IMPORTANT INFORMATION ABOUT THE SYNDICATE REPORT AND ACCOUNTS

Polo Managing Agency Limited

Report and Financial Statements

Syndicate 1254

for the year ended

31 December 2023

CONTENTS

DIRECTORS AND ADMINISTRATION

Managing agent

Polo Managing Agency Limited ("the Managing Agent", "the Agency" or "PMA") is the Managing Agent of Syndicate 1254. PMA is a wholly owned subsidiary of Marco Capital Holdings (UK) Limited ("MCHL").

Directors

Directors who served at PMA during the year or up until the period the Report & Accounts were signed are as follows:

P Andrews - Chief Executive Officer (Appointed 22/05/2023)
M J Bishop - Finance Director (Appointed 05/06/2023)
I J Bremner - Chair, Non-Executive Director
K D Curtis - Non-Executive Director
J A Hummerston - Director of Underwriting
P M Laws - Compliance Director
S Minshall - Non-Executive Director
R M Richardson-Bunbury - Chief Actuary
M Sebold-Bender - Non Executive Director
P R Smith - Managing Director
S G J Sykes - Chief Executive Officer (Resigned 24/03/2023)
Z Szalkai - Non-Executive Director
P Wooldridge - Chief Operations Officer

Company secretary

Hackwood Secretaries Limited (Resigned 30/06/2023)

Managing agent's registered office

The Grange
Cheltenham
Gloucestershire
United Kingdom
GL52 8YQ

Managing agent's registered number

03935227

DIRECTORS AND ADMINISTRATION (continued)

Syndicate

Run-Off Manager
P R Smith

Bankers
Barclays Bank - London
Citibank NA - London and New York
RBC Investor & Treasury Services - Toronto
European Depositary Bank - Luxembourg

Investment Managers
Conning Asset Management Limited

Independent Auditors
Mazars LLP

Statement of actuarial opinion signing actuary
PricewaterhouseCoopers LLP

MANAGING AGENT'S REPORT

The Directors of PMA, the Managing Agent, present their report for Syndicate 1254 ("the Syndicate") for the year ended 31 December 2023.

Directors' Interests

None of the Directors of the Managing Agent have any participation in the Syndicate's premium income capacity. Directors who served at PMA during the year or up until the period the Report & Accounts were signed are detailed in the 'Directors and Administration' section on page 4.

Directors and Officers

Details of the Directors and Officers of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 4. Changes to directors and officers from the last report were as follows:

P Andrews - Chief Executive Officer (Appointed 22/5/2023)
M J Bishop - Finance Director (Appointed 5/6/2023)
S G J Sykes - Chief Executive Officer (Resigned 24/03/2023)
Hackwood Secretaries Limited (Resigned 30/6/2023)

Syndicate Annual General Meeting

The Managing Agent does not propose to hold an annual general meeting for the member of the Syndicate. The member is asked to note that any objections to this proposal should be submitted, in writing, to the Risk & Compliance Director within 21 days of this notice.

Related Party Transactions

The Syndicate did not enter into any related party transactions, which were not concluded under normal market conditions. For a full listing of related party transactions please refer to the related parties section in the notes to the accounts.

Auditors

Mazars LLP remain in office as the Syndicate's auditors.

MANAGING AGENT'S REPORT (continued)

Principal Activities

The principal activity of Syndicate 1254 is the transaction of reinsurance business in the Lloyd's market by way of reinsurance to close ("RITC") or other legacy solution.

Marco Corporate Capital Limited is the wholly aligned corporate member for the Syndicate.

Review of the business

The result for the Syndicate in calendar year 2023 is a profit of £8.1m (2022: £2.2m).

In 2023, the Syndicate underwrote a portfolio comprising expired motor policies, consisting of catastrophic injury claims. The reserves acquired are long term in nature, subject to discounting and include claims settled via Periodic Payment Order ("PPO") and those which are currently open and may settle as either a lump sum award or PPO. On a discounted basis, the 2023 year of account claims performed in line with expectation. Due to the long term nature of the liabilities of the underlying policies, assets with an appropriate maturity profile have been acquired to closely match the duration of those liabilities.

Incurred claims are the primary performance indicator for a run-off syndicate. Claims reserves will decrease as claims are settled. Reserve releases in excess of claims payments will generate profits for the Syndicate and vice versa. Nevertheless, future insurance claims payments are inherently uncertain and this needs to be understood when interpreting the Syndicate's results. Net prior year reserves on US casualty business were strengthened during 2023, a common trend seen across the market.

For much of 2023, as was the case in 2022, many major economies experienced elevated levels of inflation compared with recent history, although this had reduced significantly by the end of the year. While the Syndicate has seen some direct evidence of claims inflation, there are delays before current levels of inflation affect future claims payments. A detailed review by line of business has been performed, resulting in an explicit uplift to claims reserves of £2.2m.

The Syndicate's main currency exposure is Pounds Sterling, which is the currency of the 2023 underwriting year. The functional currency for the Syndicate continues to be US Dollars.

Net operating expenses of £0.2m (2022: £4.1m) includes both gross commission (£0.4m, 2022: £0.9m) and ceding commission (£1.6m), arising from premium movements in the year. In addition to ongoing administration costs, expenses include onboarding costs for the underwriting portfolios.

Review of underwriting activities for 2023

The table below summarises the premium volumes and performance of the Syndicate for 2023.

Key performance indicators

	2023	**2022**
	£m	**£m**
Gross premiums written	99.4	2.5
Net premiums earned	50.4	1.5
Claims incurred surplus	(46.2)	4.7
Operating expenses	(0.2)	(4.1)
Profit for the year	8.1	2.2

As a legacy solutions provider, the Syndicate does not report loss ratios or combined ratios, as premium income is directly related to claims acquired. Movements in claims incurred relate to current year contracts written and prior underwriting year movements on policies written in the previous calendar year.

As at 31 December 2023, Syndicate 1254 is declaring a profit of £8.1m (2022: £2.2m)

MANAGING AGENT'S REPORT (continued)

Review of the business (continued)

The Syndicate currently invests in government bonds, investment grade corporate bonds, money market funds and other select funds as it attempts to generate stable returns, whilst maintaining liquidity for settling claims and maintaining capital. As the duration of the liabilities within the Syndicate increased with the writing of the motor reinsurance portfolio, the duration of invested assets was also increased through the purchase of long dated UK Gilts and corporate bonds. Oversight of investment activities is governed by the Investment Committee, which in turn reports to the Syndicate Management Committee ("SMC") and to the Managing Agency Board.

There has been no trading in derivative contracts and hedging would only be used to mitigate risk, rather than for speculative gain.

Global bonds experienced volatile markets during 2023. Central banks continued to tighten policy in response to inflation, which led to yields moving higher, though there was a sharp reverse of that trend following the failure of Silicon Valley Bank, which led to expectations that the Federal Reserve would ease policy to deal with the fall-out from the failure. In the event the Federal Reserve increased rates at the meeting later that month and at two later meetings, and yields moved higher through the second and third quarters, across all of the main central banks, to their highest levels of the year causing adverse movements in the values of the Syndicate's fixed income securities. However, during the fourth quarter yields fell sharply, and by the end of the year markets were discounting multiple rate cuts during 2024, leading to a bounceback in the asset portfolio, following mark to market losses earlier in the year as yields rose. Overall, in 2023 the portfolio returned over 5% with expectations that rates and market yields will fall slightly in 2024.

Financial instruments expose the syndicate to the following types of risk:

- Price risk - This is the risk that the value of assets declines due to market factors. The Syndicate's assets are mainly fixed interest bonds for which the price is determined by nominal interest rates and credit spreads. The syndicate seeks to hold assets to maturity, and this mitigates the risk of short-term price movements. A 1% increase in interest rates would cause a reduction in the market value of the Syndicate's assets of 0.93% for 2022 year of account and 9.35% for 2023 year of account, and vice versa.

- Credit risk - This is the risk that an investment counterparty defaults on payments due to the Syndicate. This risk is reflected in the credit spreads of the bonds held by the syndicate, see price risk above. The Syndicate mitigates this risk by holding a diversified portfolio of investment grade corporate bonds and government securities. A 1% increase in credit spreads would cause a reduction in the market value of the Syndicate's assets of 0.93% for 2022 year of account and 3.49% for 2023 year of account, and vice versa.

