IQUW Re Bermuda Limited

Financial Statements

From the date of incorporation, 22 December 2020 to 31 December 2021

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Company information

Directors

Kevin Kelley (appointed 10/05/2021) - non-executive director
Robert Deutsch (appointed 10/05/2021) - non-executive
Jason Rotman (appointed 10/05/2021, resigned 01/01/2022) - executive director
Brent Stone (appointed 10/05/2021) - executive director
Peter Bilsby (appointed 10/05/2021) - executive director
Richard Hextall (appointed 10/05/2021) - executive director
Stephen Young (appointed 25/08/2021) - executive director
D Bradfield Adderley (appointed 23/12/2020, resigned 10/05/2021)
M Tonesan Amissah (appointed 23/12/2020, resigned 10/05/2021)

Company Secretary

Appleby Global Corporate Services (Bermuda) Ltd.
Cannon's Court
22 Victoria Street
Hamilton
Bermuda

Insurance Manager

Horseshoe Management Limited

Independent Auditor

PricewaterhouseCoopers Ltd.
Washington House. 4th Floor
16 Church Street
Hamilton
Bermuda
HM11

Registered Office

Canon's Court
22 Victoria Street
Hamilton
Bermuda
HM 12

Independent auditor's report

To the Board of Directors and Shareholder of IQUW Re Bermuda Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of IQUW Re Bermuda Limited (the Company) as at 31 December 2021, and its financial performance for the period from 22 December 2020 (date of incorporation) to 31 December 2021 in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2021;
- the statement of comprehensive income for the period then ended;
- the statement of other comprehensive income for the period then ended;
- the statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

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Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda

20 April 2022

IQUW Re Bermuda Limited
Statement of comprehensive income
For the period from 22 December 2020 (date of incorporation) to 31 December 2021

Statement of comprehensive income – technical account for general business

	Note	Period 22 December 2020 to 31 December 2021 $000
Earned premium, net of reinsurance		
Gross premium written		**343,540**
Outward reinsurance premium		-
Net premium written		**343,540**
Change in the provision for unearned premium:		
Gross amount		**(164,521)**
Reinsurers' share		-
Change in the net provision for unearned premium		**(164,521)**
Earned premium, net of reinsurance		**179,019**
Allocated investment return transferred from the non-technical account		**(73)**
Total technical income		**178,946**
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		**(41,325)**
Reinsurers' share		-
Net claims paid		**(41,325)**
Change in the provision for claims:		
Gross amount		**(73,042)**
Reinsurers' share		-
Change in the net provision for claims		**(73,042)**
Claims incurred, net of reinsurance		**(114,367)**
Changes in other technical provisions, net of reinsurance		
Net operating expenses	7	**(73,600)**
Total technical charges		**(187,967)**
Balance on the technical account for general business		**(9,021)**

The accompanying notes are an integral part of these financial statements.

IQUW Re Bermuda Limited
Statement of comprehensive income
For the period from 22 December 2020 (date of incorporation) to 31 December 2021

Statement of comprehensive income – non-technical account

	Note	Period 22 December 2020 to 31 December 2021 $000
Balance on the technical account for general business		**(9,021)**
Investment income	8	**1,009**
Realised loss on investments	8	**(7)**
Unrealised loss on investments	8	**(2,547)**
Investment expenses and charges	8	**(77)**
Allocated investment return transferred to the general business technical account	8	**73**
Other Income		**3**
Other charges, including value adjustments	9	**(736)**
Loss on ordinary activities before tax		**(11,303)**
Loss for the financial period		**(11,303)**

All amounts related to continuing operations.

The accompanying notes are an integral part of these financial statements.

IQUW Re Bermuda Limited
Statement of other comprehensive income
For the period from 22 December 2020 (date of incorporation) to 31 December 2021

Statement of other comprehensive income

	Note	Period 22 December 2020 to 31 December 2021 $000
Loss for the financial period		**(11,303)**
Other comprehensive income:		
Currency translation gain		**141**
Total comprehensive loss for the period		**(11,162)**

The accompanying notes are an integral part of these financial statements.

Balance sheet – assets

	Note	As at 31 December 2021 $000
Investments		
Other financial investments	11	**239,013**
		239,013
Debtors		
Debtors arising out of reinsurance operations	13	**233,078**
		233,078
Other assets		
Deferred acquisition costs		**7,326**
Cash at bank and in hand		**59,439**
Prepayments and accrued income		
Other prepayments and accrued income	12	**1,290**
		68,055
Total assets		**540,146**

The accompanying notes are an integral part of these financial statements.

