

MUNICH RE SYNDICATE 1840

**ANNUAL ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER 2020**

Managed by Munich Re Syndicate Limited

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DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Managing Agent

Munich Re Syndicate Limited ('MRSL') is the Managing Agent for Munich Re Syndicate 1840 (the 'Syndicate') and is authorised by the Prudential Regulation Authority ('PRA') and regulated by the Financial Conduct Authority ('FCA') and the Society of Lloyd's ('Lloyd's').

Directors

L F Allen ACII	Non-Executive Director
E J Andrewartha LLB, MCI Arb	Non-Executive Chair
T E Artmann	Chief Executive Officer
T J Carroll BA, MBA, FCII	Non-Executive Director
T Coskun MSc, ACA	Director of Risk and Compliance
G Guelfand BComm, FCPA (Aust)	Group Chief Financial Officer
S H Herrmann	Non-Executive Director
M C Hewett FCA	Non-Executive Director
D J R Hoare BA, ACII	Group Chief Underwriting Officer
A C Maxwell	Group Claims Director

Company Secretary

E M Hargreaves

Registered Office

St. Helens, 1 Undershaft, London EC3A 8EE
Telephone: 020 7886 3900 ♦ Facsimile: 020 7886 3901
E-mail: MRSL-central@munichre.com
Website: www.munichre.com/syndicate457

Registered Number

01328742

SYNDICATE

Active Underwriter

S Newcombe

Bankers

Citibank N.A.
Royal Bank of Scotland plc
Royal Bank of Canada

Registered Auditor

Ernst & Young LLP, London E14 5EY

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of the Managing Agent present their report for the year ended 31 December 2020.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations').

RESULTS

The loss for calendar year 2020 is £0.9m. Profits will continue to be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

Munich Re Innovation Syndicate 1840 (MRI 1840) was established from the 1st January 2020 as the first Syndicate in a Box (SiaB) at Lloyd's dedicated to the design, launch and incubation of innovative insurance products. The syndicate wrote no standard lines of business which could easily be sourced, underwritten or distributed through existing channels. It focuses on emerging risks, products associated with supporting the development of green energy solutions, and mitigating the financial impact of extreme weather events.

The Syndicate's key financial indicators are as follows:

	2020
Gross Written Premium	£1.0m
(Loss) for the financial year	£(0.9)m
Combined Ratio	380%

2020 was an unprecedented year. This is a common phrase that we have read and heard many times. Soon after the Covid-19 Virus hit the world, we, like the rest of the Lloyd's market, closed our offices in the middle of March. Nothing would be the same thereafter for the rest of the year. The company went into lockdown mode and remains there. With very few exceptions most of our staff worked from home throughout the entire period. Online work became the new normal, fortunately supported by a resilient IT infrastructure. In person meetings with colleagues or business partners were not possible, neither was travel. It was clear from the start that Covid-19 would prevent us from the face to face meetings and business travel essential to the development of a new account with key stakeholders in London, Germany, the USA and other areas. This was especially problematic for MRI 1840 because our business model is to rely on the expertise contained within the wider Munich Re Group for underwriting and pricing expertise, and developing the innovative products which are a specific requirement of the Syndicate business plan. Many are derived from Munich Re innovation units around the world.

Nevertheless, a significant amount of effort was committed to working around these challenges which resulted in a promising pipeline of opportunities developing throughout 2020. Unfortunately, the pace of development was slower than would otherwise have been achieved resulting in our failure to achieve business plan.

One of the greatest successes in 2020 was to maintain the light touch status for both managed Syndicates. According to Lloyd's this will remain as an indispensable prerequisite to be recognised as a leader.

As highlighted above, 2020 was a very difficult year, but one spent in a constructive way preparing for what we hope will be a more productive 2021. Despite these challenges we can be proud of what has been achieved in the year.

The Syndicate continues to support the Future at Lloyd's blueprint which marks an exciting new chapter for Lloyd's by combining data, technology and new ways of working with Lloyd's existing strengths to transform Lloyd's culture in all areas from placing risks to paying claims and developing new products. We remain focussed on innovative insurance products and distribution methods, and are engaged in many Lloyd's initiatives aligned with the Future at Lloyd's blueprint including the development of a process to speed up the coverholder application process for technology based coverholders and a "smart follow" operation.

The gross written premium is accounted 100% in Property for 2020.

The Syndicate has a 75% quota share arrangement back to Munich Re in place for the 2020 year of account. This quota share reinsurance reduces the net exposures generated during the formative stages of the new syndicate, and allows a direct expense offset through the override charged on the premium ceded back to Munich Re. This proportional treaty structure will avoid the potential for punitive minimum and deposit premiums incurred under a non-proportional treaty reinsurance programme for these new lines of business.