- Liquidity risk - The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is mitigated by holding highly marketable bonds, such as government bonds and investment grade corporate bonds with large issues. As a legacy syndicate, the Syndicate is not reliant on cashflows generated from trading activities to be able to pay claims and expenses.

MANAGING AGENT'S REPORT (continued)

Review of the business (continued)

The principal risk faced by the Syndicate is that future claim payments and expenses exceed the amount already reflected in its reserves.

- The level of future claims inflation is uncertain due to both economic inflation, and social inflation arising from increasing litigation and broader definitions of liability. The Syndicate has included an explicit allowance for both types of inflation in its reserves, although the eventual outcome could be higher or lower than this estimate.

- It is not believed that the Syndicate has material exposure to current global events, such as the wars in Israel and Ukraine, as the last policies were underwritten in 2019 and these events started years after the expiry of the policies underwritten.

- The Syndicate has immaterial exposure to COVID claims, which remain uncertain due to ongoing litigation. At the balance sheet date, explicit COVID claim reserves were £0.1m (2022 £0.3m).

- Current and potential PPO claims could exceed the reserved amount due to higher-than-expected inflation, improvements in the expected longevity of claimants, and higher than expected court awards. Changes in future interest rates will affect the discounted value of reserves but this will be largely offset by corresponding changes in the value of investments.

The Managing Agent does not undertake any research and development activities on behalf of the Syndicate, other than in the normal course of business.

Objectives for the Syndicate are set following the successful completion of a transaction or at least annually. Objectives are monitored throughout the year by the Run-Off Manager and reported to the capital provider, to which the Syndicate's member belongs, via steering groups and the Syndicate Management Committee ("SMC"). Both the Run-Off Manager and syndicate representatives participate in all syndicate-specific committee meetings to monitor progress.

Principal risks and uncertainties

The Managing Agent sets the Syndicate's risk appetite annually, which is approved by the Agency Board as part of the Syndicate's business planning process. The PMA Risk Committee meets at least quarterly to oversee the risk management framework which includes a review of the risk profile as reflected in the risk register, and monitoring performance against risk appetite using a series of key risk indicators. The principal risk and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk).

Underwriting and pricing for inwards legacy reinsurance contracts are the responsibility of the Marco Group. This, together with the run-off nature of the business mean that the Syndicate is primarily exposed to:

- the uncertainty in the reporting and quantification of claim payments in respect of losses that have already occurred (Reserving Risk); as opposed to

- the additional uncertainty of losses that might arise due to as yet unknown future events, as would be the case for a traditional syndicate writing live risks (Underwriting Risk).

PMA is responsible for approving all inwards legacy reinsurance contracts, including that sufficient and effective due diligence has been undertaken on behalf of the Syndicate before approving any transactions. The Underwriting function is responsible for the day-to-day operational aspects of managing the Syndicate's portfolio, including any reinsurance arrangements.

Credit risk

The key sources of credit risk consist of reinsurers, brokers and intermediaries and investments. Please see note 4 for a detailed description.

MANAGING AGENT'S REPORT (continued)

Principal risks and uncertainties (continued)

Market risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. The Managing Agent seeks to minimise these mismatches via currency sales and purchases, except where specific acceptance is agreed at the Investment Committee and SMC. The Syndicate's functional currency is US Dollars.

The Syndicate is exposed to movements in interest rates on both the asset and liability portfolios. As yields rise, asset values tend to fall, and when they decrease asset values tend to rise. Conversely, the rate upon which the Syndicate discounts eligible long term claims liabilities moves in the opposite direction to the asset portfolio, providing a partial natural hedge.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash or can only meet obligations at excessive cost. To mitigate this risk the Syndicate reviews cash flow projections regularly and ensures that, where needed, the Syndicate has liquidity facilities in place or has utilised the option of a cash call from Capital providers. To manage liquidity requirements, the Investment Committee regularly reviews cash flow projections, including stress scenarios, monitors duration and maintains cash levels consistent with the needs of the Syndicate. In addition to the cash and investments held, an overdraft facility has been arranged, in order to provide an additional liquidity buffer.

Operational Risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through the use of an operational risk and control framework, detailed procedures manual, thorough training programme and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory Risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agent is required to comply with the requirements of the Financial Conduct Authority ("FCA"), Prudential Regulatory Authority ("PRA") and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. PMA's Risk and Compliance functions manages and monitors business activity and regulatory developments to assess any effects on the Syndicate and Managing Agent.

Capital

Lloyd's unique capital structure provides excellent financial security for policyholders:

- All premiums received are initially held in trust.

- Funds at Lloyd's ("FAL") provide an additional layer of capital that can be called upon to pay liabilities. The FAL requirement is set by Lloyd's for new syndicates, until their Internal Model is approved. In accordance with the Lloyd's Making It Happen process, the Syndicate expects to use an internal model to set its capital requirements for the 2025 Year of Account.

- At the discretion of the Council of Lloyd's, the Central Fund provides a further source of funds to settle claims. The Central Fund effectively mutualises risk across the market.

Syndicate 1254 does not have its own security rating; however, it does benefit from Lloyd's global A (Excellent) rating from A.M. Best, AA- (Very Strong) rating from Standard and Poor's, and AA- (Very Strong) from Fitch.

MANAGING AGENT’S REPORT (continued)

Principal risks and uncertainties (continued)

Future developments

The Syndicate will continue to transact insurance business as suitable opportunities are identified. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

Environmental matters

The Syndicate underwrites previously insured risks and is unable to take environmental matters into account when settling valid claims. However, the Syndicate has discretion to consider environment, social and governance issues ("ESG") when investing its assets and the types of portfolios underwritten in the future. The Syndicate's appointed investment manager, consider ESG criteria, as instructed by PMA, when selecting investments, and monitor against agreed appetites.

Disclosure of information to auditors

In the case of each of the persons who are directors of the Managing Agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate’s auditor in connection with the auditor’s report, of which the auditor is unaware; and

- Having made enquiries of fellow directors of the agency and the Syndicate’s auditor, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate’s auditor is aware of that information.

Approved by order of the Board of Polo Managing Agency Limited and signed on its behalf:

M J Bishop
Finance Director
27 February 2024

Statement of managing agent's responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the Managing Agent to prepare syndicate annual accounts for each financial year. Under that law the Managing Agent has elected to prepare the financial statements in accordance with 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). Under company law the managing agent 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 Syndicate and of the profit or loss of the Syndicate for that period.

In preparing Syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;

2. make judgements and estimates that are reasonable and prudent;

3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

4. prepare the annual accounts on the basis that the Syndicate will continue to write future business and administer claims, using the going concern basis of accounting, where appropriate.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the member of Syndicate 1254

Opinion

We have audited the syndicate annual accounts of Syndicate 1254 (the "Syndicate") for the year ended 31 December 2023 which comprise the Statement of profit or loss, the Statement of other comprehensive income, the Statement of changes in member's balances, the Balance sheet and the Statement of cash flows and notes to the syndicate annual accounts, 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 state of the Syndicate's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the syndicate annual accounts" section of our report. We are independent of the Syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the Financial Reporting Council'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 as a going concern 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.

Other information

The other information comprises the information included in the Syndicate Report and Financial Statements, other than the syndicate annual accounts and our auditor's report thereon. The Managing Agent is responsible for the other information contained within the syndicate annual accounts. Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the syndicate annual accounts. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor’s report to the member of Syndicate 1254 (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 for 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 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 in relation to which 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 Agent’s remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent’s Responsibilities set out on page 12, 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 as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Managing Agent either intends for the syndicate to cease operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 the syndicate annual accounts.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the Syndicate and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the syndicate annual accounts: permissions and supervisory requirements of the Prudential Regulation Authority (‘PRA’) and the Financial Conduct Authority, and regulations set by the Council of Lloyd’s.

Independent auditor's report to the member of Syndicate 1254 (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of directors and management of the Managing Agent and the Syndicate's management as to whether the Syndicate is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the Syndicate which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the syndicate annual accounts such as United Kingdom Generally Accepted Accounting Practice, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In addition, we evaluated the directors' and management of the Managing Agent's and the syndicate management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts, including the risk of management override of controls and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to the valuation of the provisions for the settlement of future claims, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management of the Managing Agent and syndicate management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing;
- Reviewing the accounting estimate in relation to valuation of insurance liabilities for evidence of management bias; and
- Designing audit procedures to incorporate unpredictability around nature, timing or extent of our testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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

Independent auditor's report to the member of Syndicate 1254 (continued)

Use of our report

This report is made solely to the Syndicate's member, 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 member 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.

