on the 2021 year of account, the capacity for the 2020 year of account was £550m.

Significant events

The 2020 year of account of Syndicate 1861 was written on a split stamp basis with Syndicate 4444, another syndicate managed by CMA. Under this arrangement Syndicate 1861 has underwritten 35% of the joint operations. The Syndicate did not underwrite on the 2021 year of account following the pooling of capacity with Syndicate 4444 which underwrote all risks from the 2021 year of account onwards.

With effect from 1 January 2021, the 2018 year of account closed externally into the 2021 year of account of Premia Managing Agency Limited's Syndicate 1884 following the completion of a reinsurance to close agreement on 18 February 2021.

In December 2021 CMA entered into a Loss Portfolio Transfer Reinsurance (LPT) agreement with RiverStone Managing Agency Limited ("RiverStone") covering the majority of classes of business no longer written by Syndicates 4444 (2020 & prior years of account) and 1861 (2020 year of account only). Under the terms of the agreement the syndicates purchased reinsurance from RiverStone's managed syndicate (Lloyd's syndicate 3500) to provide loss portfolio reinsurance on the agreed policies. The results for the year include the premium ceded to Riverstone of £14m under the contract, of which £4m will earn through in future calendar years, while the reinsurers share of the change in provisions for claims includes the recoveries due on the business reinsured under the agreement. As at the year end the full premium due to Riverstone is included in reinsurance payable. The net impact to the Syndicate under the LPT is a 0.3% improvement on the combined ratio.

Report of the Directors of the Managing Agent

Results and performance - Key performance indicators ('KPIs')

The following KPI's were used during the year:

	2021 (post LPT) £m	2021 (pre LPT) £m	2020 £m
Gross premiums written	91.9	91.9	526.4
Earned premiums, net of reinsurance	215.2	225.1	517.5
Investment return	(0.8)	(0.8)	4.9
Profit / (Loss) for the year	2.6	1.7	(175.8)
Total comprehensive income/(loss)	3.1	2.2	(163.0)
Gross claims ratio[1]	62.0%	62.0%	95.7%
Net claims ratio[2]	56.1%	58.4%	91.5%
Expense ratios[3]			
- Acquisition ratio	37.9%	36.3%	36.1%
- Administrative Expense ratio	4.6%	4.4%	7.0%
Combined operating ratio[4]	98.6%	98.9%	134.5%
Investment return, on average invested balances[5]	(0.2%)	(0.2%)	1.5%

[1]The gross claims ratio is the ratio of gross claims incurred to gross premiums earned gross of reinsurance and acquisition costs.
[2]The net claims ratio is the ratio of net claims incurred to premiums earned net of reinsurance and gross of acquisition costs.
[3]The expense ratios are the ratios of the acquisition cost and operating expenses to earned premiums net of reinsurance and gross of brokerage and commissions.
[4]The combined ratio is the ratio of net claims incurred, acquisition costs and net operating expenses to net premiums earned.
[5]Investment return is calculated as the combined investment income for the period divided by the average of the opening and closing investments, cash and overseas deposit balances.

The CMA Board monitors the progress of the Syndicate pre LPT transaction, therefore all commentary is prepared accordingly, unless stated otherwise. The results of the Syndicate for the year are set out on pages 13 and 14. In 2021, Syndicate 1861 recorded a post LPT profit of £2.6m (2020: £175.8m loss) with a combined ratio of 98.6% and 98.9% pre LPT (2020: 134.5%).

Following the pooling of capacity between syndicates 4444 and 1861, gross written premium has reduced significantly for Syndicate 1861 during the 2021 calendar year to £91.9m (2020: £526.4m), as the syndicate ceased to write new business for the 2021 year of account.

The net loss ratio improved by 35.4% to 56.1% in 2021, with 2020 being heavily impacted by the unprecedented Covid-19 pandemic and a high frequency of natural catastrophe events. Despite further Covid-19 enforced restrictions in 2021, the Syndicate has had favourable movement in Covid-19 losses of £1.3m.

Syndicate 1861's investment portfolio generated a loss of £0.8m in 2021 (2020: return £4.9m). The decrease compared to the previous year is primarily due to significant increases in yields during the period, resulting in mark to market losses on the high quality short duration bond portfolio held within the syndicate and a reduced investment portfolio due to the external reinsurance to close of 2018&P YOA to Premia Managing Agency Limited's Syndicate 1884 at the beginning of the year. Going forward the Board seeks to maximise the return on the investment portfolio within the Syndicate's risk appetite with a focus on capital preservation and the need to maintain liquidity to manage the run-off of the Syndicate business.

The 2019 year of account of Syndicate 1861 closed with a reported loss of £116.7m representing a loss of 23.3% on managed capacity. The 2020 year of account is forecast to make a loss of 3.0% of managed capacity

Reinsurance is purchased to reduce retention levels in accordance with CMA's risk appetite as well as to protect against potential catastrophe accumulations. Catastrophe reinsurances are generally purchased to protect capital whereas non-catastrophe reinsurances, including the loss portfolio transfer concluded in the year, are purchased for a blend of capital protection, capital efficiency and profit stability.

Report of the Directors of the Managing Agent

Business environment

Insurance markets saw significant rate rises through 2021 following the unprecedented events of the previous year and the preceding period of soft market conditions. These were however somewhat tempered by new capital flowing into the market and fell short of predicted levels in some areas. These business lines were once again affected by above average catastrophe losses, prompting insurers to review risk appetite and rating adequacy ahead of renewals in 2022.

Huge levels of fiscal stimulus and the efficacy of the global vaccine program managed to reduce the impact of the global recession following the pandemic, but a sustained period of low interest rates has led to challenging levels of investment returns. As Covid-19's impact on the economy recedes, central banks are beginning to embark on a process of normalising policies, which is expected to have ramifications for financial assets in 2022. Bond yields are expected to rise, which could drive mark-to-market losses in the shorter term but will ultimately lead to a more attractive investment environment in future.

Businesses are having to consider what the future of work will entail, needing to embrace flexible return-to-office strategies whilst simultaneously seeking to develop a positive and winning corporate culture. There is a need too for firms to balance investment in people with their investment in technology as digital transformation continues to accelerate and the availability of data increases.

The pandemic continues to reinforce society's focus on Environmental, Social and Governance ("ESG") matters and is changing consumer product and purchase preferences. For the insurance industry particularly this will present both risk and opportunity as society looks to transition to a more sustainable economy.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

CMA's governance structure ensures a clear definition of responsibility for the management and oversight of the many risks faced by the business. CMA has established an Enterprise Risk Management ("ERM") framework that is designed to identify, assess, measure, mitigate, monitor and report all material financial and non-financial risk.

The managing agent has identified the following principal risks and uncertainties facing the Syndicate as detailed in Note 5 to the financial statements (management of risk):

- Insurance risk
- Financial risk
    i. Market risk
    ii. Credit risk
    iii. Currency risk
    iv. Liquidity risk
- Group risk
- Operational and regulatory risk
- Climate change risk

Report of the Directors of the Managing Agent

Strategy and future developments
Following the decision to concentrate underwriting into Syndicate 4444 for the 2021 year of account, the strategy for the Syndicate has shifted to the effective management of the run-off of the business prior to closure and conclusion of the Syndicate expected 31 December 2022.

The 2019 year of account of Syndicate 1861 has been closed into the 2020 year of account via a reinsurance to close arrangement in the normal course of business as at 1 January 2022. It is the current intention of the Board to close the 2020 year of account into Syndicate 4444's 2021 year of account a year later thus concluding the business of Syndicate 1861.

On 24 February 2022 Russia launched an invasion into Ukraine, receiving international condemnation and widespread sanctions. As a result, whilst the directors consider that the impact on future profit and net assets could be material, they consider it is too early to reliably estimate those impacts. The directors continue to monitor the fast developing situation closely and will take all appropriate steps to manage the effect this has on the Syndicate.

Going concern
As of the date of approval of the Annual Accounts, the 2019 year of account of Syndicate 1861 will be closed into the 2020 year of account as at 1 January 2022, In respect of the 2020 year of account, it is currently the Board's intention that Syndicate 1861 will enter a reinsurance to close arrangement with Syndicate 4444's 2021 year of account as at 1 January 2023. Syndicate 1861 will cease to operate and will have no successor years of account thus concluding its business. On this basis the syndicate is no longer a going concern. This does not affect the balance sheet valuations in the annual accounts. The annual accounts have been prepared on the basis of other than going concern.

Directors
The directors of the managing agents who served from 1 January 2021 to the date of this report are shown on page 2. None of the directors had an allocated premium limit on the Syndicate, on either an unlimited or limited liability basis, for the 2019 or 2020 years of account.

Statement of disclosure of information to auditors
In the case of each of the persons who are directors of the managing agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate's auditor in connection with the auditor's report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency and the Syndicate's auditor, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Report of the Directors of the Managing Agent

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the directors of the managing agent to prepare syndicate annual accounts each year which give a true and fair view, in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing those financial statements, the managing agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate accounts; and
- Prepare the syndicate accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to do so.