The paid reinsurance premiums for 2020 to an EU company.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board of MRSL ('the Board') sets risk appetite annually as part of the Syndicate's business planning and Solvency Capital Requirement process. Adherence to risk appetite is reviewed by the Board on a periodic basis.

Insurance Risk

Insurance risk, comprising underwriting risk and reserving risk, is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance premiums and liabilities. The Board manages insurance risk by agreeing its appetite for those risks annually through the business plan which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board monitors performance against the business plan on a regular basis. The agency uses catastrophe modelling software to model maximum probable losses from catastrophe exposed business. The Group Actuary monitors reserve adequacy. Detailed independent reviews of underwriting areas are conducted on a quarterly basis.

Credit Risk

Credit risk relates to the risk of loss if another party fails to perform its financial obligations or fails to perform them in a timely fashion. Key counter-parties include reinsurers, brokers, insureds, reinsureds, coverholders and investment counter-parties. The Board's policy is that the Syndicate will only reinsure with businesses that have been approved for that purpose. An additional policy of the Board is that all brokers and coverholders have to be approved in advance of being permitted to produce business for the Syndicate. Certain Executive Directors of the Board assess and approve all new reinsurers before business is placed with them and are also responsible for approval and monitoring of the financial strength of brokers who remain on a risk transfer basis. The syndicates investments are all held in cash.

Group Risk

Group risk is the potential of risk events, of any nature, arising in or from membership of a corporate group. Munich Re is both the owner of the Managing Agent and the provider of underwriting capacity to the Syndicate. Munich Re provides reinsurance capacity for a number of classes. Close dialogue exists with the Integrated Risk Management ('IRM') division of Munich Re to discuss any necessary issues.

Liquidity Risk

Liquidity risk is the risk that sufficient financial resources are not maintained to meet liabilities as they fall due. The Finance Sub-Committee monitors liquidity on a regular basis and has an agreed minimum limit of readily realisable assets. The majority of S1840 assets are presently held in cash.

Market Risk

Market risk is the risk that arises from fluctuations in values of or income from assets, in interest rates or in exchange rates. The Syndicate settles 87.5% of its insurance business in United States dollars which gives rise to a potential exposure to currency risk while a substantial proportion of administrative and personal expenses are incurred in Sterling. The Syndicate mitigates this by adopting a policy of controlled matching of assets and liabilities in currency.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external factors such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Syndicate's objective is to manage operational risks so as to balance the avoidance of financial losses and damage to the Syndicate's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. Risks are managed through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit.

Environmental Risk

Coronavirus 19 pandemic

On 11 March 2020, the World Health Organization (WHO) declared the coronavirus 19 (C19) outbreak as a pandemic and since then, C19 has escalated into an unprecedented global crisis with significant human and economic costs. As of 20 January 2021, the John Hopkins University C19 Resource Centre reported 96.4m positive cases of C19 infection and 2.1m deaths globally. In addition, most of the world's economies have been subjected to their deepest recessions following Government imposed lockdowns - with the UK currently in its third. Strict measures have been introduced to limit the risk of transmission and infection leading to a sharp decrease in economic activity in certain sectors. Whilst there remains high uncertainty regarding the future course of the pandemic and the recovery of the global economy, there is hope of a return to normal levels of economic activity with the rapid development and regulatory approval of C19 vaccines and the large scale roll out of vaccination programmes across most regions.

The Board of the Managing Agency considers that the Syndicate has prepared well and is adequately positioned from an operational, financial and capital perspective. Since March 2020, the operational resilience of the Managing Agency and the Syndicate has been tested and deemed successful with all staff working from home. From an underwriting perspective the Syndicate has no exposure to the Coronavirus 19 pandemic.

The Syndicate's underwriting performance and financial position are constantly monitored by the Board.

Post Brexit regulatory framework

On 24 December 2020, the European Commission and the UK Government reached an agreement on the terms of future trade and cooperation. The Trade and Cooperation Agreement (the TCA) provides for the free trade of goods and establishes a framework for cooperation on energy, transport, social security and standard-setting including climate change. However, the TCA does not extend to financial services firms. Rather, the TCA provides for the EU and the UK to establish a Memorandum of Understanding (MOU) by March 2021 for establishing a framework for structured regulatory cooperation on financial services. In addition, a brief UK-EU statement in the form of the Joint Declaration on Financial Services Regulatory Cooperation notes that there will be further discussion between the UK and EU on next steps regarding equivalence determinations between the parties.

Whilst there is still some uncertainty as to the terms of final regulatory framework for financial services and the consequences that may subsequently arise, the Syndicate and its managing agent, Munich Re Syndicate Ltd, have sought to mitigate the volatility of the resultant uncertainties where known. The Board is confident that the Syndicate's future performance should not be materially impacted by changes to the final regulatory framework for financial services.

