Sussex Capital UK PCC Limited

Company number PC000002

Annual Report and Financial Statements for the year ended December 31, 2021

(expressed in U.S. dollars)

Officers and Professional Advisors

Directors	Anthony Medniuk Jonathan Sullivan Christopher Denton Helena Whitaker Michael Baker (resigned April 15, 2021) Jean Bernard Crozet (appointed August 11, 2021)
Company Secretary	Intertrust Corporate Services Limited
Chairman of the Board	Anthony Medniuk
Auditor	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditor 7 More London Riverside London SE1 2RT
Registered Office	The Leadenhall Building 122 Leadenhall Street London EC3V 4AB
Company Registration Number	PC000002

Strategic Report

The Directors present their Strategic Report for the year ended December 31, 2021.

Review of the business

Sussex Capital UK PCC Limited (the "Company") was incorporated as an English private company and registered with the Financial Conduct Authority ("FCA") as a protected cell company ("PCC") (registered number PC000002), on November 14, 2018.

The Company is authorised by the Prudential Regulation Authority ("PRA") to carry out certain risk transformation activities in accordance with its Scope of Permission. The Company entered into one transaction during 2021. The Company formed its third protected cell (the "2021-1 Cell") to enter into a collateralised quota share agreement for the reinsurance of Lloyd's Syndicate 2987.

The first protected cell (the "2020-1 Cell") formed during 2020 was created to enter into a collateralised quota share agreement for the reinsurance of Lloyd's Syndicate 2987. Additionally, during 2020, a second cell (the "2020-2 Cell"), was created for the purpose of issuing principal-at-risk notes linked to another reinsurance agreement with Lloyd's Syndicate 2987 (the "2021-Reinsurance Agreement"). The 2021-Reinsurance Agreement has a four-year risk period, commencing on January 1, 2021 and expiring on December 31, 2024, with an aggregate limit of $300m and covering Lloyd's Syndicate 2987's catastrophe exposure to certain US named storms and earthquakes. The aggregate limit is fully collateralised by the issuance of the principal-at-risk notes (the "Notes") to investors ("Noteholders"). The Notes are listed on the Bermuda Stock Exchange.

Summary of financial performance

The shareholder's funds increased from $83,743,995 at December 31, 2020 to $96,668,696 at December 31, 2021 represented by a loss of $8,179,846, dividends paid of $5,296,453 and preference shares issued and redeemed amounting to $101,400,000 and $74,999,000 respectively. The most significant contributors to the loss of $8,179,846 were earned premiums of $56,142,050, claims incurred of $28,359,829, change in unrealised loss on the Notes of $9,000,000 and investment expenses of $23,535,549.

The Company intends to distribute any profits arising in protected cells being attributable to the investors in the respective cells. The general operating costs of the core of the Company are borne by the protected cells.

For the year ended December 31, 2021, the 2021-1 Cell realised a profit of $1,825,072, comprised as follows:

Earned premium	$	31,473,628
Losses incurred		(26,746,799)
Acquisition costs		(2,731,395)
Administration costs		(177,147)
Interest income		6,785
Net profit	$	1,825,072

The 2020-1 Cell realised a loss of $1,004,855, comprised as follows:

Earned premium	$	628,929
Losses incurred		(1,613,030)
Acquisition costs		(21,712)
Administration costs		(0)
Interest income		958
Net loss	$	(1,004,855)

With respect to the 2020-2 Cell, the cell receives premiums under the terms of the 2021-Reinsurance Agreement that, together with investment income earned on the collateral funds, exactly match the cell's obligations to pay interest to Noteholders.

The 2020-2 Cell receives a Supplemental Expense Premium, the amount of which is based on the estimated costs of structuring the 2021-Reinsurance Agreement and associated Notes issued along with the estimated operating costs of the cell over the life of the agreement.

For the year ended December 31, 2021, the 2020-2 Cell had an unrealised loss of $9,000,000 resulting from fair valuing the Notes liability, as discussed in Note 9 to these financial statements. The unrealised loss results from the requirement in FRS 102 to value the Notes at fair value. As a consequence of the Notes liability being fair valued, the unrealised loss would reverse over time as the fair value nears maturity value. The underlying reinsurance contract which is based on an annual aggregate, state weighted, industry insured loss index trigger has not been fair valued.

Financial position of the business at year-end

As at the date the financial statements were approved, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

Principal risks and uncertainties

Risk management at the Company is a continuous process that links directly to the organisation's business and risk management strategies and the associated Board risk tolerances.

Major risks are managed through Board implementation and monitoring of comprehensive policies and procedures including risk management, investments, underwriting, reserving and claims.

A principal risk to the Company is that it will be unable to meet its reinsurance obligations as they fall due. This risk is mitigated by the collateralisation process described above.

Another principal risk is that the Company will be unable to make interest payments on the Notes. In this regard the obligation to pay the interest is contingent on receipt of the premiums due from Lloyd's Syndicate 2987. Another risk in relation to Noteholders is that the Company is unable to repay the principal on the Notes. However, the obligations of the Company to repay the principal amount of the Notes is subordinated to the Company's obligations to Lloyd's Syndicate 2987 under the 2021-Reinsurance Agreement.

The income expected to be received by the Company through each of its protected cells is expected to be sufficient to make payment of the projected expenses and liabilities of the Company and its protected cells.

Note 10 to the Financial Statements (Risk Management) provides additional information on risk management.

The Russia-Ukraine conflict

The Company's management are monitoring the Russia-Ukraine conflict for any potential impact on the business of the Company, however any potential impact is considered to be insignificant.

Coronavirus (COVID-19) outbreak

COVID-19 continues to have a significant impact on the insurance industry. During 2021, the Company's priorities remained the continuity of service to clients and brokers.

Statement by the directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

Introduction

The Directors' key responsibility is to promote the success of the Company. Each Director is cognisant that in discharging this key responsibility, they must have regard to matters set out in s172(1)(a-f) of the Companies' Act. The Directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company.

The Board's approach to section 172(1) and decision making

The Board's terms of reference clearly articulate the Board's responsibilities, the role of the Chair and matters reserved for the Board. The Chair ensures that these terms of reference are adhered to and, by doing so, ensures that Directors have due regard for all appropriate factors during the decision-making process, including the need to act fairly between each preference shareholders or Noteholders of each cell.

Our strategy

The Board is responsible for implementing risk transformation activities in accordance with its Scope of Permission and on-going performance monitoring. The Directors' assessment of long-term value creation considers the Company's resilience. They determine and monitor risk appetites and tolerances, and they ensure the Company has an effective risk management framework in place.

Board information

The Board receives information on a range of relevant topics and receives information on other areas as requested by the Directors from time to time.