The managing agent confirms that it has complied with the above requirements in preparing the syndicate accounts. The directors of the managing agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate accounts comply with the 2008 Regulations. The managing agent is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors

In accordance with section 14(2) of Schedule 1 of the Lloyd's Regulations 2008, the auditor, Ernst & Young LLP, will be deemed to be reappointed and therefore continue in office.

By order of the Board of the managing agent.

M J Bishop
CMA Finance Director
London,
3 March 2022

Independent Auditor's Report to the Members of Syndicate 1861

for the year ended 31 December 2021

Opinion

We have audited the syndicate annual accounts of syndicate 1861 ('the syndicate') for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 30, 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 syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2021 and of its profit 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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 syndicate annual accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, 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.

Emphasis of matter – anticipated closure of the 2020 year of account

We draw attention to the basis of preparation note which explains that the 2020 year of account of syndicate 1861 is anticipated to close within the next 12 months, transferring all assets and liabilities to syndicate 4444 through a third-party reinsurance to close arrangement. Syndicate 1861 has no successor year of account.

As a result, the Annual Report and Accounts of syndicate 1861 has been prepared under a basis other than going concern.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Annual Report and Accounts, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are responsible for the other information contained within the Annual Report and Accounts.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this 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 syndicate annual accounts 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 syndicate annual accounts themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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

- the information given in the managing agent's report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent's report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records; or
- certain disclosures of the managing agents' emoluments specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 syndicate annual accounts.

Explanation as to what extent 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 irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP). Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.

- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.

- For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.

- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.

- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, including complex transactions, performance targets, external pressures and their potential to influence management to manage earnings or influence the perceptions of stakeholders. The fraud risk was considered to be higher within the valuation of gross incurred but not reported reserves and estimated premium income.

Our audit procedures included:

  - Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries we assessed if there were any indicators of management bias in the valuation of gross incurred but not reported reserves and the recognition of estimated premium income.

  - Evaluating the business rationale for significant and/or unusual transactions.

  - Testing the appropriateness of journal entries recorded in the general ledger, particularly in respect of judgemental areas including gross incurred but not reported reserves and estimated premium income.

In addition, we considered the impact of Covid-19 on the syndicate, including an assessment of the consistency of operations and controls in place as the managing agent used a mix of operating remotely and hybrid working model throughout 2021, making enquiries with management via the use of video conferencing where necessary. We performed analytical review procedures to assess for unusual movements throughout the year. Our audit procedures also incorporated unpredictability into the nature, timing and extent of our testing.

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

Independent Auditor's Report to the Members of Syndicate 1861

for the year ended 31 December 2021

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate'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 syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Treadgold (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

3 March 2022

Income Statement: Technical Account – General Business

for the year ended 31 December 2021

	Notes	2021 £000	2021 £000	2020 £000	2020 £000
Earned premiums, net of reinsurance					
Gross premiums written	7	91,879		526,427	
Outward reinsurance premiums		(32,254)		(119,095)	
Net premiums written		59,625		407,332	
Change in the provision for unearned premiums:					
Gross amount	24	178,841		132,236	
Reinsurers' share	24	(23,284)		(22,083)	
Change in the net provision for unearned premiums		155,557		110,153	
Earned premiums, net of reinsurance			215,182		517,485
Allocated investment (loss)/return transferred from the non-technical account	14		(780)		4,868
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(221,736)		(350,920)	
Reinsurers' share		15,218		55,448	
Net claims paid		(206,518)		(295,472)	
Change in the provision for claims					
Gross amount	24	53,781		(279,444)	
Reinsurers' share	24	31,988		101,263	
Change in the net provisions for claims		85,769		(178,181)	
Claims incurred, net of reinsurance			(120,749)		(473,653)
Net operating expenses	10, 11		(91,501)		(222,580)
Balance on the technical account for general business			2,152		(173,880)

The Syndicate is now in run off with the 2020 year of account being the last year of underwriting. All of the above amounts are derived from continuing operations.

Income Statement: Non-technical Account

for the year ended 31 December 2021

	Notes	**2021** **£000**	2020 £000
Balance on the general business technical account		2,152	(173,880)
Investment income	14	1,043	5,302
Realised gains on investments	14	(38)	667
Net unrealised losses investments	14	(1,621)	(1,101)
Investment expenses and charges	14	(164)	-
Allocated investment return/ loss transferred to the general business technical account		780	(4,868)
Profit/(Loss) on exchange	10	407	(1,894)
Profit/(Loss) for the year		2,559	(175,774)
Other comprehensive income - Currency translation differences		505	12,803
Total comprehensive Profit/(Loss) for the year		**3,064**	**(162,971)**

The Syndicate is now in run off with the 2020 year of account being the last year of underwriting. All of the above amounts are derived from continuing operations.

Statement of Change in Members' Balances

for the year ended 31 December 2021

	2021 **£000**	2020 £000
Members' balances at 1 January	(184,161)	(21,964)
Total comprehensive profit/(loss) for financial year	3,064	(162,971)
Cash calls made	115,705	-
Amount received from members' personal reserve fund	36,627	764
Movement in non-standard personal expenses	-	10
Members' agent fees	(3)	-
Members' balances at 31 December	**(28,768)**	**(184,161)**

Statement of Financial Position – Assets

at 31 December 2021

	Notes	2021 £000	2021 £000	2020 £000	2020 £000
Investments					
Other financial investments	15		191,647		301,721
Deposits with ceding undertakings			336		-
Reinsurers' share of technical provisions					
Provision for unearned premiums	24	13,448		40,237	
Claims outstanding	24	149,573		205,737	
			163,021		245,974
Debtors					
Debtors arising out of direct insurance operations	16	50,665		179,712	
Debtors arising out of reinsurance operations	17	33,406		107,621	
Other debtors	18	215		5,182	
			84,286		292,515
Other assets					
Cash at bank and in hand			2,957		48,876
Overseas deposits	19		34,242		40,509
Prepayments and accrued income					
Deferred acquisition costs	23	20,168		103,621	
Other prepayments and accrued income		451		1,991	
			20,619		105,612
Total assets			497,108		1,035,207

Statement of Financial Position – Liabilities

at 31 December 2021

	Notes	2021 £000	2021 £000	2020 £000	2020 £000
Capital and reserves					
Members' balances	2		(28,768)		(184,161)
Technical provisions					
Provision for unearned premiums	24	62,373		314,376	
Claims outstanding	24	391,956		770,971	
			454,329		1,085,347
Creditors					
Creditors arising out of direct insurance operations	20	11,556		34,888	
Creditors arising out of reinsurance operations	21	48,150		82,848	
Other creditors	22	11,841		16,241	
			71,547		133,977
Accruals and deferred income			-		44
Total liabilities			497,108		1,035,207

The financial statements on pages 13 to 45 were approved by the Board of CMA on 3 March 2022 and were signed on its behalf by:

M J Bishop
CMA Finance Director
3 March 2022

Statement of Cash Flows

for the year ended 31 December 2021

	2021		*2020*	
	£000	***£000***	*£000*	*£000*
Cash flows from operating activities				
Profit / (Loss) for the year	2,559		(175,774)	
(Decrease) / increase in gross technical provisions	(631,018)		240,966	
Decrease / (increase) in reinsurers' share of gross technical provisions	82,953		(83,926)	
Decrease in debtors	207,890		48,887	
(Decrease) in creditors	(62,430)		(633)	
Movement in other assets/liabilities	91,216		19,339	
Investment return	780		(4,868)	
Foreign exchange	2,814		13,401	
Net cash (outflows) / inflows from operating activities		(305,236)		57,392
Cash flows from investing activities				
Purchase of equity and debt instruments	(139,776)		(210,037)	
Sale of equity and debt instruments	249,210		119,682	
Investment income received	841		5,969	
Net cash inflows / (outflows) from investing activities		110,275		(84,386)
Cash flows from financing activities				
Amount received from members' personal reserve funds and cash calls	152,332		774	
Net cash inflows from financing activities		152,332		774
Foreign exchange on cash and cash equivalents		(2,309)		(598)
Net decrease in cash and cash equivalents		(44,938)		(26,818)
Cash at bank and in hand	48,876		75,694	
Short term deposits with credit institutions	-		-	
Cash and cash equivalents at beginning of year		48,876		75,694
Cash at bank and in hand	2,957		48,874	
Short term deposits with credit institutions	981		-	
Cash and cash equivalents at end of year		3,938		48,876

Notes to the Financial Statements

for the year ended 31 December 2021

1. Statement of compliance & basis of preparation

These financial statements 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 Republic of Ireland” (“FRS102”), Financial Reporting Standard 103, “Insurance Contracts” and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

In respect of the 2020 year of account, it is currently the Board’s intention that Syndicate 1861 will enter a reinsurance to close arrangement with Syndicate 4444’s 2021 year of account as at 1 January 2023. Syndicate 1861 will cease to operate and will have no successor years of account thus concluding its business. On this basis the Syndicate is no longer a going concern. The annual accounts have therefore been prepared on the basis of other than going concern. This does not affect the balance sheet valuations in the annual accounts.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

The financial statements are presented in sterling, the presentation currency, and rounded to the nearest £’000. The functional currency of the Syndicate is US dollars.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

2. Members’ balances and Funds at Lloyd’s (“FAL”)

The members’ balances on the balance sheet shows a deficit of £28.8m (2020: deficit £184.2m). The ability of the Syndicate to meet its obligations as they fall due is underpinned by the members’ Funds at Lloyd’s and the support provided by the Lloyd’s chain of security for any members who are unable to meet their underwriting liabilities. FAL is further explained in Note 29.