Andrew Jones (Senior Statutory Auditor)
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
London
27 February 2024

Statement of Profit or Loss
Technical account - General business
Year ended 31 December 2023

	Notes	2023 £000	2023 £000	2022 £000	2022 £000
Earned premiums, net of reinsurance					
Gross premiums written	5	99,356		2,507	
Outward reinsurance premiums		(49,081)		(403)	
Net written premiums		50,275		2,104	
Change in the provision for unearned premiums					
Gross amount	12	111		(581)	
Net change in the provision for unearned premium		111		(581)	
Earned premiums net of reinsurance			50,386		1,523
Allocated investment return transferred from the non-technical account			6,107		(10)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(25,265)		(22,748)	
Reinsurers' share		2,306		-	
Net claims paid		(22,959)		(22,748)	
Change in the provision for claims					
Gross amount	13	(56,161)		27,481	
Reinsurers' share	13	32,873		(16)	
Net change in the provision for claims		(23,288)		27,465	
Claims incurred net of reinsurance			(46,247)		4,717
Net operating expenses	7		(209)		(4,054)
Balance on the technical account for general business			10,037		2,176

All items relate to continuing operations.
The accounting policies and notes on pages 22 to 45 form part of these financial statements.

Statement of Profit or Loss
Non-technical account
Year ended 31 December 2023

	Notes	2023 £000	2022 £000
Balance on the technical account for general business		10,037	2,176
Investment income	10	4,955	139
Unrealised gains/(losses) on investments	10	1,271	(63)
Investment expenses and charges	10	(119)	(86)
Total investment return		6,107	(10)
Allocated investment return transferred to technical account – general business		(6,107)	10
Non-technical account charges		(1,592)	(59)
Profit for the financial year		8,445	2,117

Statement of other comprehensive income
for the year ended 31 December 2023

	2023 £000	2022 £000
Profit for the financial year	8,445	2,117
Foreign exchange differences	(327)	52
Total comprehensive income for the financial year	8,118	2,169

Statement of Changes in Member's Balances

	2023 £000	2022 £000
Balance due to the member at 1 January 2023	2,169	-
Total comprehensive income for the financial year	8,118	2,169
Distribution in the year	-	-
Member's fees	-	-
Balance due to the member at 31 December 2023	10,287	2,169

The accounting policies and notes on pages 22 to 45 form part of these financial statements.

Balance Sheet - Assets
at 31 December 2023

	Notes	2023 £000	2022 £000
Investments			
Other financial investments	11	115,570	35,551
Deposits with ceding undertakings		7	39
		115,577	35,590
Reinsurers' share of technical provisions			
Claims outstanding	13	33,963	-
		33,963	-
Debtors			
Debtors arising out of reinsurance operations	15	15,679	21,522
Other debtors	16	66	-
		15,745	21,522
Other assets			
Cash at bank and in hand	20	4,600	2,030
Overseas deposits	17	191	264
		4,791	2,294
Prepayments and accrued income			
Other prepayments and accrued income		1,641	11
		1,641	11
Total assets		171,717	59,417

The accounting policies and notes on pages 22 to 45 form part of these financial statements.

Balance Sheet - Liabilities
at 31 December 2023

	Notes	2023 £000	2022 £000
Capital and reserves			
Member's balances		10,287	2,169
Technical provisions			
Provision for unearned premiums	12	457	595
Claims outstanding	13	111,510	55,574
		111,967	56,169
Creditors			
Creditors arising out of reinsurance operations	18	48,873	10
Other creditors	18	125	683
		48,998	693
Accruals and deferred income		465	386
Total liabilities		171,717	59,417

The accounting policies and notes on pages 22 to 45 form part of these financial statements.

The Syndicate Annual Financial Statements were approved by the Board of Directors of Polo Managing Agency Limited and were signed on its behalf:

M J Bishop
Finance Director
27 February 2024

Statement of cash flows

Year ended 31 December 2023

	Notes	2023 £000	2022 ** Restated* £000
Cash flow from operating activities			
Profit for the financial year		8,118	2,169
Exclude investment return		(6,107)	10
Increase in technical provisions		24,546	56,169
Increase/(Decrease) in debtors		4,717	(21,522)
Increase in prepayments and accrued income		1,630	11
(Decrease)/Increase in other assets		(5,158)	4,195
Increase in creditors		48,305	307
Increase in accruals and deferred income		78	386
Net cash generated from operating activities		76,129	41,725
Cash flows from investing activities:			
Investment income received		3,327	109
Purchases of debt and equity instruments		(107,585)	(55,449)
Sales of debt and equity instruments		27,003	19,780
Other		29	-
Net cash generated from investing activities		(77,226)	(35,560)
Cash flows from financing activities:			
Distribution in the year		-	-
Net cash generated from financing activities		-	-
Effects of exchange rates on cash and cash equivalents		(97)	-
Net increase in cash and cash equivalents		(1,194)	6,165
Cash and cash equivalents at 1 January 2023		6,165	-
Cash and cash equivalents at 31 December 2023	20	4,971	6,165

The accounting policies and notes on pages 22 to 45 form part of these financial statements.

* Prior year cashflow statement has been updated for presentation of short term deposits as cash and cash equivalents

Notes to the annual financial statements
at 31 December 2023

1. General information
Syndicate 1254 is a Lloyd's syndicate domiciled in England and Wales. It is managed by PMA, a private company, limited by shares that is incorporated in England and whose registered office is 'The Grange', Cheltenham, Gloucestershire, United Kingdom, GL52 8YQ. The Syndicate is supported by Marco Corporate Capital Limited.

2. Compliance with accounting standards
These financial statements have been prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008). There were no material departures from those standards.

Insurers reporting under FRS 102 have to apply the prescribed formats for primary statements in accordance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('Schedule 3'). Therefore the income statement is split into a technical account and a non-technical account.

3. Summary of significant accounting polices
Basis of preparation
The financial statements have been prepared on the historical cost basis, except for some financial assets which are measured at fair value through the profit and loss account.

The functional currency for the Syndicate continues to be US Dollars and the presentational currency continues to be Pounds Sterling.

Going concern basis
These financial statements are prepared on a going concern basis.

The Syndicate's business activities, together with the factors likely to affect its future development, are set out in the business review contained within the Managing Agent's report. In addition, the risk management section provides details of the financial risks the syndicate is exposed to and how those risks are managed.

The directors consider it appropriate to adopt the going concern basis of accounting in preparing these the annual financial statements as the Syndicate has adequate resources to meet its obligations as they fall due, in addition to funds at Lloyd's of the member supporting the Syndicate (as detailed in note 21).

Basis of accounting

The underwriting results are determined on an annual basis of accounting. Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Premiums written
Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium and are recognised when advised by the cedant. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Inwards RITC premiums are not included in premiums written as the net value of assets and liabilities transferred to the Syndicate is nil, see the 'Reinsurance to close' accounting policy on page 25.

Notes to the annual financial statements (continued)

3. Summary of significant accounting polices (continued)

Unearned premiums

Unearned premiums represent the proportion of premiums that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. Where possible, a look through basis approach is taken to premium earnings, as is the case with the 2023 year of account underwriting. Where look through isn't possible, in line with market practice, all policies are deemed to have expired within 36 months of the start of the relevant year of account, unless cedants explicitly report unexpired premium provisions in respect of the underlying policies.

Unexpired risks provision

When appropriate, provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated based on information available at the balance sheet date. Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

Acquisition costs

Acquisition costs which represent commission and other related expenses are deferred over the period in which the related premiums are earned, unless cedants explicitly report the Syndicate's share of deferred acquisition costs in respect of the underlying policies.

Reinsurance premium ceded

Reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected or in relation to the coverage period of the contract as appropriate. Any reinsurance premium adjustments are charged according to the basis on which the adjustments concerned are calculated.

Unearned reinsurance premiums

Outwards reinsurance premium is 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, time apportionment or look through to underlying gross exposures as appropriate.

Technical provisions – claims incurred and reinsurers' share

Gross claims incurred represents the change in the forecast ultimate cost of settling all claims, whether reported or not, including related direct and indirect claims handling costs.