Balance sheet – equity and liabilities

	Note	As at 31 December 2021 $000
Capital and reserves		
Called up share capital	14	**120**
Profit and loss account		**(11,162)**
Contributed surplus		**301,380**
Total equity		**290,338**
Technical provisions		
Provision for unearned premiums	15	**162,056**
Claims outstanding	15	**71,816**
		233,872
Creditors		
Creditors arising out of direct insurance operations		**15,552**
Other creditors		**212**
		15,764
Accruals and deferred income		**172**
Total liabilities		**249,808**
Total liabilities and equity		**540,146**

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 6 to 29 were approved by the Board of Directors on 30 March 2022 and were signed on its behalf by:

DocuSigned by:
Stephen Young
054CC7CDC5C6448
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Stephen Young
30 March 2022

IQUW Re Bermuda Limited
Statement of changes in equity
For the period from 22 December 2020 (date of incorporation) to 31 December 2021

	Note	Called up share capital $000	Contributed surplus $000	Profit and loss account $000	Total shareholders' funds $000
Balance at 22 December 2020	13	-	-	-	**-**
Issuance of share capital		120	301,380	-	**301,500**
Loss and total comprehensive loss for the financial period		-	-	(11,162)	**(11,162)**
Balance at 31 December 2021		**120**	**301,380**	**(11,162)**	**290,338**

The accompanying notes are an integral part of these financial statements.

1. General information

IQUW Re (Bermuda) Limited (the "Company") was incorporated in Bermuda on 22 December 2020 and subsequently licenced in Bermuda as a Class 3B commercial insurer. The Company's registered office is 22 Victoria Street, Hamilton, Bermuda, HM 12. The Company received capital funding on 27 May 2021. Due to the incorporation date of the Company these financial statements cover the period from 22 December 2020 (the date of incorporation) to 31 December 2021, with no comparative prior year due to this being the first period.

The Company is a wholly owned subsidiary of IQUW Midco Bermuda Limited ("Midco"), a company incorporated in Bermuda as a private company limited by shares. Midco's registered office is 22 Victoria Street, Hamilton, Bermuda, HM 12. The Company and its parent form part of a group of companies, of which the ultimate parent is IQUW Bermuda Holdings Limited (the "IQUW Group" or "the Group").

The Company was authorised by the Bermuda Monetary Authority, effective 4 June 2021, as a Class 3B commercial insurer to carry out the activities described below.

The Company underwrites a whole-account quota share agreement ("QSA") with IQUW Corporate Member Limited, ("Corporate Member"). The principal activity of the Corporate Member is that of a corporate member at Lloyd's, investing in the underwriting capacity of syndicates in the Lloyd's market. The Corporate Member participates on Syndicate 218 and, from January 2021, on Syndicate 1856, which are managed by IQUW Syndicate Management Limited (the "managing agent" or "IQUW SML").

The principal activity of Syndicate 218 is the transaction of general insurance business focussed on specialist motor insurance business. The principal activity of Syndicate 1856 is the transaction of general insurance and reinsurance business at Lloyd's and through the Lloyd's Brussels platform. Syndicate 1856 was remediated and repurposed in 2021 after its acquisition by the IQUW Group as part of the Group's strategy to expand from its core motor business and enter specialty commercial lines and reinsurance. Syndicate 1856 now underwrites a mixture of reinsurance, property, marine, energy and professional lines business, as well as a range of specialty lines including terrorism and political risks.

The Corporate Member entered a whole-account quota share reinsurance agreement with the Company, in which the Corporate Member cedes 65% of its result of the 2021 year of account to the Company, with a 5.0% ceding commission payable by the Company to the Corporate Member.

2. Basis of preparation

The financial statements of the Company 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' ('FRS 102'), and Financial Reporting Standard 103, 'Insurance Contracts' ('FRS 103').

The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The financial statements are prepared in US Dollars which is the functional currency of the Company.

Legislation applied in the preparation of these financial statements is the Bermuda Companies Act.

3. Accounting policies

The principal accounting policies are set out below.

(i) Insurance contract(s)
The Company issues contracts that transfer insurance risk or financial risk or both. Reinsurance contracts are those contracts that transfer significant (re) insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Currently the Company has a whole account quota share contract which is classified as a reinsurance contract.

(ii) Gross premiums written
Premiums written relate to reinsurance inwards business incepted during the year. Premiums are recognised over the period of risk in proportion to the amount of reinsurance protection provided.

Gross premiums written comprise premiums on contracts incepted during the financial period as well as adjustments made in the period to premium written in prior accounting periods. Premiums are shown gross of brokerage payable, operating expenses, investment return, ceding commission and exclude taxes and duties levied on them. Estimates are made for premiums due but not yet notified. Due to the nature of the QSA entered into by the Company, which is acting as reinsurer, the net premiums reported from the cedant are recorded as both gross and net.