3. Summary of significant accounting policies

a. Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those that transfer significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits above the premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Contracts that do not transfer significant insurance risk are accounted for as financial transactions. The Syndicate adopts an annual basis of accounting for insurance contracts whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance.

Gross premiums written, stated gross of acquisition costs and exclusive of premium taxes, relate to business incepted during the year and adjustments to premiums booked in prior years and includes estimates, based on underwriting estimates or past experience, of premiums due but not yet receivable or notified to the syndicate by intermediaries. Additional or return premiums are treated as a re-measurement of the initial premium.

Gross premium written in 2020 include negative premiums for the consideration paid in relation to the business transferred to Lloyd’s Brussels on 30 December 2020, this is offset by an equal inwards reinsurance premium received from Lloyd’s Brussels on the same date.

3. Summary of significant accounting policies (continued)

a. Insurance contracts (continued)

Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated by reference to the expected incidence of risk over the period of cover.

Written outwards reinsurance premiums comprise the total premiums payable for contracts entered into during the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience. Where written premiums are subject to a re-measurement retrospectively they are recognised as soon as there is an obligation to the reinsurer.

Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured within the parameters of the reinsurance contract terms. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums written which is estimated to be earned in the following financial years.

There are a number of different types of business written by the Syndicate, including property, liability and marine business, broadly categorised as either "short tail" or "long tail" business. The Syndicate also writes reinsurance business. The characteristics of this business mirror those of the underlying business ceded to the syndicate.

The accounting policies for insurance claims and claims settlement expenses are considered in Note 4 (Critical accounting judgements and estimation uncertainty).

Short Tail Business

For "short tail" business there is typically no significant delay between the occurrence of the claim and the claim being reported. The costs of claims notified at the balance sheet date are estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims, including provisions for claims incurred but not reported ("IBNR"), is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time.

Longer tail business

For longer tail business there is typically a delay between the occurrence of a claim and the claim being reported. Consequently a larger element of the claims provision relates to IBNR claims. Claims estimates for business in this category are derived from a combination of loss ratio based estimates and estimates based upon actual claims experience, using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimates of the claims provisions are based on the experience of previous years and benchmarks adjusted for factors such as premium rate changes and claims inflation. For liability claims, the assessment of claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability classes of business are also subject to the emergence of new types of latent claims.

b. Unexpired risk reserves

At each balance sheet date tests are performed to ensure the adequacy of the unearned premium reserve, net of associated deferred acquisition costs, to cover future claims liabilities. In performing these tests, estimates of future premiums and claims cash flows, claims handling expenses and investment income from the assets backing such liabilities are considered and compared to the balances in the unearned premium reserve and deferred acquisition costs. Provision is made for any deficiencies by establishing an unexpired risk reserve.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. Unexpired risk reserves, where relevant, are included within "claims outstanding" in the balance sheet. At 31 December 2021 the Syndicate did not have an unexpired risks provision (31 December 2020: £Nil)

3. Summary of significant accounting policies (continued)

c. Deferred acquisition costs

Acquisition costs comprise costs arising from the inception of insurance contracts. They include both direct costs, such as intermediary commissions and indirect costs, such as the administrative expenses associated with the issuing of policies. Deferred acquisition costs represent the proportion of commission and other acquisition costs relating to policies in force at the period-end, that cover subsequent reporting periods. These are amortised over the period in which the related premiums are earned.

d. Reinsurance to close ("RITC")

Each syndicate's underwriting year of account is normally closed after the end of the third year by means of reinsurance into the following underwriting year of account, which reinsures all liabilities for the closed year in return for a premium determined by the Syndicate's managing agent.

Third party RITCs, either inwards or outwards, are not reported as income but recognised as a transfer of assets and liabilities.

e. Outwards reinsurance contracts

Outwards reinsurance contracts are contracts entered into by the Syndicate with reinsurers whereby the syndicate may recover a proportion of losses on contracts written by the Syndicate. Contracts that do not transfer significant insurance risk are accounted for as financial transactions.

The benefits to which the Syndicate is entitled under its outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related insurance contracts. These balances are based on calculated amounts of outstanding claims and projections for IBNR, having regard to the reinsurance programme in place for the class of business and the claims experience for the period, net of estimated irrecoverable amounts after assessing the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

The Syndicate assesses its reinsurance assets for impairment. If there is evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the profit and loss account.

f. Receivables and payables related to insurance contracts

Receivables and payables include amounts due to and from agents, brokers and insurance contract holders. If there is evidence that the insurance receivable is impaired, the Syndicate reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account.

g. Financial assets

The Syndicate states financial assets at fair value.

The Syndicate classifies its financial assets into the following categories: financial assets at fair value through profit and loss, and loans and receivables. The Syndicate does not invest in derivative financial instruments and there are no assets classified as available for sale.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

(i) Financial assets at fair value through profit and loss

The Syndicate classifies its investments at fair value through profit and loss.

Purchases and sales of investments are accounted for at their fair values (normally their cost of acquisition or proceeds of disposal) on the trade date, which is the date the Syndicate commits to purchase or sell the assets.

3. Summary of significant accounting policies (continued)

g. Financial assets (continued)

The fair value of quoted investments is based on quoted bid prices. Realised and unrealised gains and losses arising from the changes in fair values are included in investment return in the profit and loss account in the period in which they arise. Unquoted investments are initially carried at cost as the best estimate of fair value, which is adjusted using appropriate valuation techniques and having regard to subsequent events or changes in circumstances.

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are not intended to be sold in the short term and do not fall into the other categories of financial assets as described above. Loans and receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the Syndicate will not be able to collect all amounts due according to their original terms. These are reversed if the payment is received. Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(iii) Deposits with ceding undertakings

Syndicate 1861 advances funds to ceding undertakings for the settlement of claims. These are measured at cost less allowance for impairment.

(iv) Derivative financial instruments

Syndicate 1861 enters into exchange traded derivatives and foreign currency forward contracts from time to time to manage its exposures to interest rate risk and foreign exchange rate volatility. These contracts are initially recorded at cost and revalued to their fair value at each period end by reference to the rates of exchange ruling at the balance sheet date. Any gains or losses on the contracts are included in the non-technical account.

(v) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Lloyd’s overseas deposits are not included within the balance of cash at bank and in hand on the Balance Sheet. These are recognised separately in their own category within other assets.

h. Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the Syndicate operates. The functional currency for Syndicate 1861 is the US Dollar. The presentational currency for the Syndicate Annual Report and Accounts is Sterling. Foreign exchange resulting from translating balances in functional currency into Sterling is included in Other Comprehensive Income. FRS 102 requires all foreign currency transactions to be translated into the functional currency at the transactional rate of exchange. Transactions in Sterling, Canadian dollars and Euros are translated to US Dollars at the average rates of exchange for the period as these approximate the actual rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

3. Summary of significant accounting policies (continued)

h. Foreign currencies (continued)

At the period end, the monetary foreign currency items are translated to US Dollars at the closing rate with any difference being recorded in the non-technical account. For the purposes of applying the requirements of Section 30 Foreign Currency Translation of FRS 102, all assets and liabilities arising from insurance contracts are treated as monetary items.

i. Taxation

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

No provision has been made for any United States federal income tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading “other debtors”. No provision has been made for any other overseas tax payable by members on underwriting results.

4. Critical accounting judgements and estimation uncertainty

Insurance claims and claims settlement expenses

Insurance claims and claims settlement expenses comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for IBNR and related expenses, together with any other adjustments to claims from prior years. See Note 24.

Provision is made at the period-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 Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. There is inherent uncertainty in establishing claims provisions and it is likely that the final outcome will prove to be different from the original estimate of the liability. Adjustments to the amounts of claims provisions established in prior years are included in the financial statements in the period in which the adjustments are made. The claims provisions are reviewed regularly.

Estimating claims IBNR is inherently more uncertain than the cost of claims notified, for which more information about the claim event is generally available.

Classes of business where the IBNR proportion of the total claims provisions 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 the claims provisions.

Where possible the Syndicate adopts multiple techniques to estimate the required level of claims 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 underwriting year of account.

Allowance is made 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:

- changes in the business environment or processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from prior periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;

4. Critical accounting judgements and estimation uncertainty (continued)

Insurance claims and claims settlement expenses (continued)

- the impact of large losses; and
- movements in industry benchmarks.

In estimating the cost of notified but not paid claims the Syndicate 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 and catastrophe events 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.