Our policies and practices

All relevant factors are appropriately addressed by the Board when considering the matters of the Company. It ensures that all relevant considerations to assist it discharge its responsibilities are embedded in the key operations of the business, in order to help promote the long-term success of the Company.

Our stakeholders

The Board recognises the importance of engaging with its stakeholder base. The Company's primary stakeholder is its cedant, Lloyd's Syndicate 2987, with whom management actively engage.

Regulators are key stakeholders for any regulated business and the Company is pro-active in ensuring that it meets regulators' expectations around compliance, transparency and aligning the business with regulators' objectives. Interaction with regulators includes meetings with supervisory teams, sharing business updates and responding to information requests as required.

More broadly, the Company's stakeholders also include providers of capital, being preference shareholders and Noteholders. The successful implementation of the Company strategy is dependent on developing strong relationships with providers of capital, which supports the growth of the Company.

Employee interests

The Company has no employees and outsources its various operational functions to qualified service providers, where scope of work is covered under service provider agreements.

Relationships with customers and suppliers

The Company has a single cedant, Lloyd's Syndicate 2987. Financial obligations to the cedant are fully collateralised.

Agreements are in place with service providers, including companies connected to the cedant.

Reputation and business conduct

The Company has in place a policy manual incorporating policies for all key risks and processes. This policy manual was reviewed by the Company's regulators, FCA and PRA prior to authorisation as a PCC pursuant to the Risk Transformation Regulations 2017 (the "Regulations"). The Company believes it has appropriately qualified service providers to fulfil its ongoing obligations under the Regulations.

The Company believes it has minimal environmental impact, especially as it has no dedicated physical premises.

Key decisions made by the Directors during the financial year

The Board of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole. This report sets out how we have applied and complied with, the referenced section.

The Company formed its third protected cell (the "2021-1 Cell") to enter into a collateralised quota share agreement for the reinsurance of s Lloyd's Syndicate 2987.

The Directors approved the financial statements for the year ended December 31, 2020, on October 15, 2021.

The Directors approved the payment of dividends amounting to $5,296,453 that were paid during the year ended December 31, 2021.

Purpose and consideration of the consequences of decisions for the long term

The Company is a limited purpose vehicle that will enter into approved reinsurance transactions. In entering current and future transactions, the Board will ensure that the terms will provide for the ability of the Company to meet its current and future obligations.

Management continues to assess the impact of COVID-19 event on the Company, and has concluded that the ability of the Company to continue to maintain its operational functionality will not be significantly compromised.

Approval by the Board of Directors on June 29, 2022 and signed on its behalf by:

Christopher Denton, Director

The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB

Sussex Capital UK PCC Limited

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year ended December 31, 2021.

Directors

The Directors who served at any time during the period to the date the Financial Statements were signed were as follows:

Anthony Medniuk
Jonathan Sullivan
Christopher Denton
Helena Whitaker
Michael Baker (resigned April 15, 2021)
Jean Bernard Crozet (appointed August 11, 2021)

Streamlined Energy and Carbon Reporting (SECR) disclosure

As the Company does not have any physical premises or employees and business is limited, Scope 1, 2 and 3 emissions are below the 40,000kWh reporting threshold. The evaluation of Scope 3 considered the SECR disclosure in the audited financial statements of the cedant's parent company.

Miscellaneous other matters

The result for the financial year is ($8,179,846). The Company paid dividends in the sum of $5,296,453 (2020 - $nil) throughout the year with respect to cell 2020-1. The Directors do not recommend the payment of a final dividend for the period ended December 31, 2021 (2020: nil).

The Company has no employees and has outsourced various operational functions to appropriate service providers appointed by the Board.

Future outlook

Significant uncertainty continues to exist for the insurance industry. The frequency of major events and the magnitude of the resulting claims continues to rise, with 2021's experience following on from those of 2017 and 2018, the most costly back-to-back years on record. Commentators are attributing an increase in the frequency and severity of such events to climate change and other factors such as population growth and increasing insured values. Sussex has a limited exposure to these events as the 2020-1 Cell and 2021-1 Cell are both in run-off. The third cell, being the 2020-2 Cell, is fully collateralised as such claims are limited to the collateral held of $300,000,000.

The Company continues to monitor the impact of climate change and its effect on claims. Climate risk is monitored by the board (see note 10) for additional details relating to risk.

Going Concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Post balance sheet events

The Company's management are monitoring the Russia-Ukraine conflict for any potential impact on the business of the Company, however any potential impact is considered to be insignificant.

There have been no post balance sheet events since December 31, 2021, through to the date of this Report, that are required to be reflected in these financial statements.

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those Financial Statements the Directors are required to:

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

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

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

Auditor

PricewaterhouseCoopers LLP was appointed and has expressed its willingness to continue in office as auditor.

Statement of disclosure of information to the auditors

In accordance with the provisions of section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that:

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

Approval by the Board of Directors on June 29, 2022, and signed on its behalf by:

Christopher Denton, Director

The Leadenhall Building
122 Leadenhall Street
London EC3V 4AB

Report on the audit of the financial statements

Opinion

In our opinion, Sussex Capital UK PCC Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its loss and cash flows for the year then ended;
- have been properly prepared 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
- have been prepared in accordance with the requirements of the Companies Act 2006, as applied to protected cell companies by The Risk Transformation Regulations 2017.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 December 2021; the Income Statement, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' 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 remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- We performed audit procedures over material balances / transactions in active operations of the company for the purpose of our audit.

Key audit matters

- Valuation of the claims outstanding provisions
- Valuation of the notes payable

Materiality

- Overall materiality: US$561,000 (2020: US$188,000) based on 1% of combined operating ratio ("COR"). This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the COR by 1%.

- Performance materiality: US$420,750 (2020: $141,000).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

The impact of Covid-19, which was a key audit matter last year, is no longer included because of the impact of the pandemic on the company and its performance has reduced significantly in the year relative to the prior year. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of the claims outstanding provisions *See notes 3j and 6 of the financial statements for disclosures of related accounting policies, judgements and estimates.* The valuation of the claims outstanding provisions for the company have been estimated based on the information provided by Lloyd's Syndicate 2987. Management operates controls to provide challenge and oversight of the information provided by Lloyd's Syndicate 2987 before booking the company's claims outstanding provisions. Judgement is involved in arriving at the final claims outstanding provisions booked. There is a risk that adjustments made to the claims outstanding provisions provided by Lloyd's Syndicate 2987 are not adequately justified or supported which impacts on the company's performance.	We gained an understanding of how Lloyd's Syndicate 2987 establishes its claims outstanding provisions, including incurred but not reported claims reserves. We tested management's controls in place to challenge and oversee claims outstanding provisions allocated to the company from Lloyd's Syndicate 2987. We vouched the claims outstanding provisions booked by the company to the bordereaux provided by Lloyd's Syndicate 2987 and to materials which formed the basis of management's controls referred to above. Based on the work performed we determined that the valuation of the claims outstanding provisions is consistent with evidence we obtained.
Valuation of the notes payable See notes 3k and 7 of the financial statements for disclosures of related accounting policies, judgements and estimates. The financial statements contain US$309m (2020: US$300m) of notes payable classified as a financial liability and are initially recorded at the transaction price, and subsequently at fair value. The fair value for this financial liability requires some additional audit focus due to the passage of time from the issue date to the year end date and the limited number of similar financial instruments for which observable data is available.	We have performed the following procedures in relation to the notes payable: • We assessed the company's accounting treatment and basis for initial recognition and subsequent fair value measurement of the notes payable; • We assessed the related reinsurance agreement and offering circular for the notes payable to determine the appropriateness of the recorded amount, and the relevant clauses in relation to the notes; • With the assistance of actuarial experts, we reviewed and tested the assumptions used and methodology applied by management and its external expert in the fair value assessment of notes payable.

