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Talbot Underwriting Ltd Syndicate 2019

Combined Annual and Underwriting Report and Accounts

31 December 2022

Combined Annual and Underwriting Report and Accounts 2022

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Officers and professional advisors

Managing Agent
Talbot Underwriting Ltd
60 Threadneedle Street
London
EC2R 8HP

Bankers
Citibank NA
Barclays plc

Managing Agent's registered number
2202362

Investment managers

AIG Asset Management (Europe) Limited
58 Fenchurch Street
London
EC3M 4AB

BlackRock Investment Management (UK) Limited
12 Throgmorton Avenue
London
EC2N 2DL

Lloyd's Treasury Services
One Lime Street
London
EC3M 7HA

Directors

CJR Rash	(Chief Executive)
JG Ross	(Chief Risk Officer)
RE Bean	(Chief Underwriting Officer)
RD Cowling	(Chief Financial Officer)
ME Hind	(Non-Executive)
DJ Batchelor	(Non-Executive)
MEA Carpenter	(Non-executive)
KA Coates	(Non-executive)
JL Hancock	(Non-executive)
TA Bolt	(Non-executive)

Company secretary
M-C Gallagher

Independent auditors
PricewaterhouseCoopers LLP
7 More London
Riverside
London
SE1 2RT

Syndicate
Syndicate 2019

Active underwriter
A Howse

Talbot Underwriting Ltd Syndicate 2019

Annual Report and Accounts

31 December 2022

Report of the Directors of the Managing Agent

The Directors of the Managing Agent, Talbot Underwriting Ltd (TUL), present the annual report and audited accounts of Syndicate 2019 (the Syndicate) for the year ended 31 December 2022. The annual report is prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The comments below refer to both information prepared on an annual accounting basis and information derived from a Lloyd's underwriting year of account basis. The latter is included where it is used to manage the business.

Principal activity

The principal activity of the Syndicate is the underwriting of a proportional quota share reinsurance contract covering high net worth (HNW) personal lines insurance business underwritten by American International Group Inc (AIG) companies, as part of its Private Clients Group (PCG): the PCG HNW portfolio. The quota share contract provides coverage for PCG HNW policies, incepting from 1 January each year.

Overview

The Syndicate result for the year was a loss of \$64.2m (2021: loss of \$101.3m). Gross premiums written in the Syndicate decreased to \$602.4m (2021: \$773.4m). The Syndicate's key financial performance indicators during the year were as follows:

Results for the financial year	2022 \$m	2021 \$m	2020 \$m
Gross premiums written	602.4	773.4	724.7
Net earned premiums	677.1	728.0	370.1
Investment return	(13.8)	(2.0)	0.6
Loss for the financial year	(64.2)	(101.3)	(67.1)

Key performance indicators	2022	2021	2020
Net claims ratio (%)[1]	73.7	77.7	81.8
Net expense ratio (%)[2]	33.7	35.9	36.4
Combined ratio (%)[3]	107.4	113.6	118.2

[1] The ratio of net claims ratio of net claims incurred to net earned premiums.
[2] The ratio of net operating expenses (both net acquisition costs and administrative expenses) to net earned premiums.
[3] The total of net claims and net operating expenses as a percentage of net earned premium

The Syndicate purchases no reinsurance and, as such, gross premiums and claims equal net premiums and claims, respectively.

Report of the Directors of the Managing Agent (continued)

Review of the business

Underwriting

The Syndicate underwrites a 57.8% quota share of PCG's High Net Worth portfolio for the 2022 year of account (2021 year of account: 57.8%). The portfolio is protected by a reinsurance programme purchased by PCG, comprising excess of loss, quota share and facultative covers which is applied before premium is ceded to the Syndicate. The Syndicate did not purchase any reinsurance in 2022 (2021: nil).

Gross premiums written

Premiums written by class of business for the calendar year were as follows:

	2022	2021
	$m	$m
Homeowners	357.2	483.9
Auto	118.3	131.6
Collections Fine Art	10.2	15.0
Collection General Specie	55.1	71.1
Yacht	6.9	15.2
Excess Liability	52.8	54.4
Workers Comp	1.9	2.2
Total gross premiums written	602.4	773.4

Gross premiums writtens reduced by $171.0m in 2022 to $602.4m (2021: $773.4m), primarily driven by the impact of PCG strategic underwriting initiatives to reduce the volatility of the portfolio. Throughout 2022, PCG executed on a number of initiatives to re-underwrite the core product suite, including the withdrawal from certain US admitted markets and targeted de-risking to reduce catastrophe perils.