Claims provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers. An assessment is also made of the recoverability of reinsurance recoveries having regard to available data on the financial strength of each of the reinsurance companies.

Claims reserved as non-life annuities are discounted for investment earnings that may be expected to arise in the future on funds retained to meet the future liabilities. All other claims provisions are undiscounted.

Premium estimates

Gross written premiums include an estimate of the total premiums expected to be received under each insurance and reinsurance contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips, is calculated based on the estimated underlying inception profile of each contract and, therefore, this premium recognition is judgemental. Further adjustments to estimates from previous years are also included in the reported premiums for the relevant underwriting years.

Reinstatement premiums are estimated in accordance with the contract terms and recorded based upon paid losses and claims reserves.

Premium estimation uses expert judgement, the quality of the estimate being influenced by the nature and maturity of the portfolio, availability of timely data, relevant underwriting input to the estimating process and management review. Gross written premium estimates are reviewed regularly using underwriter estimates and actuarial projections. The amount of estimated future premium that remains in insurance receivable is disclosed in Notes 16 and 17.

Financial investments

The Syndicate uses prices provided by third party suppliers, investment managers and counterparty banks in determining the fair value of financial assets. Depending on the methods and assumptions used, for example, in the fair valuation of Level 2 and Level 3 financial assets, the fair valuation can be subject to estimation uncertainty. These methods and assumptions are described in Note 5 below.

5. Management of risk

The Syndicate has identified the principal risks and uncertainties arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below explain how the Syndicate defines and manages each category of risk.

a. Insurance risk

Insurance risk is defined as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Syndicate 1861's exposure to insurance risk arises from underwriting/pricing, insurance concentrations, reserving and reinsurance. The Board of CMA seeks to mitigate insurance risk by analysing historical pricing and claims experience, setting a tolerance to concentration risk, monitoring performance, and conducting in-house actuarial reviews of claims provisions, independent of the underwriting teams.

5. Management of risk (continued)

a. Insurance risk (continued)

The Syndicate has formal controls in place to ensure that business is underwritten in a controlled environment by reference to both the annual business plan and in line with underwriting policy. Preventative controls include underwriting authority limits which are agreed and signed off by the Active Underwriter, Divisional Heads and Group underwriting guidelines and benchmark ratings for all underwriting divisions. Detection controls include exception reports where authority limits are exceeded, expert review procedures, peer reviews and internal audit reviews.

Syndicate 1861 is exposed to potentially significant losses arising from natural catastrophe events such as windstorm, earthquake, flood or pandemic in addition to man-made perils. CMA quantifies catastrophe risk exposures using proprietary modelling software in conjunction with the principal underwriting systems to assess and model catastrophe exposures. The modelling tools are used in conjunction with CMA's knowledge of the business, historical loss information and geographic accumulations to monitor aggregation and to simulate catastrophe losses. The range of scenarios considered includes natural catastrophe, property, marine, liability and terrorism events.

CMA's capital setting methodology enables modelling to be performed in a sophisticated, but practical, manner particularly in determining the correlations between catastrophe exposed classes of business. Models use event tables which capture directly the different geographic distributions of risk in the various lines of business.

Effective risk management in non-core areas and from non-modelled perils is ensured using a suite of exposure accumulation and aggregation monitoring techniques and proprietary deterministic models.

As a guide to the level of concentration of exposure the Syndicate writes, the following table shows the Syndicate's 1:100 Aggregate Exceedance Probability ("AEP") modelled exposure to its two largest natural catastrophe perils during 2021:

Peril	**Gross Loss £m**	**Final Net Loss £m**
North Atlantic Hurricane	10.5	5.9
US Earthquake	3.0	1.4

The managing agent manages insurance risks on behalf of the Syndicate, including the following:

- inappropriate underwriting activities and cycle management;
- inadequate catastrophe exposure management; and
- inadequate or insufficient reinsurance protection.

The underwriters, supported by the actuarial pricing team, use their expertise and experience to determine 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 in line with the agreed business plan.

Due to the nature of insurance risk, however, the premium charged may not be sufficient to cover the cost of claims. The shortfall may result from insufficient premium being calculated and charged or from an unexpected or unprecedented high level of claims.

A number of controls are employed to limit insurance exposures. Each year a business plan is prepared and agreed by the Board which sets the premium income targets and exposures to be written in total and for each class of business. Progress against this plan is monitored by the Board during the year.

Insurance liabilities are assumed through individual risk acceptances, reinsurance treaties or binding authorities. Binding authorities delegate underwriting authority to other underwriters, or agents acting as coverholders, who use their judgement to write risks on Syndicate 1861's behalf

5. Management of risk (continued)

a. Insurance risk (continued)

under clear authority levels. In such situations, the coverholders' activities are closely monitored and reviewed, and periodic on-site audits are carried out to ensure that the terms of the delegated authorities are being adhered to.

The Syndicate is also exposed to the risk of:

- inappropriate claims reserves;
- inappropriate payment of claims.

All claims arising are reserved upon notification. The entire portfolio of business is subject to a quarterly reserving process whereby levels of paid and outstanding claims are reviewed. Potential future claims are assessed with a provision for IBNR claims being made. The quarterly review process is overseen by the Reserving Committee and Board Audit Committee. Whilst a detailed and disciplined reserving exercise is carried out, known claims can develop beyond the level of reserves held.

Furthermore, there is increased uncertainty around the provision for IBNR claims. Consequently, there is a possibility that claims may arise which in aggregate exceed the reserve provision established. In the event that claims do not develop in line with expectations, the Reserving Committee will seek to release any redundant reserves.

The Syndicate purchases specific reinsurances to protect against single risk losses. The Syndicate also purchases general excess of loss reinsurance to protect from severe losses. The structure of the programme and type of protection bought will vary from year to year depending on risk appetite and the availability and price of cover.

(i) Development of claims

The claims provisions established can be more or less than adequate to meet eventual claims. The level of uncertainty varies from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be a £2.4m gain/loss (2020: £5.7m gain/loss).

(ii) Claims development tables

The development of insurance liabilities provides a measure of the Syndicate's ability to estimate the ultimate value of claims. Historic development includes a mix of prior year releases and deteriorations, and in 2021 gross and net deteriorations occurred. Claims development is expected over the first 3 years of a year of account as the business written, and as yet unwritten, writes and earns.

The tables below are presented at the exchange rates prevailing at 31 December 2021.

At 31 December 2021 **Gross of reinsurance**	***2019 YOA £000***	***2020 YOA £000***	***Total £000***
At end of underwriting year	137,607	157,353	294,960
One year later	445,621	293,198	738,819
Two years later	480,140	-	480,140
Gross incurred claims on premium earned to date	480,140	293,198	773,338
Cumulative payments	(280,672)	(100,710)	(381,382)
Gross claim reserve	199,468	192,488	391,956

5. Management of risk (continued)

(ii) Claims development tables (continued)

At 31 December 2021 **Net of reinsurance**	***2019 YOA £000***	***2020 YOA £000***	***Total £000***
At end of underwriting year	107,967	120,873	228,840
One year later	347,405	207,989	555,394
Two years later	382,576	-	382,576
Net incurred claims on premium earned to date	382,576	207,989	590,565
Cumulative payments	(259,302)	(88,880)	(348,182)
Net claim reserve	123,274	119,109	242,383

b. Financial risk

The Syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts. An analysis of the Syndicate's exposure to the significant components of financial risk is given below split between:

(i) Market risk (including interest rate risk);
(ii) Credit risk (including Fair Value Hierarchy);
(iii) Currency risk; and
(iv) Liquidity risk.

(i) Market risk

Market risk arises from fluctuations in values of, or income from, assets or in interest or exchange rates and is derived primarily from the Syndicate's investment asset portfolio and from currency exposures. The Board has agreed an investment strategy commensurate with the Syndicate's risk appetite.

Interest rate risk

CMA manages sensitivity to market conditions by reference to interest rate risk. Since the majority of the Syndicate's investments comprise cash, overseas deposits and fixed income securities, the fair value of the portfolio is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the Syndicate's fixed income securities tends to rise and vice versa. The fair value of fixed income investments in the Syndicate's balance sheet at 31 December 2021 was £111.0m (2020: £137.6m) with an average duration 2.3 years (2020: 2.4 years).

The sensitivity of the Syndicates investments from a rise or fall in interest rates is listed below:

	Impact on profit and net assets	
	2021	*2020*
	£m	*£m*
50 basis points increase	(1.5)	(1.8)
50 basis points decrease	1.5	1.8

The Syndicate manages interest rate risk by investing in financial investments, cash and overseas deposits with an average duration of less than four years. The Group Investment Committee monitors the duration of these assets on a regular basis.

Outstanding claims provisions are not sensitive to the level of interest rates as they are undiscounted and contractually non-interest bearing.

5. Management of risk (continued)

(ii) Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations. Credit risk could, therefore, impact upon the Syndicate's ability to meet its claims as they fall due. The Syndicate has in place policies and procedures designed to manage its credit risk exposures.