	Based on the above procedures we determined that the fair value of the notes payable is consistent with the evidence we obtained.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We have performed audit procedures over the company's material balances and transactions.

Materiality

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

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall company materiality	US$561,000 (2020: US$188,000).
How we determined it	1% of combined operating ratio ("COR"). This represents the total by which net operating expenses and/or net claims incurred would have to fluctuate to move the COR by 1%.
Rationale for benchmark applied	The company holds significant insurance balances allocated to it from the cession with Lloyd's Syndicate 2987. A primary performance measure for the syndicate is the COR and therefore this is an appropriate and generally accepted auditing benchmark for use in the calculation of materiality for the company.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to US$420,750 (2020: $141,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above $28,050 (2020: $9,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing and validating management's analysis and supporting documentation as it related to the company's going concern;
- Performing our own assessment of the company's going concern, focusing specifically on the company's financial and liquidity positions; and
- Assessing the disclosures made in the financial statements in respect of going concern.

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

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

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006, as applied to protected cell companies by The Risk Transformation Regulations 2017, have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006, as applied to protected cell companies by The Risk Transformation Regulations 2017, requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory principles, such as those governed by the Prudential Regulation ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, as applied to protected cell companies by The Risk Transformation Regulations 2017. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Board and management, including consideration of known or suspected instances of non-compliance with laws and regulation, and fraud;
- Assessment of matters reported on the whistle blowing helpline and management's investigation of such matters;
- Reviewing relevant meeting minutes including those of the Board, the Valuation Committee of Sussex Capital Management Limited (which covers the company), and correspondences with regulatory authorities, including the PRA and FCA;
- Testing and challenging, where appropriate, how the company's claims outstanding provisions and notes payable liabilities have been valued, considering specifically the existence of management bias;
- Testing journal entries and considering those that may be potential indicators of fraud; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006, as applied to protected cell companies by The Risk Transformation Regulations 2017, and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006, as applied to protected cell companies by The Risk Transformation Regulations 2017,we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
30 June 2022

Sussex Capital UK PCC Limited

Income Statement

For the year ended December 31, 2021

	Note	2021 $	2020 $
Technical Account – General Business			
Earned premiums			
Gross premiums written		36,084,972	114,858,110
Change in the gross provision for unearned premiums		20,057,078	(95,969,925)
Earned premiums		56,142,050	18,888,185
Allocated investment return transferred from the non-technical account		34,883	226,588
Total technical income		56,176,933	19,114,773
Claims incurred, net of reinsurance			
Claims paid		(7,957,494)	(2,003,277)
Change in the provision for claims		(20,402,335)	(6,343,268)
Claims incurred, net of reinsurance		(28,359,829)	(8,346,545)
Net operating expenses	12	(564,425)	(93,128)
Other technical charges, net of reinsurance		(2,896,976)	(1,856,106)
Balance on the technical account for general business		24,355,703	8,818,994
Non-technical account- General business			
Balance on the general business technical account		24,355,703	8,818,994
Investment income		34,883	226,588
Investment expenses and charges	1,7	(32,535,549)	(75,000)
Allocated investment return transferred to the general business technical account		(34,883)	(226,588)
(Loss)/profit for the financial year		(8,179,846)	8,743,994

All the above amounts are in respect of continuing operations.

No other comprehensive income has been recognised and therefore no statement of other comprehensive income has been presented.

The accompanying notes on pages 21 to 40 are an integral part of these financial statements.

Sussex Capital UK PCC Limited

Statement of Financial Position
As at December 31, 2021

	Note	2021 $	2020 $
ASSETS			
Debtors			
Debtors arising out of reinsurance operations	5	87,050,730	98,189,239
		87,050,730	98,189,239
Other assets			
Cash at bank and in hand		239,982	1,204,871
Cash at bank and in hand - restricted	4	426,248,072	386,881,353
		426,488,054	388,086,224
Prepayments and accrued income		469,851	2,908
Total assets		514,008,635	486,278,371
LIABILITIES			
Capital and reserves			
Called up share capital - common shares		1	1
Called up share capital - preference shares		101,401,000	75,000,000
Profit and loss account		(4,732,304)	8,743,994
Total shareholders' funds		96,668,696	83,743,995
Technical provisions			
Provision for unearned premium		75,912,846	95,969,925
Claims outstanding	6	26,745,603	6,343,268
Creditors			
Notes payable	10	309,000,000	300,000,000
Notes interest payable	7	5,430,129	75,000
Accounts payable & accrued liabilities		251,361	146,183
Total liabilities		417,339,939	402,534,376
Total equity and liabilities		514,008,635	486,278,371

The accompanying notes on pages 21 to 40 are an integral part of these financial statements.

Company number: PC000002

Approved by the Board of Directors and authorised for issue June 29, 2022

Director,
Christopher Denton

Sussex Capital UK PCC Limited

Statement of Changes in Equity
For the year ended December 31, 2021

	Note	Called up share capital: Common shares	Called up share capital: Preference shares	Retained earnings	Total
Balance as at December 31, 2019	9	1	-	-	1
Preference shares issued during the year		-	75,000,000	-	75,000,000
Profit for the financial year		-	-	8,743,994	8,743,994
Balance as at December 31, 2020	9	$ 1	$ 75,000,000	$ 8,743,994	$ 83,743,995
Preference shares issued during the year		-	101,400,000	-	101,400,000
Preference shares redeemed during the year		-	(74,999,000)	-	(74,999,000)
Dividends paid during the year		-	-	(5,296,453)	(5,296,453)
Profit/(loss) for the financial year		-	-	(8,179,846)	(8,179,846)
Balance as at December 31, 2021	9	$ 1	101,401,000	(4,732,305)	96,668,696

The accompanying notes on pages 21 to 40 are an integral part of these financial statements.