(iii) Unearned premiums
Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis.

(iv) Reinsurance premium ceded
Outwards reinsurance premium comprises premium on contracts incepted during the financial year. Outwards reinsurance premium is also disclosed gross of commissions and profit participations recoverable from reinsurers. Written outwards reinsurance premium are recognised as earned according to the coverage period and in line with the risk profile to which the inwards business being protected relates. No outwards reinsurance contracts were entered into by the Company during the period.

(v) Investment return
Investment return comprises interest, realised and unrealised gains and losses on assets held at fair value through the profit or loss.

Fair value realised gains and losses are calculated as the difference between net sales proceeds and fair value at acquisition.

Fair value unrealised gains and losses are calculated as the difference between the fair value at the balance sheet date and the fair value at acquisition or at the previous remeasurement date, adjusted for previously recognised unrealised gains and losses of those financial assets disposed of in the accounting period.

Investment return is initially recorded in the statement of comprehensive income non-technical account. A transfer is made from the statement of comprehensive income non-technical account to the statement of comprehensive income technical account for general business. Investment return has been transferred based on the return on investments supporting the insurance technical provisions.

(vi) Taxation
Under current Bermuda law, the Company is not required to pay any taxes in Bermuda on income including realized capital gains. The Company has received an undertaking from the Ministry of Finance of Bermuda that in the event of any taxes being imposed, the Company will be exempt from taxation in Bermuda until 31 March 2035.

3. Accounting policies (continued)

(vii) Foreign currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates. The US Dollar is the functional currency of the Company. The financial statements are presented in thousands of US Dollars, which is the Company's presentation currency.

Transactions in foreign currency are initially recorded in the functional currency at the average rates of exchange for the period where for practical purposes it is not possible to use the actual rate at the date of transaction.

At each period end, foreign currency monetary items are translated using the closing rate. For this purpose, all assets and liabilities arising from reinsurance contracts (including unearned premiums, deferred acquisition costs and claims outstanding) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognized in other comprehensive income for those items where the gain/loss is required to be recognized within other comprehensive income/loss and in the non-technical account where the gain/loss is required to be recognized within profit or loss.

(viii) Financial instruments
The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial instruments are recognised in the balance sheet at such time that the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Company's obligations specified in the contract expire, are discharged or cancelled. Financial assets and financial liabilities can only be offset against each other if the legal rights and intention to settle are evidenced.
Purchases and sales of financial assets are recognised on the trade date, which is the date the Company commits to purchase or sell the assets.

Financial assets
The Company has classified these assets into the following categories: financial assets at fair value through profit or loss, and loans and receivables.

Financial investments
Financial investment assets are designated at fair value through profit or loss on initial recognition.

The Company has designated financial investments at fair value through profit or loss where it is the Company's strategy to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are on a fair value basis. Note 11 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Investments carried at fair value through profit or loss; are initially recognised at fair value with any associated transaction costs being expensed through the statement of comprehensive income – non-technical account. If the market for an investment is not active, the valuation is based upon the net asset values of underlying holdings, which are independently sourced. The fair value of listed equity and debt securities is determined by reference to their quoted bid price at the reporting date.

3. Accounting policies (continued)

Realised gains and losses on investments carried at fair value through profit and loss are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

(ix) Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

Bank overdrafts, when applicable, are shown within borrowings in current liabilities. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of the entity's cash management, bank overdrafts are a component of cash and cash equivalents.

(x) Deferred acquisition costs
In respect of reinsurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts. Deferred acquisition costs are amortised over the life of the policy in line with the recognition of premiums.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to profit and loss.

(xi) Claims provisions and related recoveries
Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent year, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

(xii) Unexpired risks provision
A provision for unexpired risks is made where claims, related claims handling costs and other related expenses arising after the end of the financial year in respect of contracts concluded before that date are expected to exceed the unearned premiums on these contracts, after the deduction of any deferred acquisition costs.

The provision for unexpired risks is calculated by reference to classes of business that are managed together. No account is taken of the relevant investment return arising from investments supporting the unexpired premiums and unexpired risk provisions.

(xiii) Bad debts
Bad debts are provided for only where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Company. The provision is calculated on a case-by-case basis. Bad debt provisions are recognised in the profit and loss account.

3. Accounting policies (continued)

(xiv) Reinsurance assets and liabilities

Amounts due to and from reinsurers are accounted for in a manner consistent with the insured policies and in accordance with the relevant reinsurance contract. Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, because of an event that occurred after its initial recognition, that the Company may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. Objective factors that are considered when determining whether a reinsurance asset or group of reinsurance assets may be impaired include, but are not limited to the following:

- Negative rating agency announcements of reinsurers;
- Significant reported financial difficulties of reinsurers;
- Actual breaches of credit terms such as persistent late payment or actual default; and
- Adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability.