Lloyd's Insurance Company S.A. (Lloyd's Europe)

Lloyd's established Lloyd's Insurance Company S.A., a subsidiary in Brussels (Lloyd's Europe) to enable its European partners and policyholders to retain access to the underwriting expertise of the Lloyd's market via its current distribution channels of brokers, coverholders, and syndicates. Lloyd's Europe is an insurance company authorised and regulated by the National Bank of Belgium and capitalised under Solvency II rules. The subsidiary is assigned the equivalent financial ratings as Lloyd's from A.M Best (A), Fitch (AA-) and Standard & Poors (A+).

Climate change related Risk

In April 2019, the PRA issued and effected two statements with respect to the PRA's expectations for UK insurance firms (including Lloyd's of London and its managing agents) to identify and manage financial risks from climate change comprising physical, transitional and liability risks. Specifically, PRA Supervisory Statement 3/19 sets out expectations with respect to considerations of a strategic approach to managing financial risks from climate change, including governance, risk management, scenario analysis and disclosures. MRS L has risk management programme to monitor and manage some elements of climate change related risks including aggregate exposure management, and will be further enhancing this programme. The CUO as the senior management function holder is deemed responsible for this programme with the support from the risk function. The Board is apprised of developments.

Cyber Risk

Cyber threats and consequentially cyber risk, has noticeably increased in the pandemic crisis as cyber-criminals seek to exploit the potential vulnerability of businesses and remote working environments. Munich Re remains resilient in extending and maintaining a secure platform to incorporate remote working whilst recognising an increased threat of phishing attacks, ransomware and fraud on its business. Security controls are based on Munich Re Group defined standards and are continuously improved to keep pace with the evolving Cyber threat, including regular Security and social engineering awareness communications, additional security training and new phishing reporting tools.

There have been no material Cyber Security or Data Protection breaches identified in 2020, and although there has been an increase in phishing attempts, these have not been successful. Cyber threat intelligence is shared within Munich Re and expert security resource is available should there be an information security incident. Munich Re undertakes regular Vulnerability and Penetration Testing (VAPT) of IT systems and appropriate actions are taken to address any vulnerabilities identified. Security controls are regularly assessed for control design and performance effectiveness as coordinated by the Munich Re Group IT & Risk Security team, with the results reported to Munich Re Integrated Risk Management. In the event of a breach there are established security incident response protocols and processes to ensure the incident is contained, resolved and reported appropriately.

DIRECTORS

The Directors of the Managing Agent who held office during the year ended 31 December 2020 were as follows:

L F Allen (Non-executive)
E J Andrewartha (Non-executive Chair)
T E Artmann
T J Carroll (Non-executive)
T Coskun
G Guelfand
S H Herrmann (Non-executive)
M C Hewett (Non-executive)
D J R Hoare
A C Maxwell

INVESTMENTS

Investment Policy and Managers

The Syndicates presently has all its assets in cash.

FUTURE DEVELOPMENTS

The impact of C19 on all market has been widely reported. MRSL moved quickly to a remote working model and the company's robust global IT infrastructure allowed a rapid development of a new way of conducting business. Signs of distress were already being seen in the market early in 2020, with some syndicates withdrawing from certain classes and news of staff movement suggesting that others may be approaching the limits of their risk appetite. The addition of COVID19 has resulted in the hardest market in a generation, with almost every class of business seeing rate rises.

The 2021 SBF has been approved, subject to certain conditions specified by Lloyd's.

SYNDICATE ALLOCATED CAPACITY AND MEMBERSHIP OF THE SYNDICATE

The capacity of the Syndicate is based on Gross Net premiums and for the 2020 account is £19m. All of the capacity of the Syndicate is provided by Munich Re Capital Limited ('MRCL'), an indirect subsidiary of Munich Re.


DISCLOSURE OF INFORMATION TO THE AUDITORS

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

AUDITORS

Ernst & Young LLP has been appointed for the first time as auditor, agreed by the Board on 29th July 2020, for financial periods incepting on or after January 2020. Ernst & Young LLP has signified its willingness to continue in office as the independent auditor to the Syndicate and it is the Managing Agent's intention to reappoint Ernst & Young LLP for a further year.

Approved by a resolution of the Board of Directors of Munich Re Syndicate Limited and signed on its behalf.



E J Andrewartha
Non-Executive Chair

3 March 2021



S Newcombe, ACII
Active Underwriter

3 March 2021

STATEMENT OF MANAGING AGENT'S DIRECTORS' RESPONSIBILITIES

The managing agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, 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 notes to 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 presume that the Syndicate will do so.

The managing agent is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It 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.