The technical provisions include an estimate of the cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods. This reserve also includes an allowance for any expected deficiency or redundancy in notified outstanding claims. The provision for reserves also includes a provision for related claims handling costs and bad debts. The technical provisions have been calculated using statistical techniques and cashflow projections. These are generally statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. These methods can incorporate judgmental allowances, for example, for changes in business mix or market conditions.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projected IBNR, net of estimated irrecoverable amounts, having regard to the relevant reinsurance programme for each class of business.

The most critical assumption, as regards claims provisions, is that the past is a reasonable guide to the likely level of future claims development. In forming its judgements the Syndicate has had access to: the historic claims experience of the portfolios acquired or reinsured; industry benchmark data derived from data provided by its peers in the Lloyd's market; and the expertise of external actuarial consultants with access to their own benchmark data. In addition, claim estimates include an explicit uplift for inflation based on expectations of both economic and social inflation, and their impact on specific classes.

Notes to the annual financial statements (continued)

3. Summary of significant accounting polices (continued)

Technical provisions – claims incurred and reinsurers’ share (continued)

Standard actuarial methods for non-life business usually assume that the development of claims, i.e. reporting, processing, and settlement of claims, is consistent with previous experience. Accumulation of experience over many underwriting years helps to moderate the effect of short-term random variation. The Syndicate's own experience is limited, for example the inwards RITC portfolio was originally underwritten over a period of three years commencing in 2017. For this reason, the Syndicate has placed greater reliance on market data that covers a longer period, a greater volume of business, and is more credible as a result.

Liabilities for settled and potential PPOs, acquired in the period, assume that historic rates of wage inflation, mortality, and improvements in longevity are a guide to the future, after allowing for the recent surge in inflation. Due to their long duration, discounted settled and potential PPO claim estimates are very sensitive to the choice of discount rate.

Claim estimates are also sensitive to inflation assumptions. Types of inflation that can affect claim costs include wage inflation, cost of materials, medical inflation, and social inflation. Economic inflation has been high, so it is likely that, in the short-term, claim inflation could be higher than the rate implicitly captured by claim development patterns and long-term trends. To allow for this, the Syndicate has included an explicit uplift for inflation.

Claim estimates are less sensitive to new claims arising from past events as most policies have already expired. Claim reserves are primarily for unsettled claims for losses that have already occurred. Uncertainty arises from reporting delays, and delays in adjusting losses, for example delays in establishing coverage under a policy, establishing the policyholder's liability, and establishing the quantum of the claim.

The directors 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.

Estimates of IBNR are generally subject to a greater degree of uncertainty than estimates of the cost of settling claims that have already been notified to the Syndicate, where more information about the claim event is generally available. Due to the age of the portfolio, the IBNR held by the Syndicate is believed to be predominantly for deterioration on existing claims, referred to as Incurred But Not Enough Reserved ('IBNER'), as opposed to unreported claims, referred to as Incurred But Not Yet Reported ('IBNYR'). The portfolio of settled and potential PPO claims is a closed list of claims, so all claims possible claims have already been reported for this portfolio. Claims are projected on an underwriting year basis, this methodology projects IBNR as a whole and does not provide separate estimates of IBNER and IBNYR.

As described under Insurance Risk in the Risk Management section, later in this report, there is a thorough review process of claims notifications and reserving estimates, including actuarial evaluation of past claims development. However, there remains a risk that past performance may not be a good indicator of the future developments.

Claim estimates include both direct claim handling expenses attributable to individual claims, such as legal costs, and indirect expenses, such as salaries of claims handling staff.

Notes to the annual financial statements (continued)

3. Summary of significant accounting polices (continued)

Technical provisions – claims incurred and reinsurers' share (continued)
Technical provisions for the 2022 & prior years of account are reported on an undiscounted basis due to the relative short-term of the liabilities. The forecast average duration of liabilities is less than 3 years.

Technical provisions for the 2023 year of account are reported on a discounted basis due to the long-term nature of the liabilities. The forecast average duration of liabilities is 24 years. The liabilities relate to bodily injury claims where many claims are settled as Periodic Payment Orders that are payable over many years. The selected discount rate of 3% is linked to a long term view of inflation.

Reinsurance to close
In the Syndicate's view, an RITC contract of insurance transfers all known and unknown liabilities relating to a year (or years) of account from the ceding Lloyd's syndicate to the reinsuring syndicate. The use of the term reinsurance is misleading as, for practical purposes, the contract extinguishes the liabilities of the transferor syndicate. Following the RITC, the transferor is released from its obligations to account for and to report on the transferring liabilities. This is unlike a conventional reinsurance contract which reinsures the cedant, but does not transfer the cedant's primary responsibility for the liabilities. The Syndicate understands that there are differing approaches to the accounting treatment of RITC contracts; however, the Syndicate considers that its accounting policy is appropriate and that it assists the users of the accounts to understand both the transaction and subsequent performance.

The RITC premium is the cost to the transferor of transferring the liabilities to the transferee. The RITC does not transfer intangible assets, such as a brand or future policy renewal rights. For an arm's-length transaction, it provides an objective assessment of the fair value of the liabilities. Therefore the net value of the assets and liabilities transferring to the reinsuring syndicate is nil, and they are not recognised through profit or loss. Subsequent revenues, expenses and revaluation of assets and liabilities are included in the statement of profit or loss, or other comprehensive income as appropriate. Any RITC premiums received in the period are disclosed as a note to the annual financial statements.

Net operating expenses

Net operating expenses are accounted for on the accruals basis. Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the Managing Agent considers to be attributable to this Syndicate. Also included is any commission amounts, both inwards and outwards.

Non-technical account charges
Non-technical account charges includes any other non-insurance and non-investment related charges, including exchange differences on translation of foreign currency transactions and balances into the functional currency.

Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the Syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off and RITC is not achieved. The Syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

Notes to the annual financial statements (continued)

3. Summary of significant accounting polices (continued)

Foreign currencies

The Syndicate financial statements are presented in Pounds Sterling (the presentation currency) and rounded to thousands. The selection of the presentation currency is consistent with Lloyd's reporting requirements. The Syndicate's functional currency is US Dollars.

Foreign currency transactions are translated into the functional currency using the opening exchange rate for the month of each transaction.

At each period end, foreign currency monetary items are translated using the closing rate. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs, and unexpired risk provisions) are monetary items.

Non-monetary items measured at historical cost are translated using the opening exchange rate for the month of the transaction and non-monetary items measured at fair value are measured using the exchange rate when the fair value was determined.

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

Non-monetary items - Non-monetary assets and liabilities are translated at the exchange rate at the date of their last valuation. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

The functional currency amounts are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the balance sheet date;
- income and expenses are translated at the average rate of exchange during the year; and
- all resulting exchange differences are recognised in other comprehensive income.

Financial assets and liabilities classification

Financial assets

The Managing Agent has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

The full provisions of FRS 102 have been applied to the treatment of financial assets. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances. Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the annual financial statements (continued)

3. Summary of significant accounting polices (continued)

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

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

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

Impairment of financial instruments measured at amortised cost
At each balance sheet date, the Syndicate assesses whether there is objective evidence of impairment of any financial assets that are measured at amortised cost. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

Objective evidence that a financial asset or group of assets is impaired includes:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Syndicate, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that would not otherwise be considered;
- it has become probable that the debtor will enter bankruptcy or other financial reorganisation; and
- observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor operates.

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Impairment of financial instruments measured at amortised cost (continued)
Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

Offsetting
Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

Notes to the annual financial statements (continued)

3. Summary of significant accounting polices (continued)

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

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

Taxation

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

No provision has been made for any other overseas tax payable by members on underwriting results.

Pension costs

No pension costs are directly borne by the Syndicate.

Key accounting judgements

Of the various accounting judgements, assumptions and estimates made in the preparation of these financial statements those relating to the determination of the technical provisions and investment valuations are considered to be those most critical to understanding the Syndicate’s results and financial position.

In the Syndicate's judgement, an RITC is a sale/purchase at fair market value based on an arm's-length commercial agreement, therefore the net value of the transferring assets and liabilities is nil.

Key sources of estimation uncertainty

The Syndicate makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, both within the next financial year and further into the future are addressed below.