Impairment losses on reinsurance assets are recognised in the profit and loss account.

(xv) Share capital

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

(xvi) Distributions to equity holders

Dividends and other distributions to the Company's shareholder are recognised in the financial statements in the period in which the dividends and other distributions are approved by the board of directors. These amounts are recognised in the statement of changes in equity.

4. Judgments and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in note 1, are requires judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. The resulting accounting estimates will, by definition, seldom equal the related actual results. The judgements estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(i) Valuation of general reinsurance contract liabilities

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The Company considers that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and future events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provision established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

The estimation of the ultimate liability arising from claims made under reinsurance contracts is the Company's most critical accounting estimate. For general reinsurance contracts estimates are made for the expected ultimate cost of claims as at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant

4. Judgments and key sources of estimation uncertainty (continued)

period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be materially better or worse than that provided.

The estimation of these claims is based on historical experience projected forward. The Company's estimate of claims and related claims handling costs is mainly achieved through the application of a number of commonly accepted actuarial projection methodologies based on the following:

- paid claims development, where payments to date are extrapolated based upon observed development of earlier years;
- estimates based upon a projection of claims numbers and average burning cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected ultimate loss ratios.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from any reinsurance arrangements in place, having due regard to collectability. Claims provisions are subject to regular review.

5. Management of reinsurance risk

The Company is part of the IQUW Group. The Group has developed a governance framework and set group-wide risk management policies and procedures which cover specific areas such as risk identification, risk management and mitigation, and risk reporting. The overall appetite for accepting and managing varying classes of risk is defined by the Boards responsible for overseeing the risk.

The Company's key risk exposure lies with the risks of IQUW Corporate Member Limited with which it has a quota share agreement for the 2021 underwriting year. IQUW Corporate member Limited participates on two Syndicates, Syndicate 218 and Syndicate 1856 ("the Syndicates"), at present. Syndicate 218 is a specialist insurer that only writes motor business. Syndicate 1856 writes specialty commercial lines and reinsurance.

The Company therefore places significant reliance on the Managing Agent of the Syndicates to manage these risks and only risks exclusive to the Company as a stand-alone entity are actively managed by the Company.

The Syndicates' activities expose it to a variety of financial and non-financial risks. The managing agent IQUW SML is responsible for managing the Syndicates' exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, managing agents prepare a Lloyd's Capital Return ("LCR") for the Syndicates, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the Syndicates' business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. Syndicate 1856 had its capital requirement for 2021 set by Lloyd's using Lloyd's benchmark capital model. The risks described below are typically reflected in the LCR and supporting Own Risk and Solvency Assessment ('ORSA') report, and, typically, the majority of the total assessed value of the risks concerned is attributable to insurance risk.

The insurance risks faced by the Syndicates and thus the Company include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the Syndicates' funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The Syndicates and the Company is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's for the Syndicates and the Bermuda Monetary Authority for the Company provides additional controls over the management of risk.

The Company's cash flows are funded mainly through premium collections and the timing of such premium inflows is reasonably predictable. In addition, most material cash outflows are typically triggered by the occurrence of insured events non-correlated to financial markets, and not by the inclination or will of policyholders.

The principal sources of risk relevant to the Company fall into four broad categories: insurance risk, financial risk, regulatory risk, and operational risk.

5. Management of reinsurance risk (continued)

5.1 Insurance risk

The predominant risk to which the Syndicates, and therefore the Company is exposed is insurance risk, which is assumed through the underwriting process from the Syndicates. Insurance risk is defined as the risk of fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. Insurance risk can be subcategorised into: (a) underwriting risk including the risk of catastrophe and systemic insurance losses, and the insurance cycle and competition; and (b) reserving risk.

5.1(a) Underwriting risk

Underwriting risk is defined as the risk that insurance premium will not be sufficient to cover future insurance losses and associated expenses. Underwriting risk also encompasses people, process and system risks directly related to underwriting.

The Managing Agency Board sets the Syndicates' underwriting strategies and risk appetites, seeking to benefit from identified opportunities considering other relevant anticipated market conditions.

The Managing Agent and therefor the Company aims to manage underwriting risk:

- to achieve acceptable profits and return on equity by ensuring that insurance risks are carefully selected in accordance with the underwriting strategy and risk appetite tolerances, underwritten in accordance with risk strategy and priced to reflect the underlying risk; and
- to mitigate excess insurance risk using optimal reinsurance arrangements.

5.1(b) Reserving risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle these claims and associated expenses. The procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 4(i).