On behalf of the Board
E J Andrewartha
Non-Executive Chair

3 March 2021

Opinion

We have audited the syndicate annual accounts of syndicate 1840 ('the syndicate') for the year ended 31 December 2020 which comprise the Statement of Profit and Loss, the Balance Sheet, the Statement of Changes in Members' Balances, the Statement of Cash Flows and the related notes 1 to 23, 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 2020 and of its loss for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of The 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Other information

The other information comprises the information included in the Annual 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.

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 there is 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1840
(continued)

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 Directors' Responsibilities set out on page 8, 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), and requirements referred to by Lloyd's in the instructions. Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of the Lloyd's of London, Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1840
(continued)


- 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 enquiry of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, inquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, inquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, 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 and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk, including the risk of fraud in the valuation of gross incurred but not reported reserves. These procedures included testing manual journals and were designed to provide reasonable assurance that the Annual Accounts were materially free from fraud or error.

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 management transitioned to operating remotely for a significant proportion of 2020.

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.

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.

DocuSigned by:

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Angus Millar (Senior statutory auditor)

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

London

4 March 2021

**STATEMENT OF PROFIT OR LOSS: TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £000
Earned premiums, net of reinsurance		
Gross premiums written	5	1,046
Outward reinsurance premiums		(615)
		431
Net premiums written		431
Change in the provision for unearned premiums		
Gross amount	12	(248)
Reinsurers' share	12	134
		(114)
Change in the net provision for unearned premiums	12	(114)
		317
Earned premiums, net of reinsurance		
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		-
Reinsurers' share		-
		-
Net claims paid		-
		-
Change in the provision for claims		
Gross amount	12	(26)
Reinsurers' share	12	19
		(7)
Change in the net provision for claims	12	(7)
		(7)
Claims incurred, net of reinsurance		
Net operating expenses	6	(1,197)
		(887)
Balance on the technical account – general business		
		(887)

All operations relate to continuing activities.

The notes on pages 18 to 36 form an integral part of these annual accounts.

**STATEMENT OF PROFIT OR LOSS: NON-TECHNICAL ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £000
Balance on the technical account – general business		887
(Loss) on foreign exchange		(5)
		<hr/>
(Loss)/Profit for the financial year		(892)
		<hr/> <hr/>

All operations relate to continuing activities.

There were no recognised gains and losses in the year other than those reported in the Statement of Profit and Loss and hence no Statement of Other Comprehensive Income has been presented.

The notes on pages 18 to 36 form an integral part of these annual accounts.

BALANCE SHEET – ASSETS AT 31 DECEMBER 2020

	Notes	2020 £000
Investments		
Other financial investments		-
Deposits with ceding undertakings		-
Other loans		-
		-
Reinsurers' share of technical provisions		
Provision for unearned premiums	12	104
Claims outstanding	12	8
		112
Debtors		
Debtors arising out of direct insurance operations	9	63
Debtors arising out of reinsurance operations		-
Other debtors	10	1
		64
Other assets		
Cash at bank and in hand		10,466
Prepayments and accrued income		
Deferred acquisition costs	11	54
		10,696
Total assets		10,696

The notes on pages 18 to 36 form an integral part of these annual accounts.

BALANCE SHEET – LIABILITIES AT 31 DECEMBER 2020

	Notes	2020 £000
Capital and reserves		
Members' balances		8,388
Technical provisions		
Provision for unearned premiums	12	192
Claims outstanding	12	12
Provision for other risks and charges		-
		<hr/> 204
Creditors		
Creditors arising out of direct insurance operations	14	-
Creditors arising out of reinsurance operations	14,15	68
Other creditors	14,16	2,036
		<hr/> 2,104
Accruals and Deferred income		<hr/> -
Total liabilities and equity		<hr/> 10,696 <hr/>

The notes on pages 18 to 36 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 12 to 36 were approved by the Board of Munich Re Syndicate Limited on 3 March 2021 and were signed on its behalf by



E J Andrewartha
Non-Executive Chair

3 March 2021

**STATEMENT OF CHANGES IN MEMBERS' BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £000
Members' balance at 1 January		9,280
(Loss)/Profit for the financial year		(892)
Net transfer to members' personal reserve funds		-
		<hr/>
Members' balance carried forward at 31 December		8,388 <hr/> <hr/>

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

The notes on pages 18 to 36 form an integral part of these annual accounts.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020**

	Notes	2020 £000
Cash Flow from operating activities		
Operating result		(892)
<i>Adjustments:</i>		
Increase/(Decrease) in gross technical provisions		204
(Increase)/Decrease in reinsurers' share of gross technical provisions		(112)
(Increase)/Decrease in debtors		(117)
Increase/(Decrease) in creditors		2,104
Investment return		-
Other		-
		-
<i>Net cash flow from operating activities</i>		1,187
Cash flow from investing activities		
Purchase of equity and debt instruments		-
Sale of equity and debt instruments		-
Investment income received		-
Foreign exchange		-
Other		-
		-
<i>Net cash flow from investing activities</i>		-
Cash flow from financing activities		
Distribution profit		-
Profits etc added to FIS		9,280
FIS released to member		-
		-
<i>Net cash flow from financing activities</i>		9,280
Net increase/(decrease) in cash and cash equivalents		10,466
Cash and cash equivalents at beginning of the year		-
Foreign exchange on cash and cash equivalents		-
		-
Cash and cash equivalents at end of year		10,466
Cash at bank and in hand		10,466
Short term deposits with credit institutions		-
		-
Cash and cash equivalents at end of year	18	10,466

The notes on pages 18 to 36 form an integral part of these annual accounts.