Sussex Capital UK PCC Limited

Statement of Cash Flows
For the year ended December 31, 2021

	2021 $	2020 $
Net cash from operating activities		
Net (loss)/profit for the period	(8,179,846)	8,743,994
Adjustments to reconcile net profit to net cash used in operating activities:		
Change in:		
Debtors arising out of reinsurance operations	11,138,509	(98,189,239)
Prepayments and accrued income	(466,943)	(2,908)
Provision for unearned premium	(20,057,078)	95,969,925
Claims outstanding	20,402,335	6,343,268
Fair value adjustment	9,000,000	-
Notes interest payable	5,355,129	75,000
Accounts payable & accrued liabilities	105,177	146,183
Net cash generated by operating activities	17,297,283	13,086,223
Cash flows from financing activities		
Proceeds from issuance of Notes	-	300,000,000
Proceeds from issuance of preference shares	101,400,000	75,000,000
Redemption of preference shares	(74,999,000)	-
Dividends paid	(5,296,453)	-
Net cash generated by financing activities	21,104,547	375,000,000
Increase in cash and equivalents	38,401,830	388,086,223
Cash and cash equivalents - beginning of period	388,086,224	1
Cash and cash equivalents - end of period	426,488,054	388,086,224
Represented by:		
Cash and cash equivalents	239,982	1,204,871
Cash and cash equivalents - restricted	426,248,072	386,881,353
Total cash and cash equivalents	426,488,054	388,086,224

The accompanying notes on pages 21 to 40 are an integral part of these financial statements

1. The Company and its activities

Sussex Capital UK PCC Limited (the "Company") was incorporated as an English private company and registered with the Financial Conduct Authority as a Protected Cell Company (registered number PC000002) on November 14, 2018. The address of its registered office is The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB.

The Company was formed and authorised by the Prudential Regulation Authority, effective November 14, 2018, to conduct activities specified in the Risk Transformation Regulations 2017 (the "Regulations") through one or more Protected Cells ("Cells").

The Company comprises the Core account ("Core") and has the power to establish Cells. The Core administers the Company and Cells are used to assume risk from undertakings. The Company may issue non-voting shares on behalf of a Cell to Qualified Investors (as defined in the Regulations), the proceeds of which are to be used to fund the Company's exposure to that risk and such proceeds will be maintained in restricted custody accounts for the benefit of the undertakings ceding risk to the Company.

Assets held on behalf of a Cell are treated as if they belong exclusively to that Cell and shall not be used to discharge liabilities incurred on behalf of or attributable to the Core or any other Cell, and shall not be available for any other purpose.

The Core and any Cell established do not have legal personality distinct from the Company.

During 2021, the Company formed one Cell, which entered into a reinsurance transaction:

UKPC2021-1 ("2021-1 Cell")	The 2021-1 Cell entered into a collateralised quota share reinsurance of Brit Syndicates Limited, for and on behalf of the underwriting member of Lloyd's Syndicate 2987 ("Lloyd's Syndicate 2987"), with a risk period incepting on January 1, 2021, and expiring on December 31, 2021 (the "2021 QSA"). The 2021-1 Cell's maximum obligations are collateralised using a reinsurance custody account. Collateral funds were raised by issuance, by the Company on behalf of the 2021-1 Cell, of preference shares. In January 2021, on inception of the risk period, $101.4m was held as collateral in the form of money market funds.

During 2020, the Company also formed two Cells, each of which entered into a reinsurance transaction:

UKPC2020-1 ("2020-1 Cell")	The 2020-1 Cell entered into a collateralised quota share reinsurance of Brit Syndicates Limited, for and on behalf of the underwriting member of Lloyd's Syndicate 2987 ("Lloyd's Syndicate 2987"), with a risk period incepting on January 1, 2020, and expiring on December 31, 2020 (the "2020 QSA"). The 2020-1 Cell's maximum obligations are collateralised using a reinsurance custody account. Collateral funds were raised by issuance, by the Company on behalf of the 2020-1 Cell, of preference shares. In January 2021, on expiration of the risk period, \$79m was released from collateral and used to redeem preference shares amounting to \$75m and pay a dividend amounting to \$4m.
UKPC2020-02 ("2020-2 Cell")	In December 2020, the 2020-2 Cell entered into a collateralised reinsurance of Lloyd's Syndicate 2987. The reinsurance has a four-year risk period, which commenced on January 1, 2021, and expiring on December 31, 2024. The 2021 Reinsurance Agreement has an aggregate limit of \$300m and covers Lloyd's Syndicate 2987's catastrophe exposure to certain US named storms and earthquakes. Under the terms of the 2021 Reinsurance Agreement, the 2020-2 Cell is required to fully collateralise the aggregate limit. The 2020-2 Cell raised the collateral funds by issuance of principal-at-risk notes ("Notes") to investors ("Noteholders"). The 2020-2 Cell receives premium equal to the interest spread payable to note holders, based on the outstanding principal of the Notes. The initial interest spread is 7.75% per annum. The interest rate is subject to reset at the start of each annual risk period, commencing January 1, 2022, January 1, 2023, and January 1, 2024. Following the annual reset the interest spread became 8.18% from January 8, 2022. The 2020-2 Cell will utilise the premium to pay the interest due to the Noteholders. In addition, 2020-2 Cell receives an additional premium from Lloyd's Syndicate 2987 to cover certain operating expenses of the cell, Supplemental Expense Premium.

The Company has a single operating segment representing reinsurance business with a single counterparty, Lloyd's Syndicate 2987. The results of this segment were gross written premium of \$36,084,972 (2020 – \$114,858,110), earned premiums of \$56,142,050 (2020 – \$18,888,185), claims incurred of $28,359,829 (2020 - $8,346,545) and net operating expenses of $564,425 (2020 – $93,128).

2. Statement of Compliance

The financial statements of the Company have been prepared in accordance with the Risk Transformation Regulations 2017, United Kingdom Accounting Standards, Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), FRS 103 Insurance Contracts and the Companies Act 2006. The financial statements are 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.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial periods presented, unless otherwise stated. The financial statements are presented in US dollars ("$").

a. Basis of preparation

The preparation of financial statements in conformity with FRS 102 and FRS 103 Insurance Contracts, requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Management of the Company have applied significant judgement and estimation in the preparation of the financial statements when fair valuing the Notes.

b. Going concern

The Company funds its day-to-day working capital requirements through funding provided under the terms of the two collateralised quota share agreements that (the "2021-1 Cell") and (the "2020-1 Cell") entered into and the Series 2020-1 Reinsurance Agreement. The Company's obligations under the reinsurance contracts it has entered into are fully collateralised to the respective limits. The Company's forecasts and projections show that the Company should be able to operate within the level of its current financing. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

The Company, therefore, continues to adopt the going concern basis in preparing its financial statements.

c. Functional and presentation currency

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the United States dollar ("US dollar"), reflecting the denomination of the Company's assets and liabilities being the currency in which the substantial proportion of Company's expenses are incurred. Expenses incurred in currencies other than US dollars are translated into US dollars at the exchange rate prevailing the transaction date.