Key sources of estimation uncertainty in investment valuations

All investments are shown at their fair value as described in the accounting policies on page 27 and details of the risks relating to investments are disclosed in the Risk Management section in note 4. Most investments are Government securities or investment-grade corporate bonds and regularly traded on major stock exchanges hence any risks in their valuations are reduced. The Syndicate also invests in a level 3 senior secured credit fund, which is measured at fair value, based on the net asset value of investee funds. Determination of the net asset value of the underlying fund includes certain inputs (e.g. valuation of assets and liabilities of the fund) that are unobservable, these are considered for materiality at each reporting date and, if required, further assessment carried out prior to valuation finalisation.

Notes to the annual financial statements (continued)

3. Summary of significant accounting polices (continued)

Key sources of estimation uncertainty in technical provisions valuations

The accounting policy for technical provisions is described on page 23 and the related risks are described within the risk management section below. The net technical provisions after the reinsurers' share is £43.7m (2022 £56.2m) for the 2022 year of account and £59.6m undiscounted and £34.3m discounted for the 2023 year of account.

The most uncertain element within these technical provisions is the amount for gross claims outstanding, which covers amounts where either the claim has been notified to the Syndicate, or where there has not yet been a notification, or although notified there has been insufficient information to date to be certain regarding its ultimate costs. This amounted to £43.2m (2022 £55.6m) for the 2022 Year of Account and £68.3m for the 2023 Year of Account. As described in the Risk Management section there is a thorough review process of claims notifications and reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments.

A large proportion of the reserves held are in respect of business where the claims are handled by the reinsureds. To minimise the impact of the reporting lag on the technical provisions, the Syndicate maintains close contact with cedants as far as possible.

The inherent uncertainty of future claim payments is mitigated by: a diverse portfolio of policies; diverse classes of business; geographical diversification; and diversification between accident years, This reduces the risk of a common trend of adverse development occurring. Outwards reinsurance mitigates the uncertainty in gross technical provisions.

The 'Technical provisions – claims incurred and reinsurers' share' accounting policy, above, discussed the sensitivity of accounting estimates.

4. Risk management

Managing Agent approach to Syndicate risk management

The Syndicate's activities expose it to a variety of financial and non-financial risks. In order to achieve its business plan and objectives, the Syndicate recognises that it is necessary to take risk and expects to be rewarded for doing so. The Syndicate is also exposed to several unrewarded risks as a function of its operating model, such as operational risk. The Managing Agent is responsible for understanding and managing the Syndicate's exposure to such risks and does this through the deployment of its Enterprise Risk Management ("ERM") framework.

The Managing Agent's ERM includes processes such as the annual review and approval of Syndicate risk appetites for the Syndicate as a part of the Syndicate's Own Risk and Solvency Assessment (ORSA) and capital setting process, risk and control assessment, regular risk appetite monitoring, risk incident root cause analysis, emerging risk horizon scanning and risk management reporting.

Critical to the risk management of the Syndicate is ensuring sufficient liquidity is in place to meet the solvency needs of the Syndicate.

Syndicate risk exposures

The following provides a summary of the types of risks to which the Syndicate is exposed, the materiality of the risk to the Syndicate, their key drivers, and the risk management tools and processes in place to mitigate these risks.

Notes to the annual financial statements (continued)

4. Risk management (continued)

Insurance risk

Underwriting and pricing for inwards legacy reinsurance contracts is on a case by case basis and is the responsibility of the Marco Group, which provides the Syndicates capital. This, together with the run-off nature of the business mean that the Syndicate is primarily exposed to:

- the uncertainty of the reporting and quantification of claim payments in respect of losses that have already occurred (Reserving Risk); as opposed to
- the additional uncertainty of losses that might arise due to as yet unknown future events, as would be the case for a traditional syndicate writing live risks (Underwriting Risk).

The managing agent is responsible for approving all inwards legacy reinsurance contracts, including that sufficient and effective due diligence has been undertaken on behalf of the Syndicate before approving any transactions. The Underwriting function is responsible for the day-to-day operational aspects of managing the Syndicate's portfolio, including any reinsurance arrangements, should these be deemed necessary.

Reserving risk is the risk of exposure to the financial consequences of material uncertainty in ultimate claim payments and expenses.

This risk is mitigated by the Syndicate's Actuarial function using external expertise and recognised actuarial reserving approaches, coupled with close liaison with claims personnel to identify potential downside risks before they become apparent in the data. These results are then subject to formal annual external peer review, the result of which is a independent third party Statement of Actuarial Opinion, over the held reserves being at least as high as a mean best estimate by year of account. The Statement is provided annually to Lloyd's.

The governance process supporting Syndicate reserving is applied through a reserving committee, reporting to the Audit Committee, which is responsible for approving Syndicate reserves quarterly, as delegated by the PMA Board. The level of booked reserves is subject to an external audit annually.

Claim estimates for 2022 Year of Account are sensitive to the actual rate of claims development and Inflation. If the Syndicate's rate of claim development is faster than the market, standard methods would overestimate future claims. Conversely, if the Syndicate's rate of claim development is slower than the market, standard methods would underestimate future claims. The Syndicate's portfolio consists of inwards reinsurance policies which generally develop more slowly than direct policies due to reporting delays. Types of inflation that can affect claim costs include wage inflation, cost of materials, medical inflation, and social inflation. Current economic inflation is starting to slow down following the high levels in 2022 and 2023, therefore claim inflation could be higher than the rate implicit captured by claim development patterns. The Syndicate has reviewed the delay to the market development patterns including inflation to allow for this effect.

Claims estimates for settled and potential PPOs, for the 2023 Year of Account, are sensitive to inherent uncertainty due to changes in:

- the estimates of future inflation, specifically the wage inflation indices such as ASHE, that are used to index future PPO payments;

- the estimates of the future life expectancy of claimants; and

- the estimates of the propensity of open claims to settle as a PPO, as opposed to a lump sum.

Changes to the discount rate, used to discount future claim payments, will also generate volatility in reserves, which is mitigated by holding assets with a similar duration to the liabilities.

Notes to the annual financial statements (continued)

4. Risk management (continued)

Insurance risk (continued)

The risk of future inflation is partially mitigated by the fact that deductibles on inward claims are also indexed for inflation. Finally, the gross insurance risk is mitigated by outwards reinsurance.

Sensitivity of claims outstanding to assumptions	£000	2023 % change	£000	2022 % change
Best estimate	111,510		55,574	
Prolonged period of excess inflation	+8,367	+8%	+1,957	+4%
Shorter period of excess inflation	-6,377	-6%	-1,141	-2%
Claims development tail factor increased by 10%	+1,085	+1%	+1,382	+2%
Claims development tail factor decreased by 10%	-1,094	-1%	-1,444	-3%
Mortality worsening	+5,058	+5%	-	-
Mortality Improvement	-5,770	-5%	-	-
Decrease in Discount rate	+16,867	+15%	-	-
Increase in Discount rate	-2,786	-2%	-	-

The following table shows how estimates, of ultimate claims for the Syndicate have developed over time on a discounted basis. It includes the estimates made prior to the RITC to Syndicate 1254 for the 2022 year of account, the values for which are presented on a look through basis. As the 2023 year of account is not an RITC transaction, no look through to underlying year has been possible.

Insurance contract outstanding claims provision by year of account as at 31 December 2023:

Analysis of claims development by year of account in £'000

Estimate of cumulative gross claims incurred:				
At end of underwriting year	**2023**	**2019**	**2018**	**2017**
After one year	72,758	36,426	37,782	33,985
After two years	-	66,717	86,013	59,052
After three years	-	67,981	91,890	59,812
After four years	-	66,295	84,455	62,742
After five years	-	71,502	82,754	61,216
After six years	-	-	87,197	61,199
After seven years	-	-	-	62,074
Cumulative gross payments to date	4,493	54,177	68,410	54,941
Outstanding gross claims provision at 31 December 2023	68,265	17,325	18,787	7,133

Estimate of cumulative net claims incurred:				
At end of underwriting year	36,549	35,950	34,916	33,985
After one year	-	66,575	82,673	59,052
After two years	-	67,965	92,953	59,812
After three years	-	66,295	81,115	62,742
After four years	-	71,502	79,415	61,216
After five years	-	-	83,857	61,199
After six years	-	-	-	62,074
Cumulative net payments to date	2,246	54,177	65,070	54,941
Outstanding net claims provision at 31 December 2023	34,303	17,325	18,787	7,133

Notes to the annual financial statements (continued)

4. Risk management (continued)

Insurance risk (continued)

The increase in claims incurred in the early years are largely attributable to exposure to new claims during the on-risk period of the underlying policies. Most policies are off-risk after two years from the end of the underwriting year.