The Company aims to manage reserving risk:

- to minimise reserve volatility through robust reserving and application of actuarial modelling approaches; and
- to monitor reserve adequacy and performance on an ongoing basis

The Company's' provision estimates are subject to regular and rigorous review by senior management from all areas of the business including independent actuaries.

The final provisions are approved by the Company's Board

Sources of uncertainty in the estimation of future claim payments

There are many risks associated with insurance contracts, and this means that there is a considerable amount of uncertainty in estimating the future settlement cost of claims. There is uncertainty in both the amounts and the timing of future claim payment cash flows.

Claims paid are claims transactions settled up to the reporting date including settlement expenses allocated to those transactions.

Unpaid claims reserves are made for known or anticipated liabilities which have not been settled up to the reporting date.

Included within the provision is an allowance for the future costs of settling those claims.

The Company relies on actuarial analysis to estimate the settlement cost of future claims. Via a formal governed process, there is close communication between the actuaries and other key stakeholders, such as the underwriters, claims and finance teams when

5. Management of reinsurance risk (continued)

5.1(b) Reserving risk (continued)

setting and validating the assumptions. The unpaid claims reserve is estimated based on past experience and current expectations of future cost levels. Allowance is made for the current premium rating and inflationary environment.

The claim reserves are estimated on a best estimate basis, taking into account current market conditions and the nature of risks being underwritten.

Estimates of where claim liabilities will ultimately settle are adjusted each reporting period to reflect emerging claims experience. Changes in expected claims may result in a reduction or an increase in the ultimate claim costs and a release or an increase in reserves in the period in which the change occurs.

Booked reserves are held with a margin above the best estimate to help mitigate the uncertainty within the reserve estimates. As the best estimate matures and becomes more certain, the management margin is gradually released in line with the reserving policy.

Development of claims provision

Claims development information is disclosed in order to illustrate the sources of uncertainty in the estimation of future claims payments inherent in the Company. The tables below reflect the cumulative incurred claims including claims notified and incurred but not reported (“IBNR”) for each successive underwriting year at each balance sheet date. Appropriate reserves are maintained in order to protect against future claims experience and development. The tables below show the development of claims over a 6 year period and provide a measure of the ability to adequately estimate the ultimate level of claims.

While the information in the tables below provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The table below illustrates how estimates of ultimate claim cost for each underwriting year have changed at successive year end. The Company has a Quota share contract for the 2021 underwriting year only. As such there is no development presented on the prior underwriting years.

Analysis of claims development – net of reinsurance

Underwriting year	2016 $000	2017 $000	2018 $000	2019 $000	2020 $000	2021 $000	Total $000
Initial estimate of gross provision	-	-	-	-	-	**113,141**	**113,141**
One year later	-	-	-	-	-		
Two years later	-	-	-	-			
Three years later	-	-	-				
Four years later	-	-					
Five years later	-						
Current estimate of cumulative claims	-	-	-	-	-	**113,141**	**113,141**
Cumulative payments to date	-	-	-	-	-	**41,325**	**41,325**
Liability recognised for 2016 to 2021 underwriting years	-	-	-	-	-		**71,816**
Liability recognised in respect of prior underwriting years	-	-	-	-	-		-
Claims handling provision	-	-	-	-	-		-
Gross outstanding claims	-	-	-	-	-		**71,816**

5. Management of reinsurance risk (continued)

5.1(b) Reserving risk (continued)

Sensitivity analysis

Assumptions about future developments, outcomes or events underpin the setting of the reserves. Sensitivity analysis at the Syndicate level of the key assumptions provides an illustration of the inherent uncertainty in the reserves as shown below.

The expected loss ratio is the ratio of expected claims to premiums.

- Ogden discount rate change – A 0.5 percentage point decrease from -0.25% to -0.75% in the Ogden discount rate would result in a $2.7 million increase in the Syndicate's net reserves. A 0.5 percentage point increase from -0.25% to +0.25% in the Ogden discount rate would result in a $2.7 million decrease in the Syndicate's net reserves

- Propensity for PPOs – A 5 percentage point decrease/increase in the propensity for claims to settle as a PPO would result in a $0.7 million decrease/increase to the Syndicate's net reserves.

- Inflation in future care costs - A 1 percentage point decrease/increase in the rate of wage inflation underlying PPO claims would result in a $1.9 million decrease/increase to the Syndicate's net reserves

- Current underwriting year loss ratio – A 1 percentage reduction/improvement in the loss ratio for the current underwriting year would result in a +/-$1.9 million decrease/increase to the Syndicates' net reserves.

- Previous two underwriting years' loss ratios – A 1 percentage reduction/improvement in the loss ratios for each of the last two underwriting years would result in a +/-$8.3million decrease/increase to the Syndicates' net reserves.