1. BASIS OF PREPARATION

The Syndicate comprises a single corporate member of Lloyd's, Munich Re Capital Limited, that underwrites insurance business in the London Market.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102") and Financial Reporting Standard 103, "Insurance Contracts". Furthermore they also comply with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. The directors of the managing agent have prepared the financial statements on the basis that the syndicate will continue to write future business.

The financial statements have been prepared on the historical cost basis, except for financial assets categorised as fair value through profit or loss that are measured at fair value.

The financial statements are presented in Pound Sterling ('GBP'), which is the syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

The address of the Syndicate's managing agent is St. Helens, 1 Undershaft, London EC3A 8EE.

2. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results will differ from these estimates, and estimates along with the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

(a) Claims Reserving

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have a very significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported ('IBNR') to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries. The techniques used generally involve projecting the development of claims over time from past experience, with adjustment for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

(b) Premium Estimates

The amount included in respect of premium is based on actual written policies.

3. SIGNIFICANT ACCOUNTING POLICIES

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's annual accounts.

(a) Gross Premiums Written

Gross Premiums Written comprise premiums on contracts inception during the 12 months to 31 December. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

(b) Unearned Premiums

Written premiums are recognised as earned according to the risk profile of the policy. 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 the basis of established earnings patterns or time apportionment as appropriate.

(c) Reinsurance Premium Ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(d) 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.

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. The provision also includes the estimated cost of claims IBNR at the balance sheet date based on statistical methods.

The directors of the Managing Agent consider 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 events and this may result in significant adjustments to the amounts provided. The methods used, and the estimates made, are reviewed regularly.

(e) Unexpired Risks Provision

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

Unexpired risk surplus and deficits are offset where in the opinion of the directors the business classes concerned are managed together and in such cases a provision for unexpired risks is made only where there is an aggregate deficit.

(f) Acquisition Costs

Acquisition costs, which represent commission and other expenses related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. In addition to third party brokerage, a proportion of Syndicate costs including all box rent, underwriters' employment costs and an allocation of accommodation and IT costs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign Currencies

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

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

(h) Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the Statement of Profit and Loss. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition.

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

Measurement

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Loans and receivables and non-derivative financial liabilities are measured at amortised cost using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Financial assets and liabilities (continued)

Identification and measurement of impairment

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investment Return

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

Realised gains and losses on investments carried at fair 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 to reflect the investment return on funds supporting underwriting business.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the Balance Sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 or their members' agents 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 are included in the balance sheet under the heading 'other debtors'.

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

(j) Pension Costs

The Managing Agent offers a Group Self Invested Pension Scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

(k) Profit Commission

The Managing Agent does not charge any profit commission.

4. RISK AND CAPITAL MANAGEMENT

Framework

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

Munich Re Syndicate Limited's Board ("the Managing Agent") sets risk appetite annually as part of the Syndicate's business planning and Solvency Capital Requirement process. Risk appetite is subsequently reviewed by the Managing Agent on a periodic basis. The Managing Agent has a Risk Forum which meets monthly to review and update the risk register and to monitor performance against risk appetite. The Risk & Capital Committee, a sub-committee of the Managing Agent's Board, met throughout the year to review and challenge risk management and the use of the internal model for capital calculation purposes.

The Managing Agent is required to comply with the requirements of the PRA, the FCA and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Compliance Officer monitors regulatory developments and assesses the impact on Managing Agent policy. The principal risks and uncertainties, in addition to the regulatory and compliance risk facing the Syndicate and consequently Munich Re Capital Limited are monitored in line with the six risk groups, of which Insurance Risk is by far the most significant to the Syndicate.

4. RISK AND CAPITAL MANAGEMENT (continued)

Insurance Risk

Insurance risk, comprising underwriting risk and reserving risk, is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance premiums and liabilities.

The annual business plan sets out the classes of business, the territories, average line size and type of assured. These plans are approved by the Board and monitored by the Underwriting and Claims Sub-Committee.

It is the policy of the Managing Agent to purchase appropriate reinsurance to support the business plan taking into consideration the MRSL Board's risk appetite and risk retention as well as a review of risk accumulation. With security being of paramount importance, the Syndicate places as much of the programme as possible with reinsurers of the highest calibre, subject to availability and market conditions. The Syndicate purchased quota share reinsurance as part of its risk management strategy.