Net claims ratio

Net claims incurred as a percentage of net earned premiums were as follows:

	2022	2021
Current year notified claims - catastrophe (%)	17.5	22.7
Current year claims - attritional (%)	56.1	51.5
Change in prior years' net claims (%)	0.1	3.5
Net claims ratio	73.7	77.7

The net claims ratio for the year was 73.7% (2021: 77.7%). Both 2022 and 2021 have been impacted by the heightened US catastrophe experience relative to the historical average, with catastrophe claims ratios of 17.5% and 22.7%, respectively.

The current year catastrophe claims ratio has been materially impacted by Hurricane Ian which contributed 12.8%, however, this still reflects a 5.2% reduction from 2021 which, in part, is driven by the PCG strategic underwriting initiatives. The 2021 catastrophe ratio included US Winter Storm Uri and Hurricane Ida, which contributed 8.3% and 9.0% to the net claims ratio, respectively.

The attritional loss ratio for the year was 56.1% (2021: 51.5%), which includes an explicit allowance for inflation in 2022. Refer to note 3 for further details.

Report of the Directors of the Managing Agent (continued)

Review of the business (continued)

Net operating expenses

Net operating expenses for the year are set out below:

	2022 $m	2021 $m
Net acquisition costs	212.4	244.6
Administrative expenses	15.8	16.6
Net operating expenses	228.2	261.2

As % of net earned premiums		
Net acquisition expense ratio (%)	31.4%	33.6%
Administrative expense ratio (%)	2.3%	2.3%
Net expense ratio (%)	33.7%	35.9%

Net acquisition costs comprise the agreed ceding commission as specified in the respective underwriting year of account quota share contracts. The net acquisition ratio of 31.4% (2021: 33.6%) is a blend of costs associated with premium earned across each year of account in the period. There has been a reduction in the quota share acquisition ratio from 33.6% for the 2021 year of account to 28.0% for the 2022 year of account. Administrative expenses comprise mainly of Lloyd's costs and managing agency fees.

Investment return

The return on Syndicate funds is shown below:

2022	$m
Average Syndicate funds available for investment	738.2
Investment loss for the year	(13.8)
Calendar year investment return (%)	(1.9)

2021	$m
Average Syndicate funds available for investment	541.5
Investment loss for the year	(2.0)
Calendar year investment return (%)	(0.4)

The full year result includes an investment loss of $13.8m (2021: loss of $2.0m) equating to a negative return of 1.9% (2021: negative 0.4%). Investment return includes net unrealised losses of $20.9m (2021: $5.7m), net realised losses of $2.2m (2021: $1.0m) and income from investments net of expenses of $9.3m (2021: $4.7m). Investment return is significantly down primariy due to the mark to market impact from increasing bond yields during the year.

During the fourth quarter of 2022 a new investment management agreement was entered into with BlackRock. The assets of the Syndicate, previously managed by AIG Asset Management (Europe) Limited, a member of the wider AIG corporate group, were substantially transferred to be under the management of BlackRock. This provides TUL with the benefits of BlackRock's global reach, investment expertise and technological and risk analysis capabilities. The custodian of the assets has not changed following the transfer to BlackRock, only the investment manager.

Report of the Directors of the Managing Agent (continued)

Financial Position

The Syndicate's members' balance was a deficit of $232.6m at 31 December 2022 (2021: deficit of $168.4m). The main components of the balance sheet are technical provisions and financial investments.

Financial investments consist primarily of debt securities (issued by governments) government agencies, or high-grade corporate entities and comprise 92.3% of the investment portfolio (2021: 86.8%). Investment guidelines do not allow the holding of equities. All investments are traded within liquid markets. The fair value of investments was $759.1m (2021: $696.4m) and the portfolio composition is shown in note 9.

Technical provisions include a provision for outstanding claims of $598.6m (2021: $515.5m) and a provision for unearned premiums of $325.4m (2021: $400.0m). Refer to note 3 for further details on the process for estimating claims and the judgements and uncertainties involved.