The primary sources of credit risk for the Syndicate are:

- amounts due from reinsurers,
- amounts due from insurance intermediaries, and
- counterparty risk with respect to investments including cash and cash equivalents.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security by CMA's Reinsurance Security Committee, prior to the purchase of reinsurance contracts. Guidelines are set and monitored, that limit the purchase of reinsurance based on Standard & Poor's or appropriate alternative ratings for each reinsurer. The credit risk in respect of reinsurers is primarily managed by CMA's reinsurance support team. Provisions are made against the amounts due from certain reinsurers, depending on the current rating assigned to the reinsurer. Some reinsurers provide collateral, either through deposits held in designated trust accounts or through letters of credit, to protect the Syndicate in the event of non-payment of debt. As this collateral effectively guarantees the debt, these reinsurers are zero-rated for bad debt provisions. The recovery of debt from reinsurers is administered by the credit management team.

The credit risk in respect of insurance intermediaries is managed by the credit management function with the aid of the underwriting support team and a dedicated binder management team. This risk continues to reduce as new business is no longer written and debtor balances fall year on year.

To transact business with the Syndicate the insurance intermediary must first comply with internal guidelines that include approval (where relevant) by both the PRA and Lloyd's, to have a satisfactory credit rating and to have in place a terms of business agreement or a binding authority agreement with the Syndicate. The position is then monitored through ongoing review of the amount of debt outstanding to terms, and by regular cover-holder audits.

The Finance Management Committee regularly reviews inwards premiums debtors and reinsurance debtors by reference to the age of the debt. The objective of the Finance Management Committee is to ensure robust balance sheet management, financial accounting and regulatory reporting oversight and to maintain a strong governance and control framework.

Debts from insurance intermediaries fall due according to the terms of trade; debts from reinsurers crystallise in line with the reinsurance contract terms.

5. Management of risk (continued)

(ii) Credit risk (continued)

An analysis of amounts past due from insurance intermediaries and reinsurers by age is presented below.

At 31 December 2021	***Neither past due nor impaired***	***Up to 3 months***	***3 – 6 months***	***6 – 12 months***	***More than 12 months***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Debtors arising out of direct insurance operations	50,665	-	-	-	-	50,665
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	25,126	-	-	-	-	25,126
Reinsurance recoverables on paid claims	-	6,968	718	437	157	8,280
Total	75,791	6,968	718	437	157	84,071

Reinsurance recoverables on paid claims is net of bad debt provision of £165k (2020: 782k).

At 31 December 2020	***Neither past due nor impaired***	***Up to 3 months***	***3 – 6 months***	***6 – 12 months***	***More than 12 months***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Debtors arising out of direct insurance operations	179,712	-	-	-	-	179,712
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	81,293	-	-	-	-	81,293
Reinsurance recoverables on paid claims	-	10,882	9,377	3,848	2,221	26,328
Total	261,005	10,882	9,377	3,848	2,221	287,333

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 setting minimum credit worthiness of investments and ensuring diversification of the holdings.

An analysis of the Syndicate's major exposure to counterparty credit risk and credit risk with the investment funds and cash, based on Standard & Poor's or equivalent rating, is presented below. These assets are neither overdue nor impaired.

5. Management of risk (continued)

(ii) Credit risk (continued)

At 31 December 2021	***AAA***	***AA***	***A***	**BBB/ BB**	***Other/Not rated***	***Total***
	£000	***£000***	***£000***	**£000**	***£000***	***£000***
Reinsurers' share of claims outstanding	-	19,164	118,810	466	11,133	149,573
Debt and other fixed income securities	56,801	23,353	30,601	228	-	110,983
Shares and other variable yield securities and units in unit trusts	70,826	-	-	-	8,403	79,229
Derivative assets	-	-	-	-	454	454
Overseas deposits	14,010	2,014	7,907	1,746	8,565	34,242
Deposits with credit institutions	-	-	981	-	-	981
Cash	92	-	2,865	-	-	2,957
Total	141,729	44,531	161,164	2,440	28,555	378,419

At 31 December 2020	***AAA***	***AA***	***A***	**BBB/ BB**	***Other/Not rated***	***Total***
	£000	***£000***	***£000***	**£000**	***£000***	***£000***
Reinsurers' share of claims outstanding	-	21,329	172,613	1,854	9,941	205,737
Debt and other fixed income securities	27,969	37,293	44,257	28,109	-	137,628
Shares and other variable yield securities and units in unit trusts	154,271	-	-	-	8,403	162,674
Derivative assets	-	-	-	-	1,419	1,419
Overseas deposits	24,529	3,305	8,088	2,618	1,969	40,509
Deposits with credit institutions	-	-	-	-	-	-
Cash	-	-	48,876	-	-	48,876
Total	206,769	61,927	273,834	32,581	21,732	596,843

The carrying values represent the maximum exposure to credit risk at the balance sheet date in respect of the above assets. The analysis above does not include insurance debtors from direct insurance operations as the majority of these assets are in respect of premiums for which the information is not readily available. Those reinsurance reserves with unrated counterparties are fully collateralised.

Fair Value Hierarchy

The Syndicate has classified its financial instruments in accordance with the requirements of paragraph 16 to the March 2016 amendment to FRS102 and has adopted an approach consistent with IFRS13, Fair Value Measurement. The fair value hierarchy classifies financial instruments into Level 1 to 3 based on the significance of the inputs used in measuring their fair value.

The levels within the fair value hierarchy are defined as follows:

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

5. Management of risk (continued)

Fair value hierarchy (continued)

At 31 December 2021	*Level 1*	*Level 2*	*Level 3*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	2,394	68,432	8,403	79,229
Debt and other fixed income securities	19,405	91,578	-	110,983
Deposits with credit institutions	981	-	-	981
Derivative assets	-	454	-	454
Other financial investments	22,780	160,464	8,403	191,647
Overseas Deposits	8,143	26,099	-	34,242
Derivative liabilities	-	-	-	-
Total	30,923	186,563	8,403	225,889

At 31 December 2020	*Level 1*	*Level 2*	*Level 3*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	19,913	134,358	8,403	162,674
Debt and other fixed income securities	2,048	135,580	-	137,628
Deposits with credit institutions	-	-	-	-
Derivative assets	-	1,419	-	1,419
Other financial investments	21,961	271,357	8,403	301,721
Overseas Deposits	10,798	29,711	-	40,509
Derivative liabilities	-	(393)	-	(393)
Total	32,759	300,675	8,403	341,837

The level within the hierarchy that a financial instrument is placed is based on the lowest level of any input that is significant to its fair value measurement. Quoted prices for corporate bonds are based on a limited number of transactions for those securities and as such are considered to meet the definition of level 2 assets. CMA determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period. There have been no transfers between level 1 and level 2 financial instruments during the year (2020: £nil).

Values for assets which have no observable market value are considered level 3 assets. This balance represents the Syndicate's loans to the Lloyd's central fund, these are not tradeable and are fair valued based on a discounted cash flow model to which a fair value adjustment has been applied to appropriately reflect the credit and illiquidity risk of the instrument. These loans are deemed to be equity on the basis that the repayment of the loan and payment of interest thereon is at the discretion of the Corporation of Lloyd's. The Syndicate loans have been classified as level 3 because the valuation approach include significant unobservable inputs and an element of subjectivity in determining appropriate credit and illiquidity spreads within the discount rates used in the discounted cash flow model. The fair value of the loan at year end is £8.4m (2020: £8.4m).

There were no transfers to and from level 3 assets for the period ended 31 December 2021 when compared with the comparative prior period end.

(iii) Currency risk

Policyholders' assets are held in the five principal Lloyd's settlement currencies (Sterling, Euros, US, Australian and Canadian dollars) which represent the vast majority of the Syndicate's liabilities by currency. A significant proportion of the Syndicate's business is transacted in US dollars. The Syndicate's functional currency is US dollars and, therefore, foreign exchange risk also arises when non-US dollar profits are converted into US dollars.

5. Management of risk (continued)

(iii) Currency risk (continued)

CMA has a policy to mitigate foreign exchange risk and this policy is managed by the Finance team and overseen by the Finance Committee.

The Syndicate is exposed to foreign exchange risk primarily with respect to the Sterling, Euro Australian and Canadian dollar. The Syndicate mitigates this risk by endeavouring to match assets and liabilities in foreign currency. The Managing Agent reviews currency matching quarterly.

In certain circumstances, the Syndicate is exposed to a foreign exchange risk where regulators demand that the Syndicate holds US, Australian and Canadian dollar currency assets to match liabilities measured on a regulatory basis, rather than best estimate.

If the exchange rates of all non-USD currencies moved by a foreseeable 5%, either to the benefit or detriment of the Syndicate at the same time, the impact on both the result for the year and the member's balances, expressed in presentational GBP terms, would be £126k (2020: £26k).