Market risk

The Syndicate's asset holdings expose it to market risk, driven by the following sub-risk types: spread, currency, and interest rate risks. The Syndicate is also exposed to liquidity risk; however, this risk is low given the investment strategy with significant highly liquid holdings in place.

The Syndicate’s assets are managed according to Marco Group's Investment policy, which has been adopted by the Syndicate’s Investment Committee. In order to mitigate market risk, the Committee has engaged an external fund manager that provide a specialist service for insurers. The Committee assesses the investment managers reports, monitors economic developments, and takes appropriate action to mitigate their effect on the value of Syndicate assets. Asset-liability matching, by currency and duration, is used to mitigate currency risk and interest rate risk. Spread risk and concentration risk are mitigated by Investment Guidelines, which place limits on the amounts that can be invested with different grades of counterparty.

Currency risk and interest rate risk are covered in more detail in the sections below.

Currency risk

The exposure to foreign currency risk arises from Syndicate business written outside the functional currency. The Syndicate seeks to mitigate the risk by looking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency where possible.

The Syndicate is exposed to changes in the unmatched value of assets and liabilities due to movements in foreign exchange rates. The Syndicate has six settlement currencies: UK Sterling; Canadian dollars; Euros; Australian dollars; US dollars; and Japanese Yen. Transactions also take place in other currencies, although these are immediately converted to US dollars or UK Sterling, as required. A 10% adverse movement in the values of all non US Dollar (the functional currency) net assets due to exchange rate movements would lead to a £1.6m loss (2022: £0.2m loss). Similarly a 10% favourable movement would lead to a £1.6m profit (2022: £0.2m profit).

The Syndicate has not taken out any transactions to hedge these balances.

At 31 December 2023	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Total assets	134,515	37,039	88	75	171,717
Total liabilities	(118,463)	(41,845)	(895)	(227)	(161,430)
Net assets/member's balances	16,052	(4,806)	(807)	(152)	10,287

At 31 December 2022	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Total assets	533	58,532	173	179	59,417
Total liabilities	(1,977)	(54,353)	(593)	(325)	(57,248)
Net assets/member's balances	(1,444)	4,179	(420)	(146)	2,169

Other currencies, include Canadian Dollars, Australian Dollars, and Japanese Yen.

Notes to the annual financial statements (continued)

4. Risk management (continued)

Interest rate risk

The Syndicate's main exposure to fluctuations in interest rates arises from its effect on the valuation of assets invested in fixed interest securities, such as government and corporate bonds. This is largely offset by movements in the discount rate upon which the long term claims liabilities are held, these act as a natural hedge.

A large element of the Syndicate's investments comprises fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the Syndicate's fixed interest investments would tend to rise and vice versa.

	2023	2022
	£000	£000
Impact of a 100 basis point increase in interest rates on result	(6,026)	(378)
Impact of a 100 basis point decrease in interest rates on result	9,430	378
Impact of a 100 basis point increase in interest rates on net assets	(6,026)	(378)
Impact of a 100 basis point decrease in interest rates on net assets	9,430	378

Liquidity risk

Liquidity risk is the risk of failure to ensure that sufficient financial resources are available at all times to meet payment obligations, with financing only being possible at an additional cost.

To mitigate liquidity risk, the Investment Committee regularly reviews cash flow projections and maintains cash levels consistent with the needs of the Syndicate. In addition, an overdraft facility has been arranged, in order to provide an additional layer of liquidity.

The following table illustrates the maturity profile of the Syndicate's financial liabilities.

As at 31 December 2023	Within one year	Between one and three years	Between three and five years	Over five years	Total
	£000	£000	£000	£000	£000
Outstanding claims liabilities	22,624	22,475	5,814	60,597	111,510
Creditors	6,158	3,859	3,077	35,903	48,997

As at 31 December 2022	Within one year	Between one and three years	Between three and five years	Over five years	Total
	£000	£000	£000	£000	£000
Outstanding claims liabilities	18,593	20,913	7,507	8,561	55,574
Creditors	693	-	-	-	693

Credit risk

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

- Reinsurers: Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Syndicate;
- Brokers and intermediaries: Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the Syndicate; and
- Investments: Whereby issuer default results in the Syndicate losing all or part of the value of a financial instrument.

Notes to the annual financial statements (continued)

4. Risk management (continued)

Credit risk (continued)

The Syndicate has debtors, creditors, bank balances and investments in various currencies in the normal course of its business. The Syndicate's exposure to credit risk is typical for an insurer. The most material external exposure is a £25.2m of UK Government gilts which are held in the investment portfolio. At present the only exposure to reinsurers is on a funds withheld basis and intragroup, current exposures to brokers are immaterial. Exposures to individual issuers of bonds are capped by the Investment Guidelines. The Syndicate does not actively enter into derivatives, hedging or other uses of financial instruments as part of its financial risk management.

The following table shows credit risk exposure of the Syndicate’s financial assets as at the balance sheet date.

At 31 December 2023	**AAA**	**AA**	**A**	**BBB & <BBB**	**Non- rated**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Variable yield securities and unit trusts	126	-	387	-	13,770	14,283
Debt securities and other fixed income securities (including derivative contracts)	1,745	27,900	41,352	30,291	-	101,288
Deposits with ceding undertakings	-	-	7	-	-	7
Reinsurers share of outstanding claims	-	-	33,963	-	-	33,963
Debtors arising out of reinsurance operations	-	-	-	-	15,679	15,679
Cash at bank and in hand	-	-	4,600	-	-	4,600
Overseas deposits	58	19	11	80	23	191
Total	1,929	27,919	80,320	30,371	29,472	170,011
Amounts attributable to largest single counterparty	-	25,211	-	-	-	25,211
Amounts Past due	-	-	-	-	-	-
Fair Value of impaired assets	-	-	-	-	-	-

Debtors arising out of reinsurance operations relate to funds withheld by a major cedant. The credit risk on this balance is mitigated by netting-off against an equivalent liability for future claim payments.

Notes to the annual financial statements (continued)

4. Risk management (continued)

Credit risk (continued)

At 31 December 2022	AAA	AA	A	BBB & <BBB	Non- rated	Total
	£000	£000	£000	£000	£000	£000
Variable yield securities and unit trusts	921	-	408	-	3,137	4,466
Debt securities and other fixed income securities (including derivative contracts)	1,976	3,758	18,518	6,832	-	31,084
Deposits with ceding undertakings	-	-	39	-	-	39
Reinsurers share of outstanding claims	-	-	-	107	30	137
Debtors arising out of reinsurance operations	-	-	-	-	21,522	21,522
Cash at bank and in hand	-	-	2,030	-	-	2,030
Overseas deposits	96	13	19	-	-	128
Total	2,993	3,771	21,014	6,939	24,689	59,406
Amounts attributable to largest single counterparty	-	-	4,057	-	-	4,057
Amounts Past due	-	-	-	-	-	-
Fair Value of impaired assets	-	-	-	-	-	-

Reinsurance credit risk

Reinsurance Credit risk is the risk that the Syndicate's reinsurance counterparties fail to pay debts owed to the Syndicate, when these fall due, with a consequence that the Syndicate suffers bad debt.

PMA oversees the operation of the Syndicate's reinsurance programme and monitors reinsurer concentrations as well as recoveries as they fall due. Outwards reinsurance credit matters are reported at the Syndicate's Management Committee, which meets quarterly. The largest reinsurers used by the Syndicate operate on a funds withheld basis and are Marco Group companies, hence credit risk is minimal on these counterparties.

Solvency risk

The Risk Committee, delegated by the Board, sets the Syndicate’s risk appetite in line with its strategy and ensures that sufficient capital resources are raised to cover material risks, in line with regulatory and Lloyd’s capital setting processes. The Risk Committee monitors risk appetite and tolerances on behalf of the Board on a quarterly basis.

In the event of extreme adverse claims experience, it is possible that the Syndicate may not be able to settle its claim liabilities out of its own funds. In that event, the capital structure underpinning the Syndicate is such that any deficits can be called from the Syndicate’s capital provider (member) in accordance with Lloyd’s rules. In the event of the member being unable to fulfil its share of such a call, Lloyd’s Central Fund may, at Lloyd’s discretion, be applied to make good any deficits for the benefit of policyholders.