Capital

The TUL capital model is used to set the Syndicate's capital. The Syndicates managed by TUL comply with Lloyd's capital setting processes, which are described in note 16.

Lloyd's unique capital structure provides excellent financial security to policyholders and capital efficiency for members. This chain of security provides the financial strength that ultimately backs the insurance written through Lloyd's. Lloyd's is A rated by AM Best and A+ by S&P.

- All premiums received by Syndicates are held in trust
- Every member is required to hold capital at Lloyd's known as Funds at Lloyd's (FAL)
- Central assets are available at the discretion of the council of Lloyd's to meet any valid claim that cannot be met from the resources of any member further up the chain.

The Syndicate 2023 plan was fully capitalised during the fourth quarter of 2022. AIG, which is rated A by AM Best and by A+ by S&P, has the majority participation across all underwriting years of the Syndicate at 31 December 2022.

Future developments

The Syndicate has renewed the quota share of PCG's High Net Worth portfolio for the 2023 year of account, for which the capacity is £498.2m (2022: £498.2m). The cession for the PCG 2023 treaty quota share reinsurance contract has increased to 70.0% (2022: 57.8%).

On 13 February 2023, AIG announced it had entered into a binding memorandum of understanding with Stone Point Capital (Stone Point), a leading private equity firm focused on investing in businesses within the global financial services industry, to form an independent Managing General Agency (MGA) to serve the High and Ultra High Net Worth markets.

As part of this new structure, the Private Client Group (PCG) business will move to the MGA, once it is formed, and will be rebranded as Private Client Select Insurance Services (PCS). AIG will be the lead carrier for PCS and will have an equity stake in the MGA. PCG will be supported by a diverse base of third-party capital providers including AIG and the Syndicate. The establishment of the MGA is subject to negotiation of definitive agreements, obtaining required permits and other regulatory approvals. Once the MGA is formed, PCG employees and core solutions will transfer to PCS which will improve product offerings to better serve the High and Ultra High Net Worth markets.

The Directors have a reasonable expectation that the Syndicate will continue as a going concern.

Principal risks and uncertainties

The principal risks and uncertainties to the Syndicate are insurance, credit, liquidity, market, operational and climate risks. A description of these principal risks and uncertainties is set out in note 4 to the financial statements (risk management). The additional emerging risks and uncertainties associated with environmental, social and governance (ESG) responsibilities are covered in the next section.

Report of the Directors of the Managing Agent (continued)

Governance Responsibilities

TUL has a robust set of effective governance policies and practices that are designed to maintain high standards of oversight, integrity and ethics. TUL has developed its Environmetal, Social and Governance (ESG) Framework with oversight from the TUL Board. The ESG Framework is also aligned to AIG Group and Lloyd's requirements. Further details are provided in note 4.

Environmental responsibilities and climate risks

TUL, as part of the AIG Group, recognises the material risk that climate change poses to its business and is committed to embedding climate change considerations within its decision making. This is demonstrated by AIG Group's commitment to reach net zero greenhouse gas (GHG) emissions across its underwriting and investment portfolios by 2050, or sooner.

TUL has committed to reduce its own greenhouse gas emissions by reviewing energy efficiencies in its facilities, business travel, printing and procurement areas. This is aligned to AIG Group's 'Operational Pathway to Net Zero emissions' by 2050 Programme with a "Path to Net Zero Operations Working Group" recently established.

Physical, transitional and liability Risks

TUL recognises the risks posed by climate change on its business and the need for a robust risk management response. Risks associated with climate change are commonly grouped under physical risks, transitional risks and liability risks. These are covered in further detail in note 4.

Report of the Directors of the Managing Agent (continued)

Directors

The Directors of the Managing Agent during the period from 1 January 2022 to the date of this report were as follows:

CJR Rash	(Chief Executive)
JG Ross	(Chief Risk Officer)
RE Bean	(Chief Underwriting Officer)
RD Cowling	(Chief Financial Officer, appointed 26 April 2022)
ME Hind	(Independent Non-Executive, appointed 7 June 2022)
DJ Batchelor	(Non-Executive)
MEA Carpenter	(Non-Executive)
KA Coates	(Non-Executive)
JL Hancock	(Non-Executive, shareholder representative)
TA Bolt	(Non-Executive, shareholder representative)

Former Directors who served during the period from 1 January 2022 to the date of this report were as follows:

M Scales	(Non-Executive, resigned 30 June 2022)
BJ Hurst-Bannister	(Non-Executive, resigned 31 December 2022)

Active Underwriter

A Howse

Company Secretary

M-C Gallagher

Statutory Information

Disclosure of information to auditors

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

The current Syndicate auditors, PricewaterhouseCoopers LLP, will be reappointed.