The financial statements are also presented in US dollars which is, therefore, the Company's functional and presentation currency.

d. Reinsurance contracts

The Company assumes contracts that transfer significant reinsurance risk at the inception of the contract. Reinsurance risk is transferred to the Company when the Company agrees to compensate Lloyd's Syndicate 2987 if a specified uncertain future event, as defined by the respective Reinsurance Agreements, adversely affects Lloyd's Syndicate 2987. Lloyds Syndicate 2987's portfolio mix includes London Market direct coverage in financial and professional lines, programmes and facilities, property, specialty as well as casualty and property treaty reinsurance.

e. Cash at bank and in hand

Cash and cash equivalents in the statement of financial position include cash in hand, deposits held at call with banks and other short-term, highly liquid investments with a maturity of three months or less at the date of acquisition.

f. Cash at bank and in hand - restricted

Cash and cash equivalents comprise current deposits with banks and investments in highly rated, highly liquid US Treasury-based money market funds. Such cash and cash equivalents are held in collateral trusts for the benefit of Lloyd's Syndicate 2987 and so use of these funds by the Company is restricted.

Carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments.

g. Investment income

Investment income is comprised of interest income on cash and cash equivalents. Investment income is recognised on an accruals basis in line with the contractual terms. Interest is accrued on a daily basis.

h. Investment expenses and charges

Investment expenses and charges are comprised of interest payable under the terms of the Notes and changes in the fair value of the Notes. Interest expense is recognised on an accruals basis in line with the contractual terms and is accrued on a daily basis. Changes in the fair value of the Notes is calculated as the difference between the fair value at the date of the statement of financial position and the fair value at the last statement of financial position date.

i. Premiums, unearned premiums and acquisition costs

Premiums due under the Reinsurance Agreements are estimated and recorded as written at inception and are earned on a straight-line or seasonally adjusted basis over the risk period, as appropriate.

Supplemental Expense Premium, being for reimbursement of specific administrative expenses, is recognised as income in recognition of the underlying administrative expenses to which it relates.

Any portion of the premiums relating to periods after the balance sheet date is deferred and included in unearned premiums in the statement of financial position.
With respect to the quota share reinsurance inwards business, the premiums written relate to the business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations. Premiums are recognised over the period of risk in proportion to the amount of reinsurance protection provided to the Syndicate. Reinstatement premiums relating to major loss events are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.

Acquisition costs comprise commissions and other costs incurred on the acquisition of new and renewal business and are deferred and amortised over the terms of the policies or contracts of reinsurance to which they relate. The method followed in determining the deferred acquisition costs limits the amount of deferral to its realisable value by giving consideration to losses and expenses expected to be incurred as premiums are earned and also considers anticipated investment income.

j. Claims outstanding

In accordance with the terms of the 2021 Reinsurance Agreement, the Company shall not be liable for any loss payments unless and until the Company has received a proof of loss claim from Lloyd's Syndicate 2987.

With respect to 2021 and 2020 QSA, the liability for losses and loss adjustment expenses includes an amount determined from loss reports and individual cases, and an amount for losses incurred but not reported which have been estimated based on information provided by Lloyd's Syndicate 2987. Loss expense estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claims severity and frequency. While management believes that the amount is adequate, the ultimate liability may be in excess of, or less than, the amounts provided, and any adjustments will be reflected in the periods in which they become known thus the aggregate assets and liabilities are subject to change.

k. Notes payable

Notes payable are classified as a financial liability and are recorded at the transaction price and subsequently at fair value. As the Company receives a notice of loss payment in accordance with the terms of the 2021-Reinsurance Agreement, the outstanding financial liability of the Notes will be reduced and sufficient funds will be released from the trust account to facilitate the required payment to Lloyd's Syndicate 2987. The liability for Notes payable in the statement of financial position will not be extinguished until the original transaction amount is reduced to zero as a result of one or more loss payments to Lloyd's Syndicate 2987 or the Notes are redeemed.

l. Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred, and the transfer qualifies for derecognition under a combination of risks and rewards and control tests. A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired. All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

m. Share capital

The non-voting redeemable preferred shares and the voting shares are both classified as equity of the Company.

n. Judgements and key sources of estimation uncertainty

Fair value

The Company has designated on initial recognition the Notes payable at fair value through profit or loss (FVTPL).

The fair value of the Notes payable is based on observable market inputs and are recorded on the statement of financial position as a liability, at fair value. Realised and unrealised gains and losses on investments designated as FVTPL are recognised through the income statement within investment expenses and charges. The Notes are traded infrequently and therefore the Company establishes fair value by using a mark provided by an independent market maker.

4. Cash at bank and in hand - restricted

The Company is required to provide collateral in respect of the outstanding aggregate limits provided to Lloyd's Syndicate 2987 under the Reinsurance Agreements. Those funds, primarily invested in highly rated, highly liquid US Treasury-based money market funds, are held in trusts for the benefit of Lloyd's Syndicate 2987 and are, therefore, restricted from use by the Company. With respect to the 2021- Reinsurance Agreement, these same funds are also pledged as collateral for the holders of the Notes as security for repayment of the Notes. The Noteholders' security is subordinate to that of Lloyd's Syndicate 2987, the beneficiary of the trust.

Under the terms of the Notes, reinsurance premium and investment income earned on collateral funds, is required to be deposited or transferred into designated accounts, which are separate from the operating expense account, for the purpose of funding quarterly interest payable on the Notes. Any balances on the separate designated accounts are treated as restricted.

As at December 31, 2021, restricted cash and cash equivalents held in the reinsurance trust accounts amounted to $426,248,072 (2020 - $386,881,353).

5. Debtors arising out of reinsurance operations

Reinsurance premiums are estimated and accrued at inception of the insurance contracts. The balance held in receivables is the estimated reinsurance premiums less quarterly installments received as of the balance sheet date.

As at December 31, 2021, there has been no default on the payment of premium.

6. Claims outstanding

The summary of changes in provisions for losses and loss expenses for the year ended December 31, 2021, is as follows:

		2021		2020
Net loss and loss expense provisions at beginning of year	$	6,343,268	$	-
Current period		26,746,799		8,346,545
Prior periods		1,613,030		-
Total net incurred losses and loss expenses		28,359,829		8,346,545
Net losses and loss expenses paid or payable related to:				
Current period		(5,163,749)		(2,003,277)
Prior periods		(2,793,745)		-
Total losses and loss expenses paid or payable		7,957,494		(2,003,277)
Net loss and loss expense provisions at end of year	$	26,745,603	$	6,343,268

Current period incurred losses represent losses incurred in respect of the business written under the 2021 and 2020 QSA, including a technical provision's estimate for the cost of losses in respect of events that have occurred but have not yet been reported to the Company.