Notes to the annual financial statements (continued)

4. Risk management (continued)

Operational risk

Much of the effect of the Syndicate's exposure to operational risks is reflected in the various risk headings above, and is mitigated and managed through the design and implementation of management controls and actions. The main additional exposures are in relation to business continuity, i.e. the risk that the ability of the Syndicate to continue in business will be affected by events not reflected under other headings, for example the impact of terrorist activity, and in the management of relationships and arrangements with key members of staff.

In relation to the former, the managing agent maintains a Business Continuity Plan ("BCP") which sets out the anticipated risks, including those relating to the robustness and sustainability of IT infrastructure and business applications, and the arrangements in place to mitigate those risks. The BCP is monitored and updated regularly.

There are established policies and procedures designed to achieve an appropriate commonality of interest between the syndicate and the third parties concerned; these third-party relationships are regularly monitored throughout, and contractual arrangements reviewed periodically; In addition, to mitigate the risk of loss of key staff, the managing agent seeks to maintain a succession plan to reduce the dependence on any one individual so far as is practicably possible.

Operational risk is monitored via regular risk and control assessments, reporting to management committees, and tested for adequate risk mitigation in place through scenario assessments.

Operational Resilience

Operational Resilience is concerned with "the ability of firms (and the financial sector as a whole) to prevent, adapt, respond to, recover and learn from operational disruptions".

The PMA Operations Committee is responsible for monitoring the implementation of operational resilience requirements and to consider the work undertaken to date on the existing client base and also the future strategy / framework for new clients.

Regulatory risk

The Managing Agent is required to comply, inter alia, with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Failure to comply with applicable regulations could result in a variety of sanctions, the most extreme being a withdrawal of the right to conduct business at Lloyd's. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) 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 Agency has a Compliance Officer who manages a function that monitor business activity and regulatory developments to assess any effects on the Agency.

The Managing Agent has established a culture of compliance and sound risk management, proportionate to the nature, scale and complexity of the Syndicate's operations. Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard. The Risk & Compliance Director monitors regulatory developments to ensure the managing agent remains compliant. In addition, the Compliance function and the Risk Management functions provide oversight monitoring of adherence of compliance policies and procedures and compliance controls testing as a part of their respective second-line function responsibilities. The internal audit function supports the monitoring process via independent audits and directly reports into the PMA Audit Committee, itself comprised of non-executive directors of the managing agent.

Notes to the annual financial statements (continued)

4. Risk management (continued)

Climate Change

Climate change is driving unprecedented physical impacts, with increased frequency of extreme weather events and rising sea levels resulting in business disruption. At the same time, global policy and technology changes that seek to limit warming and reduce the unprecedented physical effects can also cause disruption to business. As with any form of disruption, climate change is creating and will continue to create risks and opportunities for business in a number of ways. As prompted by the Paris Agreement, the recommendations of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures ("TCFD"), the heightened awareness of physical impacts and risks detailed in the Special Report of the Intergovernmental Panel on Climate Change ("IPCC") on Global Warming of 1.5°C, the impact of climate change, risk management and its integration into business is key in long term resilience.

As a writer of run-off business, the Syndicate considers that it is less exposed to the financial risks presented by climate change than a live business would be but recognises that there may be some effects on its reserves and particularly its investments. As part of the risk management strategy of the agency, the impact of climate change is considered through business continuity planning, scenario analysis and risk assessment presentations from the Risk Management function to the executive directors. Further work continues to promote effective governance surrounding climate risk and opportunity. This endeavour will be ongoing, with review and development to quantify the financial effect, while devising and implementing appropriate measures to mitigate downside risk where possible.

Climate change is one of the issues addressed by the Syndicate's Environmental, Social and Governance framework ('ESG'). The Syndicate works with the appointed investment manager to:

- consider adverse impacts of investment decisions, including greenhouse gas emissions, the use of finite natural resources, and hazardous and non-recyclable waste, as well as violation of social norms and employee rights;
- consider Lloyd's market-wide ambition of phasing out investment in thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities; and
- identify, measure, and monitor exposures using industry research.

The Syndicate will continue to ensure compliance with future PRA and Lloyd's requirements in relation to climate change.

5. Analysis of underwriting results

An analysis of the technical account balance before investment return is set out below:

2023	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Re-insurance balance £000	Total £000
Reinsurance acceptances:						
Casualty	754	824	(6,270)	(487)	-	(5,933)
Property	130	142	(2,533)	(84)	-	(2,475)
Marine	(2)	(2)	(306)	1	-	(307)
Energy	314	343	(1,538)	(203)	-	(1,398)
Motor	98,162	98,162	(70,742)	563	(13,902)	14,081
Aviation	(1)	(1)	(37)	-	-	(38)
	99,357	99,468	(81,426)	(210)	(13,902)	3,930

In 2023, the Syndicate underwrote a portfolio comprising expired motor policies, consisting of catastrophic injury claims; quota-share reinsurance cover is in place for this business.

Notes to the annual financial statements (continued)

5. Analysis of underwriting results (continued)

2022	Gross premiums written £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	-	-	-	-	-	-
Property	1,571	1,207	1,152	(2,541)	(257)	(439)
Marine	230	176	(538)	(371)	(35)	(768)
Energy	191	147	(620)	(309)	(29)	(811)
Motor	-	-	184	-	(1)	183
Aviation	12	9	24	(19)	(2)	12
	2,507	1,926	4,733	(4,054)	(419)	2,186

On 10th February 2022 and with effect from 1st January 2022, an inwards RITC was completed for Syndicate 2689, for 2017, 2018 & 2019 years of account. A premium of £75,243k ($101,578k) was received. The Syndicate's accounting policy is not to recognise RITC premiums through profit or loss, see the reinsurance to close accounting policy.

All premiums were concluded in the United Kingdom.

6. Particulars of business written

The premiums received during the year are from a variety of inwards reinsurance contracts, but predominantly the 2023 Year of Account motor injury quota share. 2022 Year of Account movements are reinstatement premiums and adjustment premiums on existing underlying policies, as opposed to premiums in respect of new risks because the last quota-share contract was issued in 2019.

	2023 Gross premiums written £000	2023 Profit/ (loss) £000	2022 Gross premiums written £000	2022 Profit/ (loss) £000
Reinsurance	99,357	10,037	2,507	2,176
	99,357	10,037	2,507	2,176

7. Net operating expenses

	2023 £000	2022 £000
Acquisition costs	388	879
Reinsurers' commissions and profit participations	(1,595)	-
Administrative expenses	1,416	3,175
	209	4,054

Member's standard personal expenses amounting to £534k (2022: £485k) are included in administrative expenses. This includes Lloyd’s subscriptions £13k, central fund contributions £13k and managing agent's fees £507k.

Administrative expenses include:	2023 £000	2022 £000
Auditor’s remuneration:		
Audit of the Syndicate’s financial statements	129	94
Audit /review of the Syndicate’s returns to Lloyd's	102	93
Other audit related services	-	-
Total auditors' remuneration	231	187

Notes to the annual financial statements (continued)

8. Employees

No emoluments of the directors of PMA were directly charged to the Syndicate and consequently no meaningful disclosure can be made. There were no staff directly employed by the Syndicate. All disclosures relating to directors' emoluments and staff costs can be found in the accounts of Polo Managing Agency Limited.

9. Run-off Managers Emoluments

The following amounts in respect of emoluments paid to the run-off manager were charged to the Syndicate during the year.

	2023	2022
	£000	£000
Run-off manager's emoluments	-	70
	-	70

10. Investment return

(a) Investment return

	2023	2022
	£000	£000
Income from financial investments	4,482	132
Realised gains on investments	473	7
Investment income	4,955	139
Realised losses on investments	(7)	(62)
Investment expenses	(111)	(24)
Investment expenses and charges	(118)	(86)
Unrealised gains on investments	2,977	134
Unrealised losses on investments	(1,707)	(197)
Net unrealised gains and losses on Investments	1,270	(63)
Allocated investment return transferred to the technical account from the non-technical account.	6,107	(10)

(b) Average amount of funds available for investment during the year

	2023	2022
	£000	£000
Combined in Sterling	109,251	38,135

Net calendar year investment yield	**2023**	**2022**
Combined in Sterling	5.6%	0.8%

The 2023 year of account underwriting activity has resulted in significantly higher available funds for investment.