Annual General Meeting

Subject to the consent of Lloyd's, it is not intended to hold a Syndicate Annual General Meeting in 2023.

Statement of Managing Agent's responsibilities

The Directors of the Managing Agent are required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 to prepare Syndicate annual accounts at 31 December each year which 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 year. The Directors have elected to prepare the Syndicate annual accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Account Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" ("FRS 102").

The Directors must not approve the accounts 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 these accounts, the Directors are required to:

* Select suitable accounting policies and then apply them consistently;
* Make judgements and estimates that are reasonable and prudent;
* State whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the Syndicate annual accounts; and
* Prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write business unless it is inappropriate to presume that the Syndicate will do so.

The Directors of the Managing Agent confirm that they have complied with the above requirements in preparing the Syndicate annual accounts.

The Directors of the Managing Agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that its accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on behalf of the Board.

RD Cowling, Chief Financial Officer
27 February 2023

Independent auditors’ report to the members of Syndicate 2019

Report on the audit of the Syndicate annual accounts

Opinion

In our opinion, Syndicate 2019’s syndicate annual accounts:

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Accounts (the “Annual Report”), which comprise: the balance sheet as at 31 December 2022; the profit and loss account: technical account - general business, the profit and loss account: non-technical account, the statement of cash flows and the statement of changes in members’ balance for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”), and The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors’ responsibilities for the audit of the syndicate annual accounts* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC’s Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided.

Other than those disclosed in note 6, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the 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.

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.

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

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

Independent auditors' report to the members of Syndicate 2019 (continued)

Reporting on other information

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

In connection with our audit of the syndicate annual accounts, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Directors of the Managing Agent (Managing Agent's Report), we also considered whether the disclosures required by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on our work undertaken in the course of the audit, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us also to report certain opinions and matters as described below.

Managing Agent's Report

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 year ended 31 December 2022 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of 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 it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Independent auditors’ report to the members of Syndicate 2019 (continued)

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd’s, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management’s incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates, particularly in relation to estimated premium income and incurred but not reported provisions included in claims outstanding. Audit procedures performed by the engagement team included:

- Discussion with the Board, management, the compliance function and the Internal Audit Group of the Managing Agent, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud;
- Assessment of matters reported on the Managing Agent’s whistleblowing helpline and the results of investigations of such matters;
- Reviewing relevant meeting minutes, including those of the Board, Risk and Compliance Committee and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including the Council of Lloyd’s, the Prudential Regulation Authority, and the Financial Conduct Authority;
- Testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to estimated premium income and incurred but not reported provisions included in claims outstanding;
- Identification and testing of journal entries identified as potential indicators of fraud, particularly backdated journal entries, those with unusual words, those with unusual account combinations, duplicate journals and reversals posted within the same period, or journals posted by employees who have left the entity; and
- Designing audit procedures to incorporate unpredictability around the nature, timing, and extent of testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the syndicate annual accounts. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate’s members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of Syndicate 2019 (continued)

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- certain disclosures of Managing Agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Paul Pannell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2023

Profit and loss account: technical account – general business

For the year ended 31 December 2022

	Note	2022 $m	2021 $m
Gross premiums written	5	602.4	773.4
Outwards reinsurance premiums		-	-
Net premiums written		602.4	773.4
Change in gross provision for unearned premiums		74.7	(45.4)
Reinsurers' share of change in the provision for unearned premium		-	-
Change in the net provision for unearned premiums		74.7	(45.4)
Earned premiums, net of reinsurance		677.1	728.0
Allocated investment return transferred from the non-technical account		(13.8)	(2.0)
Gross claims paid		(415.5)	(329.2)
Reinsurers' share of claims paid		-	-
Claims paid net of reinsurance		(415.5)	(329.2)
Change in the gross provision for claims		(83.5)	(236.7)
Change in the provision for claims, reinsurers' share		-	-
Change in the net provision for claims		(83.5)	(236.7)
Claims incurred, net of reinsurance		(499.0)	(565.9)
Net operating expenses	6	(228.2)	(261.2)
Balance on the technical account for general business		(63.9)	(101.1)