Syndicate 1856 has material exposure to winter storm Uri, hurricane Ida and the Kentucky tornadoes on the 2021 year of account. This increases the uncertainty of the Company's total reserves but not beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing a sensitivity analysis on the 2021 Uri and Ida catastrophe losses, the management determined that a reasonable range of estimates may imply costs that are $23 million (38%) higher.

The above sensitivity analysis has been carried out for Syndicate 218 and Syndicate 1856. The impact on IQUW Re would be 65% of the amounts noted above.

5.2 Financial risk

The Company is exposed to financial risk through its ownership of financial instruments including financial liabilities. The key financial risk for the Company is that the proceeds from its financial assets and investment return there on are not sufficient to fund its obligations. The most important elements that could result in such an outcome relate to reliability of fair value measures, credit risk, price risk, currency risk, interest rate risk and liquidity risk.

5.2 (a) Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Company are:

• Reinsurers	Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Syndicates, which in turn would impact the Company through the quota share arrangement.
• Brokers and intermediaries	Whereby the counterparties fail to pass on premium or claims collect on behalf of the Syndicates, which in turn would impact the Company through the quota share arrangement.
• Investments	Whereby issuer default results in the Company losing all or part of the value of a financial instrument.

5. Management of reinsurance risk (continued)

5.2 (a) Credit risk (continued)

The concentrations of credit risk exposures held by insurers could be material because of the specific nature of reinsurance markets and the extent of investments held in financial markets. In both markets, the Managed Syndicates interact with several counterparties that are engaged in similar activities with similar customer profiles, and often in the same geographies and industry sectors. Consequently, as many of these counterparties are themselves exposed to similar economic characteristics, one single localised or macroeconomic change could severely disrupt the ability of several counterparties to meet the Syndicates' contractual terms and conditions, and thus that of the Company.

The core business is to accept significant insurance risk, the appetite for other risks is low. Acceptable levels of credit risk are maintained by the Corporate Member by placing limits on exposure to singular and group counterparties, and to geographical and industry segments. Such risk limits are subject to regular review.

Brokers and intermediaries
The Syndicates' exposure to brokers and insurance intermediaries which would impact the quota share arrangement is managed via a stringent credit policy. IQUW Group's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations on all relevant counterparties

Investments
The Company is exposed to counterparty risk with respect to cash and cash equivalents, and investments and other deposits. This exposure is from its quota share agreement with the Corporate Member and underlying participations on Syndicate 281 and Syndicate 1856 but also the Company's own assets.

Counterparty credit risk is managed by concentrating debt and fixed income investments in high-quality instruments, including an emphasis on government bonds. Investments are primarily only in liquid securities and with counterparties that have a credit rating equal to investment grade or better.

Guidelines are imposed on external investment managers in relation to the constituents of the investment portfolios. These guidelines specify the acceptable asset classes, duration, and credit ratings. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

Given the investment portfolio's high credit ratings, significant any counterparty failures are not expected tp impact the Company's ability to meet obligations.

The following tables summaries the Company's significant credit risk:

2021	AAA $000	AA $000	A $000	BBB $000	Below BBB $000	Not rated $000	Total $000
Financial investments	**93,621**	**39,318**	**73,305**	**32,769**	**-**	**-**	**239,013**
Reinsurance assets	**-**	**-**	**233,078**	**-**	**-**	**-**	**233,078**
Cash at bank and in hand	**-**	**-**	**59,439**	**-**	**-**	**-**	**59,439**
Total	**93,621**	**39,318**	**365,822**	**32,769**	**-**	**-**	**531,530**

The Company has no insurance receivables and reinsurance assets that are past due at the balance sheet date.

Market risk
Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates, interest rates, inflation rates and market prices.

Financial investments represent a significant proportion of the Company's assets. Investment Managers are engaged to actively manage the market risk associated with financial investments. Detailed guidelines for the Investment Managers are in place and the Board and its Investment Committee regularly monitor performance and risk metrics.

5. Management of reinsurance risk (continued)

5.2(b) Foreign exchange risks

Most of the Syndicate 218 gross premium written is in UK Pound Sterling which is the functional currency of the Syndicate. Most of Syndicate 1856 gross premium written is in US Dollars which is the functional currency of the syndicate. Consequently, movements in the UK Pound Sterling against US Dollar exchange rate may have a material impact on the Company's financial performance and position.

The table below gives an indication of the impact on profit and equity of a percentage change movement in the relative strength of the US dollar against the value of Sterling. The analysis is based on information as at 31 December 2021.