The profile of the Syndicate's assets and liabilities, categorised by currency, was as follows:

At 31 December 2021	***Sterling & Other***	***US dollar***	***Euro***	***CAD***	***AUD***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Financial investments	8,403	129,604	37,660	15,980	-	191,647
Overseas deposits	21,289	2,849	-	4,396	5,708	34,242
Reinsurers' share of technical provisions	20,838	130,158	10,523	1,424	78	163,021
Insurance and reinsurance receivables	10,119	61,233	11,035	1,044	640	84,071
Cash and cash equivalents	330	-	1,375	-	1,252	2,957
Other assets	8,053	7,947	4,726	340	104	21,170
Total assets	69,032	331,791	65,319	23,184	7,782	497,108
Technical provisions	79,936	315,814	41,355	10,657	6,567	454,329
Insurance and reinsurance payables	9,037	37,635	11,304	1,429	301	59,706
Other creditors	7,306	4,455	71	9	-	11,841
Total liabilities	96,279	357,904	52,730	12,095	6,868	525,876

At 31 December 2020	***Sterling & Other***	***US dollar***	***Euro***	***CAD***	***AUD***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Financial investments	37,394	193,397	29,613	41,317	-	301,721
Overseas deposits	12,825	4,303	-	7,938	15,443	40,509
Reinsurers' share of technical provisions	15,163	213,993	13,265	2,196	1,357	245,974
Insurance and reinsurance receivables	44,159	206,114	27,507	5,049	4,504	287,333
Cash and cash equivalents	6,864	1,971	36,063	-	3,978	48,876
Other assets	52,242	42,859	13,137	1,876	680	110,794
Total assets	168,647	662,637	119,585	58,376	25,962	1,035,207
Technical provisions	187,259	750,150	95,827	27,793	24,318	1,085,347
Insurance and reinsurance payables	11,235	93,880	7,996	1,872	2,753	117,736
Other creditors	12,902	3,319	64	-	-	16,285
Total liabilities	211,396	847,349	103,887	29,665	27,071	1,219,368

5. Management of risk (continued)

(iv) Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due.

All valid claims must be paid as they fall due and, therefore, it is essential that the Syndicate maintains an appropriate level of liquidity at all times. As a consequence, cash is managed closely by the Treasury team. The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities.

The Syndicate's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. The availability of liquidity in the event of a major loss event is regularly tested using internal cash flow forecasts and realistic disaster scenarios.

The majority of the Syndicate's investments are in highly liquid assets which could be converted into cash promptly and at minimal expense. Cash and overseas deposits are generally bank deposits and money market funds.

In addition, the duration of assets is maintained at a level to manage liability durations and in recognition of the Syndicate's catastrophe exposures. Greater levels of cash and/or liquid assets may be held when determined by market conditions and is considered appropriate by the Chief Investment Officer and the Board.

The tables below show the maturity profile of the Syndicate's financial liabilities.

At 31 December 2021	***No stated maturity***	***0-1 year***	***1-3 years***	***3-5 years***	***>5 years***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Derivative liabilities	-	-	-	-	-	-
Creditors	-	71,547	-	-	-	71,547
Claims outstanding	-	174,881	129,038	51,226	36,811	391,956
Total	-	246,428	129,038	51,226	36,811	463,503

At 31 December 2020	***No stated maturity***	***0-1 year***	***1-3 years***	***3-5 years***	***>5 years***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Derivative liabilities	-	393	-	-	-	393
Creditors	-	133,584	-	-	-	133,584
Claims outstanding	-	285,882	283,518	115,104	86,467	770,971
Total	-	419,859	283,518	115,104	86,467	904,948

c. Group risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. CMA is part of the Canopius Group Limited ("CGL"), a global underwriter of insurance and reinsurance business transacted both through direct channels and via delegated underwriting. CGL has established a risk management framework to protect the Group's stakeholders, including syndicate members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having effective risk management systems in place.

5. Management of risk (continued)

(iv) Liquidity risk (continued)

A clear organisational structure is in place with delegated authorities and clear responsibilities. A Group policy framework is in place which sets out the risk management, internal control and business conduct standards for the Group's operations. Group risk management policies set out the identification of risk and its interpretation, to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Each policy has a member of senior management charged with overseeing compliance throughout the Group and the CGL Board meet regularly to approve any commercial, regulatory and organisational requirements of such policies.

d. Operational and regulatory risk

Operational risk is the risk of inadequate or failed internal processes, people and systems, or external events that have an adverse impact on the business. The Syndicate manages these risks through a framework of robust systems and controls. CMA's objective for operational risk management is to identify, assess, manage, monitor and report risks and to prevent or reduce any failures or inadequacies in systems and controls. To this end, CMA has established key policies and controls that include:

- regular meetings of the Board of directors at which key aspects of the managing agent's and Syndicate's businesses are reviewed, including review of reports from various sub-committees of the Board
- underwriting procedures guidelines
- claims management policies and guidelines
- risk registers which are reviewed by risk and control owners on a regular basis
- a suite of risk policies for major risk categories relating to the activities of the Syndicate
- an internal audit function whose audit plan is aligned with CMA's risk framework
- human resources policies and guidelines designed to ensure that the operations are adequately resourced by sufficiently skilled and trained people, who are appropriately remunerated
- financial policies and controls that cover:
    - maintaining segregated funds for the Syndicate's assets
    - investment of funds
    - expense management
    - establishing adequate provisions for unpaid claims
    - credit risk, including debt collection and managing counter-party exposures
    - cash flow and other financial projections
    - regular review and reconciliation of the entity's financial records.

In addition, the managing agent has an established and integrated capital and planning cycle. This provides an assessment of the significant financial and non-financial risks, as identified by the managing agent's risk management framework. The capital requirement is assessed in accordance with applicable requirements through the use of deterministic and stochastic modelling and further challenged using a comprehensive validation process which includes the use of stress and scenario tests. This process assesses the capital required to meet a 1 in 200 level extreme outcome from the aggregation of all recognised sources of risk.

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the Prudential Regulatory Authority ("PRA"), the Financial Conduct Authority ("FCA"), Lloyd's and those of overseas regulators in jurisdictions where Lloyd's syndicates are licensed to trade.

Regulatory risk is a key area of focus for the Risk and Compliance teams to ensure legislative and regulatory changes are understood and observed.

5. Management of risk (continued)

(iv) Liquidity risk (continued)

e. Climate Change risk

CMA has recognised climate change as an emerging risk for a number of years but has significantly developed its climate risk framework recently in line with Canopius Group, developments and evolving regulatory expectations. Climate change and society's response to it present physical, transition and liability risks to the business but through better identification and assessment of these risks, CMA believes it is well positioned to proactively manage and mitigate risk and seek opportunities for innovation, diversification and growth within the industry.

CMA's climate risk framework covers governance, risk management, scenario analysis and disclosures. It aligns with the requirements of regulatory requirements in the UK, specifically PRA Supervisory Statement SS3/19. Key areas of focus in the year have been the further development of CMA's climate change risk strategy and risk appetite, governance and risk management approach, establishment of a multi-disciplinary climate risk working group, consideration of scenario analysis (aligned with the Bank of England's 2021 Climate Biennial Exploratory Scenario), and a commitment to develop TCFD-aligned disclosures from 2022 onwards. Canopius is a member of ClimateWise, a global network of leading insurers, reinsurers, brokers and industry service providers which share a commitment to reduce the impact of climate change on society and the insurance industry.

CMA's climate risk framework is part of its wider ESG framework which covers a broad range of sustainability issues. As part of this, CMA is developing and embedding a suite of responsible business policies covering underwriting, investments and operations.

6. Capital setting, capital management policies and objectives

The Syndicate's objectives in managing its capital are to:

- satisfy the requirements of its policyholders and regulators; and
- allocate capital efficiently to support strategic objectives.

The Society of Lloyd's applies capital requirements at member level and in aggregate to ensure that Lloyd's complies with all regulatory requirements such as Solvency II, whilst meeting its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1861 is not disclosed in these financial statements.

The PRA and Lloyd's oversee the capital setting regime that requires syndicates to calculate their own capital requirements through a Solvency Capital Requirement ("SCR"). The SCR 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 share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member, operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member.

6. Capital setting, capital management policies and objectives (continued)

The SCR represents the equivalent of minimum regulatory capital, as is required by the PRA and Lloyd's, and does not represent the amount of economic capital required to support and maintain Lloyd's financial strength, licence and ratings objectives. The SCR process produces a result that is then uplifted by Lloyd's (by 35% in 2021) of the member's SCR 'to ultimate'.

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position on page 15, are included in resources available to meet members' and Lloyd's capital requirements.

The Syndicate maintains models in accordance with this regime, and also operates an Own Risk & Solvency Assessment ("ORSA") process which it reports on at least annually.

Key elements of CMA's capital methodology include:

- risk identification;
- the articulation of risk bearing capacity and establishment of risk appetite;
- identification of capital requirement for all significant risks;
- sensitivity analysis and 'reasonableness checks';
- aggregation and correlation of risks;
- comparison with other benchmarks e.g. prior years' internal SCRs, standard formula SCR results, the PRA published calculations based on industry SCR submissions and market surveys/studies; and
- Board review and challenge.

To improve the risk management capability, and the assessment of capital requirements, CMA has developed a stochastic model to analyse the potential performance of its main underwriting operations. Stress and scenario analysis is also performed for those risks that cannot be easily modelled quantitatively and where more subjective judgement is required (for example, operational risk) as well as to challenge the output of the stochastic model.