Profit and loss account: non-technical account

For the year ended 31 December 2022

	Note	2022 $m	2021 $m
Balance on the technical account for general business		(63.9)	(101.1)
Investment income	8(a)*	10.3	5.1
Unrealised gains on investments		2.9	-
Investment expenses and charges	8(b)*	(3.2)	(1.4)
Unrealised losses on investments		(23.8)	(5.7)
		(13.8)	(2.0)
Allocated investment return transferred to the technical account		13.8	2.0
Loss on exchange		(0.3)	(0.2)
Loss for the financial year	12	(64.2)	(101.3)

∗ *Investment income, expenses and charges have been re-presented from the prior year. In the prior year, gains and losses on the realisation of investments were presented in investment income in the profit and loss account: non-technical account. In the current year these have been re-classified to investment income (realised gains) and investment expenses and charges (realised losses). Refer to note 8.*

There was no other comprehensive income or expense in the year.

Balance sheet

As at 31 December 2022

	Note	2022 $m	2021 $m
Assets			
Investments	9	759.1	696.4
		759.1	696.4
Debtors			
Debtors arising out of reinsurance operations	10	41.4	62.7
Other debtors	11	5.8	2.7
		47.2	65.4
Other assets			
Cash at bank and in hand		41.5	12.1
Deferred acquisition costs		91.1	134.5
		132.6	146.6
Total assets		938.9	908.4
Liabilities			
Capital and reserves			
Members' balance	12	(232.6)	(168.4)
Technical provisions			
Provision for unearned premiums	13	325.4	400.0
Claims outstanding	13	598.6	515.1
		924.0	915.1
Creditors			
Other creditors including taxation and social security	14	246.2	160.7
		246.2	160.7
Other Liabilities			
Accrued expenses		1.3	1.0
		1.3	1.0
Total Liabilities		938.9	908.4

The notes on pages 19 to 35 are an integral part of these financial statements.

The financial statements on pages 14 to 35 were approved by the Board of Directors on 24 February 2023 and signed on its behalf by:

RD Cowling, Chief Financial Officer
27 February 2023

Statement of changes in members' balance

For the year ended 31 December 2022

	Note	2022 $m	2021 $m
Balance at 1 January		(168.4)	(67.1)
Loss for the financial year	12	(64.2)	(101.3)
Balance at 31 December		(232.6)	(168.4)

The members participate on the Syndicate by reference to underwriting year of account. Analysis of the members' balance by underwriting year of account is shown in note 12 to these accounts.

Statement of cash flows

For the year ended 31 December 2022

	2022 $m	2021 $m
Loss for the financial year	(64.2)	(101.3)
Increase in gross technical provisions	8.8	282.1
Decrease in debtors	20.1	31.3
Decrease in creditors	(3.6)	(9.9)
Movement in other assets/liabilities	43.8	(16.4)
Investment return	13.8	2.0
Foreign exchange	0.1	-
Net cash flows from operating activities	18.8	187.8
Cash flows from investing activities		
Purchase of debt instruments	(647.1)	(947.0)
Sale of debt instruments	575.6	616.0
Investment income received	6.5	3.7
Other	(2.2)	(3.7)
Net cash flow from investing activities	(67.2)	(331.0)
Cash flows from financing activities		
Draw down on intra Group loan facility	43.8	154.0
Net cash flows from financing activities	43.8	154.0
Net decrease in cash and cash equivalents	(4.6)	10.8
Cash and cash equivalents at beginning of year	94.1	83.3
Cash and cash equivalents at end of year	**89.5**	**94.1**
Cash at bank and in hand	41.5	12.1
Short term investments - cash equivalents	48.3	82.0
Overdrafts	(0.3)	-
Cash and cash equivalents at end of year	**89.5**	**94.1**

Notes to the annual accounts

1 Basis of preparation

The accounts of Syndicate 2019 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Insurance Contracts standard ("FRS 103") and Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Having assessed the principal risks to the Syndicate, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing these accounts. The PCG quota share reinsurance quota share contract has been renewed for 2023. Also, the Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future.