The summary of losses outstanding and incurred but not reported (IBNR) claims are as follows:

		2021		2020
Losses outstanding		6,827,847		1,169,837
IBNR		19,917,756		5,173,431
Net loss and loss expense provisions at end of year	$	26,745,603	$	6,343,268

7. Notes payable

The Company has issued certain Notes in order to raise funds to provide collateral required under the 2021-Reinsurance Agreement. The Notes are Principal At-Risk Variable Rate Notes and constitute direct obligations of the Company. Those obligations are secured by a charge over certain funds that have also been contributed to the reinsurance trust, established in favour of Lloyd's Syndicate 2987, to fully collateralise obligations under the 2021-Reinsurance Agreement to 100% of the reinsured limit as defined in the 2021-Reinsurance agreement. The security of the Noteholders is subordinate to that of Lloyd's Syndicate 2987 for the payment of losses under the 2021-Reinsurance Agreement. Both the Noteholders and Lloyd's Syndicate 2987 only have recourse to the value of the assets held in the reinsurance trust.

Accordingly, the final amount repayable in respect of the Notes (the adjusted principal balance outstanding) is largely dependent upon whether, and the extent to which, losses are payable by the Company under the 2021-Reinsurance Agreement.

The adjusted principal balance outstanding for the Notes, is calculated as the original Notes issue amount, less losses paid under the 2021-Reinsurance Agreement. There were no reported losses for the year ending December 31, 2021.

Interest on the Notes is payable quarterly in arrears. The quarterly interest amount payable is calculated as the adjusted principal balance outstanding at the start of the respective quarter, multiplied by an interest spread multiplied by actual days in the accrual period divided by 360, plus actual interest income received in the quarter by the Company on the respective collateral assets.

The interest spread is subject to an annual reset at the beginning of the first and each subsequent loss period. The first reset was made effective January 1, 2022.

8. Share capital and reserves

The Company has issued 1 fully paid £1 share to the sole Shareholder, for a subscription amount of £1 ($1). 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 non-voting redeemable preferred shares are issued pursuant to the Risk Transformation Regulations 2017 and all rights with respect to payments, dividends and distributions shall be with respect only to the Cell from which they were issued and the holders recourse shall only be to the assets of the respective Cell. The non-voting redeemable preferred shares are not redeemable at the request of the holder and are redeemable only to the extent there is excess collateral available from the respective reinsurance trust as outlined in the Subscription and Shareholders agreement.

During 2021, the Company issued 101,400,000 non-voting redeemable preferred shares of par value $1, with respect to the 2021-1 Cell. The proceeds from the issuance were used to fund the initial collateral requirement under the 2021-1 QSA.

The reserve within equity consists entirely of retained earnings.

Dividends paid during the year amounting to $5,296,453 were paid out of the available retained earnings of each respective Cell.

9. Fair value of financial assets and liabilities

The fair value of financial assets and liabilities traded in active markets is based on quoted market prices at the close of trading on the year-end date. The quoted market price used for financial assets held by the Cell 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, market maker, 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, 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 the Cells hold.

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 fair value estimates of its Cash and cash investments-restricted under Level 1 as prices for the money market funds are readily available.

The Company classifies the fair value of the Notes issued under Level 2. The recorded fair value of the Notes at December 31, 2021 amounted to $309,000,000, which represents the best estimate at which the Notes may trade with market participants in an arms length transaction.

The recorded fair value of the Notes exceeds the principal amount of the Notes, which is $300,000,000, by $9,000,000. As described in note 7, the obligations to the Noteholders are secured by a charge over certain funds, amounting to $300,000,000, that have been contributed to the reinsurance trust, established in favour of Lloyd's Syndicate 2987 to fully collateralise obligations under the 2021-Reinsurance Agreement. The loss recorded within the Income Statement of ($8,179,846) (2020: profit 8,743,994) includes an unrealised loss of $9,000,000 (2020: Nil) from the recording the Notes at fair value. The unrealised loss is a result of the application of FRS 102 to measure the Notes at fair value. As a consequence of the Notes liability being fair valued, the unrealised loss would reverse over time as the fair value nears maturity value. The underlying reinsurance contract which is based on an annual aggregate, state weighted, industry insured loss index trigger has not been fair valued. The obligation to either Lloyd's Syndicate 2987 or the Noteholders is limited to the funds held in the reinsurance trust, which at the statement of financial position date, amounts to the par value of the Notes of $300,000,000. Neither Lloyd's Syndicate 2987 nor the Noteholders have any recourse to any other assets of the Company over and above the amounts held in the reinsurance trust.

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

As at December 31, 2021	Fair value Level 1 $	Fair value Level 2 $	Fair value Level 3 $	Total $
Assets				
Cash and cash equivalents - restricted	426,488,054	-	-	426,488,054
Liabilities				
Notes issued	-	309,000,000		309,000,000

As at December 31, 2020	Fair value Level 1 $	Fair value Level 2 $	Fair value Level 3 $	Total $
Assets				
Cash and cash equivalents - restricted	388,086,224	-	-	388,086,224
Liabilities				
Notes issued	-	300,000,000		300,000,000

For assets and liabilities that are recognised at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period. There were no transfers during the year ended December 31, 2021.

10. Risk management

Risk Management overview
The Company's activities expose it to a number of risks which have the potential to affect its ability to achieve its business objectives. The following describes the Company's financial and insurance risk management from a quantitative and qualitative perspective.

There is an established framework in place to manage risk. It sets out risk management standards, risk appetite and provides a consistent methodology and structure to the way in which the risks are identified, measured and managed. The key categories of risk include: insurance, market, credit, liquidity, and operational risks defined in line with GAAP requirements. How these risks are managed is explained below:

• Identification: Risk events and risks are identified, classified and reported to the Sussex Capital Management Limited (SCML) Operations Committee and Board. This is a continuous process which considers any emerging and existing risks.
• Management: The information resulting from risk identification is used to improve how the business is managed.

These elements of the framework are supported by appropriate governance, reporting management information, policies and systems.

The key governance bodies of the Company are set out below:

• The Company's Board, which is responsible for setting business and risk strategy and ensuring the principal risks and uncertainties facing the Company are managed;
• Day-to-day management of the Company is provided through a service agreement between SCML and the Company. Under the terms of the service agreement, the Committees of SCML have the following responsibilities: the Valuation Committee is responsible for the reserving process, the Operations Committee is responsible for the control framework and the Investment Committee is responsible for assessing underwriting risk and management of underwriting decisions within agreed limits.