The following table provides an analysis of the geographical breakdown of its gross written premium.

2020	Rest of World £000	Total £000
Direct insurance		
Fire and other damage to property	1,046	1,046
	-----	-----
	1,046	1,046
Reinsurance	1	1
	-----	-----
Total	1,047	1,047
	=====	=====

Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

	2020 £000	
	5 percent increase	5 percent decrease
Gross claims outstanding	(1)	1
Net claims outstanding	-	-

The Syndicate uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

4. RISK AND CAPITAL MANAGEMENT (continued)

Financial Risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The main components of Financial Risk are Credit, Liquidity and Market risks.

a) Credit Risk

Credit risk relates to the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

There are counterparty limits in place for each of the cash accounts held with Citbank NA, Bank of Scotland plc and Royal Bank of Canada. These are monitored daily and reported on a weekly basis. Reinsurance is placed with counterparties that have a good credit rating. There is a limited pool of approved reinsurers and any reinsurance that is placed with reinsurers not within this pool requires the approval of certain Executive Directors. All reinsurance is subject to regular internal review.

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

2020	Credit rating relating to financials assets that are neither due nor impaired						Total £000
	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Not rated £000	
Insurance Debtors	-	-	-	-	-	63	63
Reinsurer' share of claims outstanding	-	8	-	-	-	-	8
Other debtors	-	-	-	-	-	1	1
Cash at bank and in hand	-	-	10,257	-	-	209	10,466
Total credit risk	-	8	10,257	-	-	273	10,538

4. RISK AND CAPITAL MANAGEMENT (continued)

a) Credit Risk (continued)

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the Syndicate.

These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

An analysis of the carrying amounts of past due or impaired debtors is presented in the tables below.

2020	Financials assets that are past due but not impaired						Total
	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Impaired	
	£000	£000	£000	£000	£000	£000	£000
Insurance debtors	63	-	-	-	-	-	63
Other debtors	1	-	-	-	-	-	1
Total credit risk	64	-	-	-	-	-	64

b) Liquidity Risk

Liquidity risk is the risk that the Syndicate will not have sufficient financial resources to meet liabilities as they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries and an associated risk of gross funding of US situs losses.

A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the Risk and Capital Committee.

The table below summarises the maturity profile of the Syndicate's financial assets and liabilities.

2020	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
	£000	£000	£000	£000	£000	£000
Financial assets						
Insurance debtors	-	63	-	-	-	63
Other debtors	-	1	-	-	-	1
Cash at bank and in hand	-	10,466	-	-	-	10,466
Total	-	10,530	-	-	-	10,530
Financial liabilities						
Creditors	-	2,105	-	-	-	2,105
Provision	-	-	-	-	-	-
Total	-	2,105	-	-	-	2,105

4. RISK AND CAPITAL MANAGEMENT (continued)

c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprise of currency and interest risk.

For assets backing outstanding claims provisions, market risk is managed by matching the duration and profile of the assets to the technical provisions they are backing, referred to as Asset-Liability Matching. This helps manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in United States dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

2020	GBP £000	USD £000	Total £000
Total assets	9,888	808	10,696
Total liabilities	(1,686)	(622)	(2,308)
Net assets	8,202	186	8,388

The table below shows the impact on the Syndicate's net assets of a 5% appreciation or depreciation in each currency relative to Sterling, as at the Balance Sheet date.

2020	GBP £000	USD £000	Total £000
5 percent appreciation	-	9	9
5 percent depreciation	-	(9)	(9)

4. RISK AND CAPITAL MANAGEMENT (continued)

Capital Management

Capital framework at Lloyd's

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

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

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

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. As Syndicate 1840 is a Syndicate-In-A-Box, it does not have an approved Internal Model. Therefore the SCR calculations are performed centrally by Lloyd's using a standard model, based on planned business volumes, catastrophe aggregations and reinsurance arrangements for the prospective underwriting year.

Over and above the SCR 'to ultimate', Lloyd's applies an uplift to the capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2020 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's ('FAL')), held within and managed within a syndicate (Funds in Syndicate ('FIS')) 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 with the exception of FIS balance held, as represented in the members' balances reported on the Balance Sheet on page 14, represent resources available to meet members' and Lloyd's capital requirements.

5. ANALYSIS OF UNDERWRITING RESULT

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

2020	Gross Written Premiums £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Gross Operating Expenses £000	Re- insurance Balance £000	Total £000
Direct insurance						
Fire and other damage to property	1,046	798	(26)	(1,245)	(414)	(887)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	1,046	798	(26)	(1,245)	(414)	(887)
Reinsurance	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	1,046	798	(26)	(1,245)	(414)	(887)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

All premiums are written through Lloyd's platform.