At 31 December 2021, the company used closing rate of exchange of £1: $1.35

Increase/(decrease) on loss before tax	Impact on loss $'000s	Impact on equity $'000s
10% weakening of the US dollar	**(1,116)**	**(1,116)**
20% weakening of the US dollar	**(2,232)**	**(2,232)**
10% strengthening of the US dollar	**1,015**	**1,015**
20% strengthening of the US dollar	**1,860**	**1,860**

5.2(c) Price risk

Shares, other variable yield securities and units in unit trusts that are recognised on the balance sheet at their fair values are susceptible to losses due to adverse changes in price. This is referred to as price risk and forms part of market risk.

These investments are well diversified within high quality, liquid securities. Guidelines are imposed on the investment managers that set out minimum credit ratings, maximum durations, diversification requirements across industry sectors, and concentration limits in any one industrial sector or counterparty.

Listed investments are recognised on the balance sheet at the quoted bid price. If a current price from an active market or from a recent transaction of an identical asset is not available, then a fair valuation technique using observable and unobservable market data is used. This includes using discounted cash flow models and other valuation techniques that are commonly used by investment managers and custodians.

5.2(d) Interest rate risk

The majority of the Company's investments comprise fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the Company's fixed interest investments would tend to rise and vice versa.

Fixed income assets are predominantly invested in high quality corporate, government, supranational and residential mortgage backed securities. The investments typically have relatively short durations and terms to maturity.

5. Management of reinsurance risk (continued)

5.2(d) Interest rate risk (continued)

The table below shows the sensitivity to the Company's pre-tax profit (loss) and equity. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's financial assets and liabilities:

	2021 Impact on profit before tax $000	2021 Impact on equity $000
Interest rate risk		
50 basis points increase in yield curve	**(1,517)**	**(1,517)**
50 basis points decrease in yield curve	**1,517**	**1,517**

No sensitivity analysis has been presented for equity price risk as the Company currently has no investments exposed to equity price risk.

5.2(e) Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Company is exposed to cash calls on its available cash resources, mostly for the settlement of claims. The Company's approach is to maintain a large proportion of liquid assets that can be converted to cash at short notice without any significant capital loss. These funds are monitored by management on a daily basis. The Directors do not consider that there is a material risk of loss arising from liquidity risk.

The table below analyses the maturity of the Company's impacted liabilities. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows.

2021	No contractual maturity date $000	Up to1 year $000	Between 1 year and 3 years $000	Between 3 years and 5 years $000	> 5 years $000	Total $000
Creditors	-	-	**15,936**	-	-	**15,936**
Claims outstanding	-	-	**71,816**	-	-	**71,816**
Financial liabilities and outstanding claims	**-**	**-**	**87,752**	**-**	**-**	**87,752**

5.2(f) Operational risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of the Company.
Group risk is considered part of operational risk. The Company is dependent upon a number of functions provided by the Group through outsourcing agreements to support its operation. It is noted that other than the risks relating to the outsourcing arrangements, the Company and Group's interest are aligned and therefore the amount of residual Group risk is considered to be small.

Cyber security risk is also considered part of operational risk. Cyber security breaches, could, if they occurred, cause significant financial losses and/or damage to the reputation of the Company.

6. Capital risk management

As a Class 3B insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of The Insurance Act 1978. Each year the Company is required to file with the Bermuda Monetary Authority (the "Authority") a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. The BSCR includes a standardized model used to measure the risk associated with an insurer's assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority requires all Class 3B insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the BSCR (the Enhanced Capital Requirement or "ECR"). In addition, the Company is required to maintain a minimum solvency margin. Both requirements have been met.

Statutory capital and surplus at December 31, 2021, as determined using statutory accounting principles, was $291m. At December 31, 2021 the Company's minimum capital requirement was $51.8m, and the enhanced capital requirement was $173 million.

7. Net operating expenses

	2021 $000
Administrative expenses	**20,984**
Ceding commission	**8,227**
Lloyd's expenses	**40,018**
Other expenses	**4,371**
Operating expenses	**73,600**

8. Investment return

	2021 $000
Investment Income	
Income from financial assets at fair value through profit and loss	**1,082**
	1,082
Investment expenses and charges	
Other investment management expenses	**(77)**
Net realised loss on investments	**(7)**
Net unrealised gains (loss) on investments	**(2,547)**
	(1,549)
Analysed as:	
Allocated investment return transferred to the general business technical account	**73**
Net investment return included in the non-technical account	**(1,621)**
Investment Return	**(1,549)**

9. Other charges, including value adjustments

	2021 $000
Licensing Fees	**237**
Other charges	**358**
Currency translation differences	**141**
Other charges, including value adjustment	**736**

10. Restricted assets

The Company is required to provide Funds at Lloyd's ("FAL") in respect of its Quota Share Agreement with the Corporate Member.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulation Authority (PRA) requirements and resources criteria.

FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten.