Notes to the annual financial statements (continued)

11. Other financial investments

	2023 Cost £000	2023 Fair value £000	2022 Cost £000	2022 Fair value £000
Shares and other variable yield securities and units in unit trusts	13,517	14,283	4,466	4,466
Debt securities and other fixed income securities	100,201	101,287	30,940	31,085
	113,718	115,570	35,406	35,551

Breakdown of investments by currency

	US Dollar £000	Pound Sterling & Other currencies £000	Total £000
Year ended 31 December 2023			
Shares and other variable yield securities and units in unit trusts	129	14,154	14,283
Debt securities and other fixed income securities	20,249	81,038	101,287
	20,378	95,192	115,570

	US Dollar £000	Pound Sterling & Other currencies £000	Total £000
Year ended 31 December 2022			
Shares and other variable yield securities and units in unit trusts	4,059	407	4,466
Debt securities and other fixed income securities	31,085	-	31,085
	35,144	407	35,551

In accordance with FRS 102 paragraph 11.27 the above financial instruments have been classified using three levels to estimate their fair values, with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

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

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Year ended 31 December 2023				
Shares and other variable yield securities and units in unit trusts	3,088	182	11,013	14,283
Debt securities and other fixed income securities	-	101,287	-	101,287
Total	3,088	101,469	11,013	115,570

Notes to the annual financial statements (continued)

11. Other financial investments (continued)

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Year ended 31 December 2022				
Shares and other variable yield securities and units in unit trusts	-	4,135	331	4,466
Debt securities and other fixed income securities	-	31,085	-	31,085
Total	-	35,220	331	35,551

12. Provision for unearned premiums

2023	Gross £000	Reinsurers' share £000	Net £000
At 1 January 2023	595	-	595
Premiums written in the year	99,356	(49,081)	50,275
Premiums earned in the year	(99,467)	49,081	(50,386)
Foreign exchange	(27)	-	(27)
At 31 December 2023	457	-	457

2022	Gross £000	Reinsurers' share £000	Net £000
At 1 January 2022	-	-	-
Premiums written in the year	2,507	(403)	2,104
Premiums earned in the year	(1,926)	403	(1,523)
Foreign exchange	14	-	14
At 31 December 2022	595	-	595

13. Claims outstanding

2023	Gross £000	Reinsurers' share £000	Net £000
At 1 January 2023	55,574	-	55,574
Inwards RITC of liabilities	-	-	-
Change in the provision for claims in the year	56,161	(32,873)	23,288
Foreign exchange	(225)	(1,090)	(1,315)
At 31 December 2023	111,510	(33,963)	77,547

2022	Gross £000	Reinsurers' share £000	Net £000
At 1 January 2022	-	-	-
Inwards RITC of liabilities	75,257	(14)	75,243
Change in the provision for claims in the year	(27,481)	16	(27,465)
Foreign exchange	7,798	(2)	7,796
At 31 December 2022	55,574	-	55,574

On 10th February 2022 and with effect from 1st January 2022, the Syndicate executed an inwards RITC for Syndicate 2689's 2017, 2018 and 2019 years of account. A premium of £75,243k ($101,578k converted at 1.35 $/£) was received with a consequent inwards transfer of liabilities to the same value. The premium was deemed to be the fair value of the liabilities transferring.

Notes to the annual financial statements (continued)

13. Claims outstanding (continued)

The RITC premium was settled with the following assets. Other financial investments were valued to fair value. All other amounts were valued at amortised cost.

	2022
	£000
Other financial investments	18,809
Debtors arising out of reinsurance operations	45,650
Cash at bank and in hand	11,613
Overseas deposits	268
Creditors arising out of reinsurance operations	(122)
Accruals and deferred income	(975)
Total consideration received	75,243

Within the 2022 calendar year net technical result, the effect of the RITC transaction on direct business was nil and profit of £2.2m on reinsurance accepted business.

14. Significant reinsurance arrangements

An outwards reinsurance contract mitigates the risk of losses for 2022 and subsequent accident years, but no recoveries are anticipated at this time. The 2023 year of account is covered by quota-share reinsurance, provided by Marco Group companies and operates on a fund withheld basis.

15. Debtors

	2023	**2022**
	£000	**£000**
Debtors due within one year		
Due from intermediaries		
Amounts arising out of reinsurance operations	15,679	21,522
	15,679	21,522

Debtors due within one year and arising from reinsurance operations includes loss funds.

16. Other debtors

	2023	**2022**
	£000	**£000**
Sundry debtors		
Short term	66	-
	66	-

17. Overseas deposits

	2023	**2022**
	£000	**£000**
Amounts advanced in other countries as a condition of carrying on business there, in particular Australia	191	264

18. Creditors

	2023	**2022**
	£000	**£000**
Creditors due within one year		
Amounts arising out of:		
Reinsurance operations	48,873	10
Other creditors including taxation	125	683
Amounts falling due within one year	48,998	693

Reinsurance operations includes intragroup balances of £48.8m (2022: £0m), arising from the quota-share agreement on 2023 year of account.

Notes to the annual financial statements (continued)

19. Discounted Claims

	Discount rates		Average duration of liabilities	
	2023	2022	2023	2022
Class of business	%	%	Years	Years
Motor	3.00	-	24	-

The period that will elapse before claims are settled is determined using adjusted mortality tables.

The claims provisions before discounting are as follows:

	2023 £000	2022 £000
Total claims provisions before discounting	162,232	56,169
Reinsurers' share of total claims provisions before discounting	(58,924)	-
Net claims provisions before discounting	103,308	56,169
Effect of discounting	(25,304)	-
Net claims provisions post discounting	78,004	56,169

20. Cash and cash equivalents

	2023 £000	2022 £000
Cash at bank and in hand	4,600	2,030
Short-term deposits with financial institutions	371	4,135
	4,971	6,165

21. Regulatory capital requirements

Funds at Lloyd’s

Every member of Lloyd’s is required to hold additional capital at Lloyd’s which is held in trust and known as FAL. These funds are required primarily in case a syndicate’s assets prove insufficient to meet members’ underwriting liabilities.

The level of FAL that Lloyd’s requires a member to maintain is determined by Lloyd’s according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of that business.

In addition to the FAL and any additional funds a member may introduce to meet losses, there is a Central Fund controlled by Lloyd’s which they may utilise to meet any syndicate liabilities that are not met by a member.

Capital framework at Lloyd’s

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

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, Lloyd’s capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd’s capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1254 is not disclosed in these financial statements.

Notes to the annual financial statements (continued)

Lloyd's capital setting process

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

A syndicate must comprise one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate(s) on which it is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR is the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1-in-200-year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives.

The Syndicate's objectives, policies and processes for managing capital

The Syndicate's objective is to comply with the Lloyd's capital setting process and to actively ensure policy holder protection at all times. The Syndicate manages its member's balances, while FAL is managed by the corporate member. Member's balances are held and invested in accordance with the approved investment guidelines. Member's balances consist of retained surpluses and there are no other types of capital, such as subordinated loans. There are no inadmissible assets. The Syndicate and its corporate member complied with all Lloyd's requirements throughout the year.

22. Related parties

(i) During the year Polo Managing Agency Limited recharged £507k (2022: £1,797k) in respect of managing agents fee and time and materials costs. This amount has been charged on an arm's-length basis.

(ii) During the year Marco Group recharged £0k (2022: £647k) in respect of time and materials costs. This amount has been charged on an arm's-length basis.

(iii) During the year the Syndicate entered into a quota share with intragroup companies, leading to funds withheld balances of £48,873k on the 2023 year of account. The ceding commission has been credited to net operating expenses. This was concluded on an arm's-length basis.

23. Derivatives

During the year, the Syndicate has not held or purchased any derivative contracts.

24. Disclosure of Interest

Managing Agent's interest:

During 2023 PMA was the Managing Agent for four Syndicates. Syndicates 1347, 1975, 1996 and 1254.

Syndicates taken on this year are:
On 1 January 2023, PMA took on the management of Syndicate 1347
On 13 July 2023, PMA took on management of Syndicate 1996
On 2 October 2023, PMA took on the management of Syndicate 1975

The Financial Statements of the Managing Agent can be obtained by application to the Registered Office (see page 3).

Notes to the annual financial statements (continued)

25. Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the Syndicate.

26. Post Balance Sheet Events

There are no post balance sheet events.