The key risk exposures for the individual categories and how these are managed are discussed in the sections below.

(a) **Currency risk**

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Company. The Company has a nominal exposure to currency risk by having assets and liabilities solely in US Dollars.

(b) **Interest rate risk**

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Company is exposed to interest rate risk through its cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security to a 100 basis points parallel shift in interest rates. The longer the duration of a security, the more sensitive it is to changes in interest rates.

The banded durations of the Company's cash and cash equivalents sensitive to interest rate risk are shown in the table below:

As at December 31, 2021		Duration					
Assets	Statement of financial position	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
	$	$	$	$	$	$	$
Cash and cash equivalents	426,488,054	426,488,054	-	-	-	-	426,488,054
	426,488054	426,488,054	-	-	-	-	426,488,054

As at December 31, 2020		Duration					
Assets	Statement of financial position	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
	$	$	$	$	$	$	$
Cash and cash equivalents	388,086,224	388,086,224	-	-	-	-	388,086,224
	388,086,224	388,086,224	-	-	-	-	388,086,224

(c) **Credit risk**

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Premium debtor credit risk

The Company's premium debtor is Lloyd's Syndicate 2987. As Lloyd's Syndicate 2987 is a Lloyd's syndicate, the premium debtor credit risk is considered low. Additionally, the Company has the right to offset premium debt against claim amounts owed to Lloyd's Syndicate 2987.

Investment credit risk

Investment credit risk management process

The Board chaired by an independent Chairperson is responsible for the management of investment credit risk.

Credit risk relating to the Notes issued is low given the trust structure and trust agreement in place. The risk is managed by ongoing monitoring of the collateral account balance and premiums due under the reinsurance agreement, the proceeds of which are used to pay the Coupon on the Notes.

The Company's general operational bank account is held by one bank, with a credit rating of Aa2.

The Company's restricted cash and cash equivalents are also held with the same bank. The trustee and custodian of the investments are held by the bank's corporate trustee company.

All of the proceeds of the issuance of the Notes are invested in AAA rated cash equivalents within short dated US Treasury money market funds and held by the bank's corporate trustee company.

The concentration of credit risk is unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

As at December 31, 2021	AAA	AA	A	BBB and below	Equities	P1	P2	Not rated	Total
	$	$	$	$	$	$	$	$	$
Cash and cash equivalents	426,488,054	-	-	-	-	-	-	-	426,488,054
Total	426,488,054	-	-	-	-	-	-	-	426,488,054

As at December 31, 2020	AAA	AA	A	BBB and below	Equities	P1	P2	Not rated	Total
	$	$	$	$	$	$	$	$	$
Cash and cash equivalents	388,086,224	-	-	-	-	-	-	-	388,086,224
Total	388,086,224	-	-	-	-	-	-	-	388,086,224

(d) **Liquidity risk**

This is the risk the Company may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Company faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Company's administrator monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Company's administrator ensures that sufficient funds (including cash and the ability to readily liquidate money market funds) are available to meet any commitments as they arise.

The notes payable mature on 31 December 2024 but can be extended for up to three years. This is fully collateralised by AAA rated Money Market Funds.

As at December 31, 2021

		Fair values					
Assets	**Statement of financial position**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Equities**	**Total**
	$	$	$	$	$	$	$
Cash and cash equivalents	426,488,054	426,488,054	-	-	-	-	426,488,054
	426,488,054	426,488,054	-	-	-	-	426,488,054

		Fair values				
Liabilities	**Statement of financial position**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	$	$	$	$	$	$
Claims outstanding	26,745,603	13,854,223	9,887,849	2,182,441	821,090	26,745,603
Notes Payable	309,000,000	-	309,000,000	-	-	309,000,000
Other creditors	5,681,490	5,681,490	-	-	-	5,681,490
	341,427,093	19,535,713	318,887,849	2,182,441	821,090	341,427,093

As at December 31, 2020

		Fair values					
Assets	**Statement of financial position**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Equities**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Cash and cash equivalents	388,086,224	388,086,224	-	-	-	-	388,086,224
	388,086,224	388,086,224	-	-	-	-	388,086,224

		Fair values				
Liabilities	**Statement of financial position**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
Claims outstanding	6,343,268	3,386,036	2,241,711	489,066	226,455	6,343,268
Notes Payable	300,000,000	-	-	300,000,000	-	309,000,000
Other creditors	221,183	221,183	-	-	-	221,183
	306,564,451	3,607,219	2,241,711	300,489,066	226,455	306,546,451

(e) **Market risk**

Introduction
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 comprises three types of risk: interest rate risk, currency risk and other price risk. Credit risk on cash is covered in the credit risk section.

There is no significant market risk arising from its investments as the Company is holding short term AAA rated Money Market Funds.

There is no significant price risk arising from its investments due to their nature.

(f) **Insurance risk**

This is the risk of a financial loss due to actual experience being different than that assumed when an insurance product was designed and priced. This is the principal risk the Company is exposed to through the underwriting process which arises from the inherent uncertainty in the occurrence, timing and amount of the insurance liabilities. The Company is exposed to insurance risk directly through the 2020 and 2021 QSA.

This risk arises due to the possibility that insurance contracts are under-priced, under-reserved or subject to catastrophe claims. The areas of insurance risk discussed below are underwriting and reserving risk.

Underwriting risk
The Company is exposed to underwriting risk through UKPC2021-1 and UKPC2020-1. Underwriting risk is the risk that the insurance premiums will not be sufficient to cover future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Company as a result of unpredictable events.

The Company is also exposed to the risks resulting from underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. The underwriting environment and the associated impact on premium rates, including economic, climate, legal and underwriting competition trends, are factored into the Company's pricing and risk management tools, and continually monitored to assess whether any corrective action is required.

The SCML as underwriting agent has underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite on behalf of the Company. Line size limits are in place with additional restrictions in place on catastrophe exposed business and types of business which may be written.

Compliance is checked both by the Investment Committee and, periodically, by the internal audit department which is entirely independent of underwriting.

Sensitivity to changes in net claims ratio
The Company profit/(loss) before tax is sensitive to a 1% change in the net claims ratio for each class of business as follows:

Category	December 31, 2021		December 31, 2020	
	$	%	$	%
UKPC2020-1	6,289	2	187,699	100
UKPC2021-1	314,736	98	-	-
Total	321,026	100	187,699	100

Reserving risk
This is the risk that the actual cost of losses for obligations incurred before the valuation date will differ from expectations or assumptions set as part of the reserving process. This is a key risk for the Company as the reserves for unpaid losses represent a large component of the Company's liabilities and are inherently uncertain. The Valuation Committee chaired by the SCML Finance and Operations Director is responsible for the management of the reserving risk for the Company.

The Company has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk.