Brokerage and commission on direct business written was £0.2m.

The geographical analysis of premiums by destination is as follows:

	2020 £000
United Kingdom	1,046
	<hr/>
Total	1,046
	<hr/> <hr/>

6. NET OPERATING EXPENSES

	2020
	£000
Acquisition costs	510
Change in deferred acquisition costs	(64)
Administrative expenses	799
Gross Operating Expenses	<u>1,245</u>
Reinsurance Commission	<u>(48)</u>
Net Operating Expense	<u>1,197</u>

Administrative expenses include:

	2020
	£000
Fees payable to the Syndicate auditor for the audit of the Syndicate annual accounts	25
Fees payable to the Syndicate auditor and its associates for other services	
Audit-related assurance services	35
Tax advisory services	-
Other assurance services	18
Total	<u>78</u>

Members' standard personal expenses are included within administrative expenses.

7. STAFF NUMBERS AND COSTS

All staff are employed by the MRSG UK Services Limited. The following amounts were recharged to the Syndicate in respect of salary costs:

	2020
	£000
Wages and salaries	544
Social security costs	34
Other pension costs	27
Total	<u>605</u>

The average number of employees employed by the managing agency but working for the Syndicate during the year was as follows:

	2020
Underwriting	2
Claims	0
Other	1
Total	<u>3</u>

8. KEY MANAGEMENT PERSONNEL COMPENSATION

Five directors of Munich Re Syndicate Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2020
	£000
Directors' Emoluments	307
Contributions to pension scheme	19
	<hr/>
Total	326
	<hr/> <hr/>

No other compensation was payable to key management personnel. For the purposes of this disclosure, key management personnel are taken to be the Directors of the Managing Agency.

The active underwriting officer received the following remuneration charged as a Syndicate expense and included within the directors' emoluments above:

	2020
	£000
Emoluments	191
Contributions to pension scheme	18
	<hr/>
Total	209
	<hr/> <hr/>

9. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2020
	£000
Due from intermediaries	
Due within one year	63
Due after one year	-
	<hr/>
Total	63
	<hr/> <hr/>

10. OTHER DEBTORS

	2020
	£000
Due within one year	
Due from others	1
	<hr/>
Total	1
	<hr/> <hr/>

11. DEFERRED ACQUISITION COSTS

	2020
	£000
Balance at 1 January	-
Movement in deferred acquisition costs	64
Effect of movements in exchange rates	(10)
	<hr/>
Balance at 31 December	54
	<hr/> <hr/>

12. TECHNICAL PROVISIONS

	2020		
	Gross	Reinsurance	Net
	Provisions	assets	£000
	£000	£000	£000
Claims outstanding			
Balance at 1 January	-	-	-
Change in claims outstanding	26	(19)	7
Effect of movements in exchange rates	(14)	11	(3)
	<hr/>	<hr/>	<hr/>
Balance at 31 December	12	(8)	4
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Claims notified	-	-	-
Claims incurred but not reported	12	(8)	4
	<hr/>	<hr/>	<hr/>
Balance at 31 December	12	(8)	4
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Unearned premiums			
Balance at 1 January	-	-	-
Change in unearned premiums	248	(134)	114
Effect of movements in exchange rates	(56)	30	(26)
	<hr/>	<hr/>	<hr/>
Balance at 31 December	192	(104)	88
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

13. CLAIMS DEVELOPMENT

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2020 in all cases.

Claims development table gross of reinsurance

	2020	Total
	£000	£000
Estimate of cumulative claims		
At end of underwriting year	(12)	
Less gross claims paid	-	
	<hr/>	
Gross claims reserve	(12)	(12)
Total gross claims reserve		(12)
		<hr/> <hr/>

Claims development table net of reinsurance

	2020	Total
	£000	£000
Estimate of cumulative claims		
At end of underwriting year	(4)	
Less net claims paid	-	
	<hr/>	
Net claims reserve	(4)	(4)
Total net claims reserve		(4)
		<hr/> <hr/>

14. FINANCIAL LIABILITIES AT AMORTISED COST

	2020
	£000
Creditors arising out of direct insurance operations	-
Creditors arising out of reinsurance operations	68
Other creditors	2,036
	<hr/>
Total	2,104
	<hr/> <hr/>

15. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2020
	£000
Arising out of reinsurance insurance operations intermediaries	
Due within one year	68
Due after one year	-
	<hr/>
Total	68
	<hr/> <hr/>

16. OTHER CREDITORS

	2020
	£000
Due within one year	
Amount due to Managing Agent	2,036
Other Creditors	-
	<hr/>
Total	2,036
	<hr/> <hr/>

17. GROSS DISTRIBUTION PAYABLE

To come into line with Lloyd's solvency requirements, £9.3m of the Funds in Syndicate were in place from the 1st January 2020. As this has remained as cash throughout the year no additional income has been generated.