Using its detailed measurement of risk exposures, the Syndicate allocates capital to support the business according to the risk appetite and expected returns. The Syndicate has complied with all capital requirements during the year.

CMA regularly reviews and enhances its risk management processes and their enabling governance structures to ensure that CMA can demonstrate continuous compliance with regulatory and Lloyd's requirements.

7. Segmental analysis

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

2021	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	[1]Re-insurance Balance £000	Total £000
Direct Insurance:						
Accident and health	13,300	28,201	(16,193)	(12,267)	(1,010)	(1,269)
Energy	2,158	7,231	(6,819)	(1,928)	(1,118)	(2,634)
Marine, Aviation & Transport	5,525	14,817	(2,232)	(4,082)	(3,215)	5,288
Fire & other damage to property	34,757	84,754	(55,651)	(29,024)	7,320	7,399
Third party liability	22,977	61,018	(38,772)	(19,381)	(3,778)	(913)
Pecuniary Loss	2,021	12,974	(15,230)	(4,275)	(3,819)	(10,350)
Others	(246)	9,033	(3,133)	(5,160)	(480)	260
Total Direct	80,492	218,028	(138,030)	(76,117)	(6,100)	(2,219)
Reinsurance inwards	11,387	52,692	(29,925)	(15,384)	(2,232)	5,151
Total	91,879	270,720	(167,955)	(91,501)	(8,332)	2,932

Current year underwriting results for those policies transferred to Lloyd's Brussels via Part VII transfer and subsequently reinsured back to the Syndicate on 30 December 2020 have been reported under the inwards reinsurance class of business, reflecting the new contractual arrangement with Lloyd's Brussels. In the prior year, results relating to these risks were reported in the same classes of business in which they were originally underwritten, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd's guidance no movements were recognised on these policies on 30 December 2020.

2020	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	[1]Re-insurance Balance £000	Total £000
Direct Insurance:						
Accident and health	47,284	48,024	(34,465)	(19,455)	548	(5,348)
Energy	13,185	15,818	(15,593)	(4,207)	2,356	(1,626)
Marine, Aviation & Transport	19,825	22,856	(22,101)	(6,061)	4,214	(1,092)
Fire & other damage to property	146,862	178,383	(128,683)	(72,524)	(23,593)	(46,417)
Third party liability	103,598	155,560	(121,883)	(46,671)	6,932	(6,062)
Pecuniary Loss	21,499	52,651	(93,387)	(16,677)	19,188	(38,225)
Others	20,027	9,796	(4,168)	(6,354)	(140)	(866)
Total Direct	372,280	483,088	(420,280)	(171,949)	9,505	(99,636)
Reinsurance inwards	154,147	175,575	(210,084)	(50,631)	6,028	(79,112)
Total	526,427	658,663	(630,364)	(222,580)	15,533	(178,748)

[1]Reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards. All premiums were concluded in the United Kingdom.

7. Segmental analysis (continued)

The geographical analysis of gross premiums written by destination is as follows:

	2021 £000	2020 £000
US	42,638	219,686
UK	27,789	145,752
EU	3,536	19,442
Australia	3,414	18,547
Canada	2,830	14,604
Other	11,672	108,396
Total	91,879	526,427

In 2021 "other" represents the combined gross premium written in 163 territories not separately disclosed (2020:158 territories) none of which individually account for more than 2.5% of total premiums written.

8. Currency rates of exchange

	31 Dec 21	Average for 2021	31 Dec 20	Average for 2020
US $	1.35	1.38	1.37	1.28
Euro	1.19	1.16	1.12	1.13
Canadian $	1.71	1.72	1.74	1.72

9. Net claims outstanding

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and reinsurers' share thereof. Included within net claims incurred of £120.9m (2020: £473.6m) is a deterioration of £0.8m pre LPT (2020: deterioration of £7.9m) to claims reserves established at the prior year end.

10. Net operating expenses

	2021 £000	2020 £000
Commissions on direct business	26,493	114,170
Other acquisition costs	4,553	20,091
Change in deferred acquisition costs	50,592	52,309
Administrative expenses	9,856	27,083
Personal expenses (see note 11)	7	8,927
Total expenses – technical account	91,501	222,580
Profit / (loss) on exchange – non technical account	(407)	1,894
Total expenses	91,094	224,474

10. Net operating expenses (continued)

Administrative expenses include:

	2021	*2020*
	£000	*£000*
Auditors' remuneration		
Audit of syndicate accounts	271	339
Other services pursuant to Regulations and Lloyd's Byelaws	108	183
Other non-audit services	50	80
Total audit and non-audit fees	429	602

11. Personal Expenses

	2021	*2020*
	£000	*£000*
Members' standard personal expenses	-	4,508
Managing Agent's fee	7	4,419
Total	7	8,927

12. Staff numbers and costs

All staff are employed by a service company Canopius Services Limited ("CSL"). The following amounts were recharged to the Syndicate in respect of salary costs:

	2021	*2020*
	£000	*£000*
Wages and salaries	6,006	20,225
Social security costs	742	2,503
Pension contributions to money purchase schemes	443	1,277
Total	7,191	24,005

The average number of employees employed by CSL working on the Syndicate's affairs during the year was as follows:

	2021	*2020*
Underwriting	14	72
Insurance Services	23	45
Other	20	50
Total	57	167

13. Emoluments of the directors of the Managing Agents

The directors of CMA received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2021	*2020*
	£000	*£000*
Emoluments	280	1,643
Pension contributions to money purchase schemes	19	73
Total	299	1,716

Retirement benefits are accruing to 8 directors (2020: 6) under money purchase schemes. The Active Underwriters received the following remuneration charged as a syndicate expense:

	2021	*2020*
	£000	*£000*
Emoluments	58	661
Total	58	661

Pension contributions amounting to £3k were charged to Syndicate 1861 on behalf of the active underwriters in 2021. (2020: £25k).

14. Net investment income recognised in profit or loss

	2021	*2020*
	£000	*£000*
Interest and similar income		
From financial instruments designated at fair value through profit or loss	1,043	5,302
Investment expenses	(164)	-
Total interest and similar income	879	5,302
Other income from investments designated at fair value through profit or loss		
Realised (losses) / gains on investments	(38)	667
Unrealised losses on investments	(1,621)	(1,101)
Total other losses	(1,659)	(434)
Net investment return / (loss)	(780)	4,868

	2021	*2020*
	£000	*£000*
Average amount of syndicate funds available for investment during the year	309,976	376,829
Gross aggregate investment return for the calendar year in Sterling	(616)	5,521
Gross calendar year investment yield	(0.20%)	1.47%

The Syndicate classifies its investments at fair value through profit and loss. Financial assets classified into this category form a portfolio of financial assets which may be sold to meet the cash flow requirements of the Syndicate or as investment conditions change.

15. Other financial investments

	Fair value		Cost		Listed	
	2021	*2020*	***2021***	*2020*	***2021***	*2020*
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Shares and other variable yield securities and units in unit trusts	79,229	162,674	79,875	162,674	40,386	162,674
Debt and other fixed income securities	110,983	137,628	111,856	135,843	110,982	137,628
Deposits with credit institutions	981	-	981	-	-	-
Derivative assets	454	1,419	454	1,419	-	-
Total	191,647	301,721	193,166	299,936	151,368	300,302

The Syndicate uses exchange traded derivatives and forward foreign exchange derivatives in order to hedge its exposure to interest rate and foreign currency risk.

The following derivative assets were held at 31 December.

	Notional amount		Fair value	
	2021	*2020*	***2021***	*2020*
	£000	*£000*	***£000***	*£000*
Foreign exchange forward contracts	102,476	107,474	454	1,419
Total	102,476	107,474	454	1,419

16. Debtors arising out of direct insurance operations

	2021	*2020*
	£000	*£000*
Due within one year		
Intermediaries	50,665	179,712
	50,665	179,712

Debtors arising out of direct insurance operations include £27.9m (2020: £125.3m) of pipeline premium which is estimated using expert judgement, relevant underwriting input and management review.

17. Debtors arising out of reinsurance operations

	2021	*2020*
	£000	*£000*
Due within one year		
Ceding insurers and intermediaries under reinsurance business	25,121	81,280
Reinsurance recoverable on paid claims net of bad debt provision	8,281	26,327
	33,402	107,607
Due after more than one year and within five years		
Ceding insurers and intermediaries under reinsurance business	4	14
Total	33,406	107,621

Debtors arising out of direct reinsurance operations include £22.1m (2020: £61.4m) of pipeline premium which is estimated using expert judgement, relevant underwriting input and management review.