As at 31 December 2021, restricted cash and cash equivalents held in FAL amounted to $26,646 and restricted investments held in FAL amounted to $239,012.

11. Investments

The fair value of financial assets and liabilities traded in active markets are based on quoted market prices at the close of trading on the period-end date. The quoted market price used for financial assets held is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. Management uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used for non-standardised financial instruments include the use of comparable recent arm's length transactions, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 - inputs for the asset or liability that are not based on observable market data, including the Company's own assumptions in determining the fair value of investments.

The Company classifies the value of its financial instruments using fair value given the quoted nature of them. Management believes that own credit risk is minimal given their highly rated nature of investments.

The following table presents the Company's financial assets and liabilities measured at fair value at 31 December 2021

	Fair value Level 1 $000	Fair value Level 2 $000	Fair value Level 3 $000	Total $000
Cash equivalents	**59,439**	**-**	**-**	**59,439**
Collateralised loan obligations	**-**	**24,475**	**2,000**	**26,475**
Corporate debt	**-**	**168,667**	**-**	**168,667**
Covered bonds	**-**	**3,920**	**-**	**3,920**
Asset back securities	**-**	**1,656**	**-**	**1,656**
Mortgage back securities	**-**	**25,810**	**-**	**25,810**
Treasury bills	**-**	**12,485**	**-**	**12,485**
Total investments and cash equivalents	**59,439**	**237,013**	**2,000**	**298,452**

12. Other prepayments and accrued income

	2021 $000
Prepaid administrative expenses	**9**
Accrued interest income	**1,281**
At 31 December	**1,290**

13. Debtors arising out of direct insurance operations

	2021 $000
Premium receivable	**343,540**
Claims paid	**(41,325)**
Operating expenses	**(65,373)**
Foreign exchange	**(3,764)**
At 31 December	**233,078**

14. Share capital

The Company has issued 120,000 fully paid US$1 shares to IQUW Midco (Bermuda) Limited. The shares have attached to them full voting, dividend and capital distribution (including winding up) rights. The shares do not confer any rights of redemption. The remaining capital consists of US$301,380,000 contributed surplus.

The reserve within equity consists entirely of retained earnings.

15. Insurance contract provisions

Gross	2021 $000
Provision for unearned premium	**162,056**
Claims outstanding	**71,816**
At 31 December	**233,872**

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

Gross	2021 $000
At 22 December 2020	-
Premium written	**343,540**
Premium earned	**(179,019)**
Foreign exchange differences	**(2,465)**
At 31 December	**162,056**

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

Gross	2021 $000
At 22 December 2020	-
Claims incurred related to current year	**114,367**
Claims paid	**(41,325)**
Foreign exchange differences	**(1,226)**
At 31 December	**71,816**

16. Post balance sheet events

Certain policies underlying the QSA provide insurance cover in respect of claims arising out of war events and consequently the Company has exposures relating to the events in the Ukraine and its impacts in the region. This includes property, cargo, aviation and specialty interests.

At this stage, no claims have been received and any likely claims are being continually evaluated. Syndicate 1856 has purchased reinsurance to cover the aggregation of claims. The net reinsurance retention of the relevant programme is $5 million, plus reinstatement premium on the reinsurance cover that responds to any recoveries. The Company's investments do not contain any direct exposure to events in the Ukraine or Russia.

On 24 February 2022 the ultimate parent of the Company, IQUW Holding Bermuda Limited raised additional $60 million of equity to support underwriting the business. It is expected that the entire amount of additional capital raised will be transferred to IQUW Re Bermuda Limited.

17. Related party transactions

The Company forms part of IQUW Group, including its immediate parent Midco and ultimate controlling IQUW Holdings Bermuda Limited, and may enter into intercompany transactions within the group. The Company receives services from members employed within the group.

The IQUW Corporate Member forms part of the wider group and therefore financial information reported within these financial statements in relation to the QSAs are related party transactions.

18. Controlling parties

The Company has issued 120,000 fully paid US$1 shares to IQUW Midco Bermuda Limited, which is ultimately owned by IQUW Holdings Bermuda Limited. The shares have attached to them full voting, dividend and capital distribution (including winding up) rights. The shares do not confer any rights of redemption.

19. Disclosure exemptions

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of FRS 102. Accordingly, these financial statements do not include the following:

- A statement of cash flows
- A reconciliation of the number of shares outstanding at the beginning and end of the year
- Specific information relating to share-based payment included within equivalent disclosures for the Group
- Disclosure of key management personnel compensation

The Company has been consolidated into the Group financial statements of IQUW Holdings Bermuda Limited. The IQUW Holdings Bermuda Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas, copies of whose accounts can be obtained from Canons Court 22 Victoria Street, Hamilton, Bermuda.