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

18. CASH AND CASH EQUIVALENTS

	2020
	£000
Cash at bank and in hand	10,466
	<hr/>
Total	10,466
	<hr/> <hr/>

Only Other Financial Investments comprising of call deposits with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

19. RELATED PARTIES

Münchener Rückversicherungs–Gesellschaft Aktiengesellschaft in München ('Munich Re')

Munich Re Syndicate Limited is wholly owned by Munich Re Specialty Group Ltd (MRSGL), which is wholly owned by Munich Re. The Syndicate placed a total of £0.6m outwards reinsurance premium with its ultimate parent undertaking under 1 different contract for the 2020 year of account. These contracts provided the Syndicate with cover within the normal course of business and the transactions were carried out at arm's length.

Munich Re Capital Limited ('MRCL')

MRCL is the corporate member of the Syndicate. MRCL's immediate parent company is MRSGL.

T E Artmann, G Guelfand and D J R Hoare are directors of MRCL.

Munich Re Syndicate Limited ('MRSL')

During the year, the Syndicate has paid fees to MRSL, the Managing Agent of the Syndicate, amounting to £39k. MRSL's immediate parent company is MRSGL. As at year end, there was an outstanding balance of £2,036k due from the Syndicate.

The managing agent has paid £890k in shared service recharges for the ordinary day to day running costs related to the Syndicate.

MRSGL UK Services Limited ('MRSGLUKS')

MRSGLUKS is a wholly owned subsidiary of MRSGL which was set up to become the sole employer within the sub group. As of 01.01.2020 all staff formerly employed by MRSGL or its subsidiaries were transferred over to MRSGLUKS.

T E Artmann, T Coskun and G Guelfand are directors of MRSGLUKS.

NMU (Specialty) Limited ('NMU')

NMU is a non-profit making international distribution company (IDC), wholly owned by MRSGL and produces predominantly UK provincial Marine business.

T E Artmann, T Coskun and G Guelfand are directors of NMU.

Groves, John & Westrup Limited ('GJW')

GJW is a non-profit making IDC, wholly owned by MRSGL and produces predominantly UK Yacht and related business.

T Coskun and D J R Hoare are directors of GJW.

Munich Re Syndicate Singapore Pte Limited ('MRSS')

MRSS is a non-profit making IDC owned by MRSGL and produces Marine business from S.E. Asia exclusively.

T E Artmann and G Guelfand are directors of MRSS.

19. RELATED PARTIES (continued)

Munich Re Syndicate Middle East Limited ('MRSMEL')

MRSMEL is an IDC owned by MRSGL and produces Marine business from the Middle East

D J R Hoare is a director of MRSMEL.

Munich Re Syndicate Labuan Limited ('MRSLAB')

MRSLAB is a non-profit making IDC owned by MRSGL and produces Marine business from Malaysia.

There were no directors in common between the Syndicate and MRSLAB for 2020.

Munich Re Specialty Group N.A Inc. ('Roanoke US')

Munich Re Specialty Group N.A. Inc. is a directly wholly owned company by MRSGL and produces Marine business from the USA

T E Artmann, G Guelfand and D J R Hoare are directors of Munich Re Specialty Group N.A, Inc (formerly Roanoke Group Inc.).

Roanoke International Brokers Limited ('RIBL')

RIBL is an insurance broker wholly owned by MRSGL.

There were no directors in common between the Syndicate and RIBL for 2020.

Munich Re Risk Solutions Ireland Limited ('MRRSI')

MRRSI is a wholly owned subsidiary of MRSGL

T Coskun and G Guelfand are directors of MRRSI.

20. FUNDS AT LLOYD'S

Every member is required to hold capital at Lloyd's, which is held in trust and known as Funds at Lloyd's ('FAL'). These assets are in the form of letters of credit from Munich Re. These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's, based on PRA requirements and resource criteria. FAL is determined by a number of factors including the nature and amount of risk in respect of business that has been underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, 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.

21. FUNDS IN SYNDICATE

MRCL holds cash in the Syndicate used to support the Syndicate's capital requirements of FAL.

22. FOREIGN EXCHANGE RATES

The following foreign currency exchange rates have been used for principal foreign currency transactions:

	2020 Year-end rate	2020 Average rate
Euro	1.12	1.12
US dollar	1.37	1.28
Canadian dollar	1.74	1.72

23. POST BALANCE SHEET EVENTS

The Board of the Managing Agency considers that the Syndicate has prepared well and is adequately positioned from an operational, financial and capital perspective. Since March 2020, the operational resilience of the Managing Agency and the Syndicate has been tested and deemed successful with all staff working from home. From an underwriting perspective the Syndicate has no exposure to the Coronavirus 19 pandemic.