18. Other debtors

	2021 £000	2020 £000
Due within one year		
Amounts due from group undertakings	-	4,983
Others	215	199
Total	215	5,182

19. Overseas deposits

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

20. Creditors arising out of direct insurance operations

	2021 £000	2020 £000
Due within one year		
Intermediaries	11,556	34,888
Total	11,556	34,888

21. Creditors arising out of reinsurance operations

	2021 £000	2020 £000
Due within one year		
Reinsurance ceded	48,150	82,848
Total	48,150	82,848

22. Other creditors

	2021 £000	2020 £000
Due within one year		
Amounts due to group undertakings	10,187	14,918
Derivative liabilities	-	393
Other	1,654	930
Total	11,841	16,241

23. Deferred acquisition costs

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2021 £000	2020 £000
At 1 January	103,621	126,688
RITC adjustment[1, 2]	(32,276)	29,459
Adjusted 1 January	71,345	156,147
Change in deferred acquisition costs	(50,592)	(52,309)
Foreign exchange	(585)	(217)
At 31 December	20,168	103,621

[1] 2021 RITC adjustment: At 31 December 2020 the 2018 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2018 & Prior years of account.

[2] 2020 RITC adjustment: At 31 December 2019 the 2018 YOA of the Syndicate accepted the RITC of the 2017 years of account of Syndicates 5820 and 1206, two other Syndicates managed by Canopius Managing Agents Limited and with the same 100% capital provider. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to include the technical provisions in relation to Syndicate 5820 and 1206.

24. Reconciliation of insurance balances

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		***Reinsurers' share***	
	2021 £000	2020 £000	**2021 £000**	2020 £000
At 1 January	314,376	387,735	40,237	63,204
RITC adjustment[1,2]	(71,151)	61,527	(3,348)	314
Adjusted 1 January	243,225	449,262	36,889	63,518
Change in provision	(178,841)	(132,236)	(23,284)	(22,083)
Foreign exchange	(2,011)	(2,650)	(157)	(1,198)
At 31 December	62,373	314,376	13,448	40,237

[1] 2021 RITC adjustment: At 31 December 2020 the 2018 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2018 & Prior years of account.

[2] 2020 RITC adjustment: At 31 December 2019 the 2018 YOA of the Syndicate accepted the RITC of the 2017 years of account of Syndicates 5820 and 1206, two other Syndicates managed by Canopius Managing Agents Limited and with the same 100% capital provider. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to include the technical provisions in relation to Syndicate 5820 and 1206.

24. Reconciliation of insurance balances (continued)

The reconciliation of opening and closing provision for claims is as follows:

	Gross		*Reinsurers' share*	
	2021 £000	*2020 £000*	***2021 £000***	*2020 £000*
At 1 January	770,971	456,646	205,737	98,844
RITC adjustment[1,2]	(327,542)	63,393	(90,072)	14,625
Adjusted 1 January	443,429	520,039	115,665	113,469
Change in provision	(53,781)	279,444	31,988	101,263
Foreign exchange	2,308	(28,512)	1,920	(8,995)
At 31 December	391,956	770,971	149,573	205,737

[1] 2021 RITC adjustment: At 31 December 2020 the 2018 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2018 & Prior years of account.

[2] 2020 RITC adjustment: At 31 December 2019 the 2018 YOA of the Syndicate accepted the RITC of the 2017 years of account of Syndicates 5820 and 1206, two other Syndicates managed by Canopius Managing Agents Limited and with the same 100% capital provider. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to include the technical provisions in relation to Syndicate 5820 and 1206.

25. Post balance sheet events

On 24 February 2022 Russia launched an invasion into Ukraine, receiving international condemnation and widespread sanctions. As a result, whilst the directors consider that the impact on future profit and net assets could be material, they consider it is too early to reliably estimate those impacts. The directors continue to monitor the fast developing situation closely and will take all appropriate steps to manage the effect this has on the Syndicate.

26. Pensions

CSL operates defined contribution pension schemes for the employees of CSL, including those working on the Syndicate's affairs during the year. The assets of the schemes are held separately from those of CSL in independently administered funds. The amounts recharged to the Syndicate from CSL in respect of pensions are disclosed in Note 12.

27. Related parties

Transactions between the Managing Agent/Service Company and the Syndicate

CMA is the managing agent of Syndicate 1861. Managing agency fees of £7k were charged to the Syndicate by CMA during 2021 (2020: £4,419k). At December 2021 no amount was due to CMA from the Syndicate.

Employment of staff, provision of accommodation and related services are provided at cost by CSL, which is owned by Canopius Holdings UK Ltd ("CHUKL"). Expenses during 2021 totalling £12,486k (2020: 54,377k) were recharged to the Syndicate by CSL. As at 31 December 2021 an amount of £6,126k was due to CSL from the Syndicate (2020: 12,257k).

Excelsa Re Ltd ("Excelsa")

Excelsa Re Ltd ("Excelsa"), a Bermudan based special purpose insurer writing property treaty and direct and facultative business, accepted £2,940k of ceded premium from the Syndicate during the year (2020: £5,822k). At 31 December 2021, an amounts of £1,102k (2020: £2,435k) was due from the Syndicate to Excelsa.

27. Related parties (continued)

Canopius Underwriting Bermuda Limited ("CUBL")

Canopius Underwriting Bermuda Limited ("CUBL") is an insurance service company that underwrites property insurance and reinsurance business on behalf of the Syndicate. Premiums written during 2021 totalled £nil (2020: £4,952k). At 31 December 2021, an amount of £14k was due from the Syndicate to CUBL (2020: £258k).

Canopius Asia Pte. Ltd ("CAPL")

Canopius Asia Pte. Ltd ("CAPL") trades as part of the Lloyd's Asia platform. CAPL underwrites Insurance and reinsurance lines, including and most notably, property, marine, energy and engineering, accident & health and treaty reinsurance business, on behalf of the Syndicate. Premiums written during 2021 totalled £nil (2020: £31,316k). At 31 December 2021, an amount of £94k was due from the syndicate to CAPL (2020: £1,999k).

Canopius Underwriting Agency Inc. ("CUAI")

Canopius Underwriting Agency Inc. ("CUAI") is an insurance service company that underwrites direct and facultative property, marine, financial and professional insurance. It also underwrites property treaty reinsurance business on behalf of the Syndicate. Premiums written during 2021 totalled £nil (2020: £29,291k). At 31 December 2021, an amount of £70k was due from syndicate to CUAI (2020: £404k).

CMA, CUBL, CAPL and CUAI are all indirect 100% subsidiaries of the same ultimate parent undertaking – refer to note 28.

2020 Year of Account "split stamp"

The 2020 year of account of the Syndicate was written on a split stamp basis with Syndicate 4444, another syndicate managed by CMA. Under this arrangement Syndicate 1861 underwrote 35% of each risk and Syndicate 4444 65%. The Syndicates similarly share the reinsurance programme protecting the 2020 year of account. No commissions or fees are payable between the syndicates under this arrangement.

Capital

Capital to underwrite the 2019 years of account of the Syndicate is provided by Flectat 2 Limited ("F2L"). The 2020 year of account capital provider is Canopius Corporate Capital Ltd ("CCCL") (formerly Flectat Limited). F2L and CCCL are subsidiaries of CHUKL.

Directors' interests

None of the directors nor the active underwriter participate on the Syndicate.

28. Immediate and ultimate parent undertaking and controlling party

As at 31 December 2021 Syndicate 1861 was managed by CMA. CMA's immediate UK parent is CHUKL, which is registered in England and Wales. CHUKL is part of CGL which is registered in Jersey.

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman GP Limited.

29. Funds at Lloyd’s

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

The level of FAL that a member is required to maintain is determined by CMA and Lloyd’s based on compliance with PRA requirements. The determination of the FAL requirement has regard to a number of factors including the nature and amount of insurance contracts to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since the assets in FAL are not owned by the syndicate, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

30. Part VII Transfer of Liabilities to Lloyd’s Brussels

Following the UK’s departure from the European Union, and the sanctioning of the scheme by the High Court on 25 November 2020, insurance policies (and related liabilities) underwritten in the European Economic Area (‘EEA’) by the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), were transferred to Lloyd’s Insurance Company S.A. (‘Lloyd’s Brussels’) together with cash of $63.7m on 30 December 2020 in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby all risks on the same policies were reinsured back from Lloyd’s Brussels to the relevant open years of account of the Syndicate which wrote the transferring policies, and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account, together with an equal amount of cash of $63.7m.

The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there was no impact on the Syndicate’s income statement, members’ balance or total assets and total liabilities. Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd’s Brussels were included in the ‘gross written premiums’ line of the income statement. This treatment reflects the connection between both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transactions.

On 4 January 2021, the Syndicate advanced funds to Lloyd’s Brussels under the reinsurance agreement into segregated Part VII settlement bank accounts. These accounts remain an asset of the Syndicate and are reported as deposits with ceding undertakings. The accounts are managed by CMA on behalf of Lloyd’s Brussels to settle Part VII claims.

The current year underwriting results for the transferred policies have been reported under the Inwards Reinsurance class of business, reflecting the new contractual arrangement with Lloyd’s Brussels. In the prior year, the underwriting results for the transferred policies were reported in the same classes of business as per the original policy, as the effective date of the transfer was 30 December 2020, and in line with Society of Lloyd’s guidance no movements were recognised on these policies on 31 December 2020.