The Valuation Committee uses insight from an experienced team of actuaries who perform a monthly reserving analysis using a wide range of actuarial techniques to estimate the claims liabilities in line with the Reserving policy.

The Reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Valuation Committee as part of the formal governance arrangements for the Company. The estimate agreed by the Valuaiton Committee is used as a basis for the Company's financial statements. The reserves in the financial statements are presented to the Company's Board for ultimate sign off.

(g) **Operational Risk**

Operational risk is the potential for losses 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.

Outsourcing risk is considered part of operational risk. The Company is dependent upon a number of functions provided by Brit Group Services Limited and Horseshoe ILS Services UK Limited through outsourcing agreements to support its operation.

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.

Operational risk management process
Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The Operations Committee takes a standard approach to managing operational risk. The key elements of this are:

- Allocation of responsibility for the identification and assessment of operational risk.
- Definition of standard elements of sound operating controls that are expected to be in place to address all identified operational risks.
- Governance, reporting and escalation for operational risk; and
- Operational risk management training and awareness.

The Company has a number of controls in place that mitigate the operational risk relating to outsourced functions. One of these controls is performance monitoring against contractual Service Level Agreements (SLAs). The SLAs are monitored to ensure the delivery of expected business benefits and identify and address issues of underperformance.

Commercial and strategic risks
There is a risk that the Company's strategy is not appropriate or is not implemented effectively which could result in material losses.

Covid–19
Governments have taken various actions to contain the pandemic, including social distancing measures, travel restrictions and lockdowns resulting in the closure of certain businesses. This has given rise to insurance claims from various lines of business. Rising price inflation in the US and UK may also lead to an increase in the cost of settling claims

The service providers and the Operations Committee have focused on ensuring staff wellbeing, launching a number of initiatives including periodic working from home orders to curb the spread of Covid-19. The Company has been able to maintain a strong operational performance and continue to serve its customers despite the pandemic. The underwriting portfolio has been actively managed to reflect market developments, and actions have been taken where appropriate to ensure it is positioned for both the pandemic and the recessionary economic conditions.

The Operations Committee provided reports on the impact of the pandemic on the business throughout 2020 and 2021 to the Board. Covid-19 will continue to be an area of focus with the key risks going forward being further volatility and uncertainty over the ultimate claims arising from Covid-19. The wellbeing of staff also remains a priority.

Climate Change
Climate change is a key example of a developing risk identified as part of the Company's risk review, and the potential impact on the insurance industry is an area of focus for the market and regulators.

The financial risks to insurers include the potential for increases in the frequency and severity of weather-related natural catastrophes, for example, hurricanes and wildfires. In line with previous years, 2021 continued to see wildfires occurring worldwide and the Atlantic hurricane season was the third most active season on record after 2020 and 2015.

The main area of risk identified for the Company is natural catastrophes. Natural catastrophe risks relating to climate change are the physical risks of increased frequency and severity of weather-related natural catastrophes. This could result in claims which could impact the Company . Exposure to natural catastrophe risks is monitored on an ongoing basis by the Board of Directors.

The Company is managing the risks associated with climate change and is responding to the latest guidance in this area. This will continue to be an area of the board, Valuation and Investment Committee focus.

(h) **Capital risk management**

The Company seeks to hold capital resources which are sufficient to meet contractual collateralisation requirements and to absorb significant losses.

The Company also monitors its capital in the context of its working capital relative to its ongoing liquidity requirements to safeguard the entity's ability to continue as a going concern, to honour any insurance obligations when they arise, and to provide returns for the Noteholders.

There is not a material capital risk as it is fully funded to meet its future operational expenses and its obligations under the Reinsurance Agreements.

11. Related party transactions

Jean Bernard Crozet, a director of the Company is employed by an affiliate of the Company's administrator, Horseshoe ILS Services UK Limited. During the year ended December 31, 2021, the Company paid Horseshoe $51,000 (2020 - $30,000).

A director of the Company has been nominated by Intertrust Management Limited. Intertrust Corporate Services Limited is the corporate secretary of the Company and holds the Company's sole issued share. During the year ended December 31, 2021, the Company paid Intertrust Management Limited GBP3,504 (2020 – GBP7,359).

Jon Sullivan, a director of the Company is also the active underwriter of Lloyd's Syndicate 2987. Anthony Medniuk, the Chairman of the Company, is also a Chairman of Brit Syndicates Limited, an associate undertaking and contractual counterparty. Neither Jon Sullivan nor Anthony Medniuk receive any remuneration from the Company.

12. Net operating expenses

During the year ended December 31, 2021, the Company incurred net operating expenses of $564,425 (2020 – $93,128), including modelling agent fees of $257,457 (2020 – $13,355), service agent fees of $147,276 (2020 – $7,263), trustee fees of $51,692 (2020 – $18,008) and audit fees of GBP25,000 (2020 – GBP20,000).
Audit fees were paid on behalf of the Company by Brit Group Services Limited.

13. Directors' remuneration

The amounts paid to Horseshoe ILS Services UK Limited and Intertrust Management Limited as noted in Note 11 includes directors fees through the existing arrangements with these service providers.

14. Taxation

The Company benefits from the special tax treatment set out in Regulation 4 of the Risk Transformation (Tax) Regulations 2017 (the "Tax Regulations"). The Tax Regulations set out a special tax regime for qualifying transformer vehicles.

A transformer vehicle will be a qualifying transformer vehicle if it is a company limited by shares that (i) carries out the activity of insurance risk transformation where substantially all of that activity relates to business other than basic life assurance and general annuity business and (ii) is authorised under Part 4A of the Financial Services and Markets Act 2000 to carry out insurance risk transformation. The Board believes that the Company constitutes a qualifying transformer vehicle for these purposes. The insurance risk transformation activity of qualifying transformer vehicles are not subject to corporation tax.

The Tax Regulations only apply to the Cells and not to the Core.

Accordingly, no provision is made in these Financial Statements for taxation on the net income of the Company.

15. Subsequent events

The Company's management are monitoring the Russia-Ukraine conflict for any potential impact on the business of the Company, however any potential impact is considered to be insignificant.

There were no material subsequent events from December 31, 2021, through June 29, 2022, the date the financial statements were approved, which require to be reflected in these financial statements.

16. Parent undertaking and ultimate controlling party

The entire issued share capital of the core of Sussex Capital UK PCC Limited is held by the legal parent company, Intertrust Corporate Services Limited, which holds the Company's sole share on a discretionary trust basis for the benefit of certain charities. As the trustee is not entitled to any economic benefit and the beneficiaries do not have any decision making power, there is no controlling party.

Intertrust Corporate Services Limited is a wholly owned subsidiary of Intertrust Management Limited.

The shareholder's registered office is 1 Bartholomew Lane, London, EC2N 2AX.