These accounts are prepared under the historical cost convention, as modified by certain financial assets measured at fair value through profit and loss.

The preparation of accounts in conformity with FRS 102 and 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving higher degree of judgement or complexity, or areas where assumptions and estimates are used are shown in note 3 below.

2 Accounting policies

The financial statements have been prepared on an annual basis, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(a) Insurance contracts – classification

A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder is classified as an insurance policy.

(b) Gross premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. 2020, 2021 and 2022 each comprise a single quota share contract incepting on 1 January, which renews annually. Premiums are shown gross of acquisition costs. Premiums include estimated amounts of premium due but not yet received or notified – refer to note 3 for more details on premium estimates.

(c) Outwards reinsurance premiums

Outwards reinsurance premiums written comprise premiums for contracts incepted during the financial year as well as adjustments made in the year to outwards reinsurance premiums written in prior accounting periods. There has been no outwards reinsurance since the inception of the Syndicate.

(d) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The provision for unearned premiums is calculated on a pro rata basis. The Syndicate underwrites risks attaching during (RAD) contracts for which premiums are earned in line with the gross premiums to which the risk attaching contract relates.

(e) Claims incurred

Claims incurred comprise: (i) claims and related expenses paid in the year; (ii) changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR); (iii) related claims expenses; and (iv) any other adjustments to claims from previous years.

2 Accounting policies (continued)

(f) Claims provisions and related reinsurance recoveries

Provision is made at the year-end for the estimated cost of unpaid claims incurred.

In calculating the claims provisions, the Syndicate uses generally accepted estimation techniques applied to underwriting year of account data, usually based upon analyses of historical experience, which assume that the development pattern of future claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to alter when compared with the cost of those previously settled. Catastrophe and Large claims that impact specific classes of business are assessed and measured on a case by case basis or projected separately.

The Syndicate writes a mix of predominantly short tail business, wherein most of the claims are settled within relatively few years following the writing of the policy. A proportion of the Syndicate's short tail business is, however, low frequency and high severity in nature, which increases the volatility of the data.

For longer tail business, where there are liability exposures, the time from the occurrence of a claim to it being reported and the subsequent time before settlement of the claim can be many years. In this time, additional facts regarding individual claims and trends often will become known and legislation and case law may change, affecting the ultimate value of the claim.

Provisions are calculated net of any reinsurance recoveries. There has been no outwards reinsurance since inception of the Syndicate.

Net ultimate claims provision are split between earned and unearned components, based upon earned exposure at the balance sheet date.

The factors above bring considerable uncertainty to the process of estimating earned ultimate losses and earned claims provisions.

The Directors consider that the claims provisions are fairly stated on the basis of the information currently available to them. However, the ultimate liability may vary as a result of subsequent information and this may result in significant adjustments in future years to the amounts provided.

(g) Unexpired risks provision

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

The Syndicate reinsures a single annual reinsurance contract and all business is reinsured together under one contract. There are no unexpired risk provisions to be reported in the current or prior year.

(h) Acquisition costs

Acquisition costs, calculated as a percentage of premium, comprising ceding commission, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(i) Foreign currency

The functional and presentational currency of the Syndicate is the US dollar. Transactions in other currencies are translated into US dollars at the average rates of exchange for the period or at the contracted forward rates of exchange. Assets and liabilities denominated in other currencies are translated into US dollars at the closing rates of exchange for the period.

Foreign exchange gains and losses resulting from the translation of transactions or the translation of assets and liabilities are recognised in the profit and loss.

The principal rates of exchange used in preparing these financial statements were as follows:

	2022		2021	
	Average	Closing	Average	Closing
Sterling	0.81	0.83	0.73	0.74

Notes to the annual accounts (continued)

2 Accounting policies (continued)

(j) Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between net sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

Investment return is recorded initially in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

(k) Financial assets and liabilities

Financial assets

Basic financial assets including insurance debtors, other debtors and cash and bank balances, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at the market rate of interest. Such assets are subsequently carried at amortised cost less any provision for impairments.

Investments are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit and loss, except that investments whose fair values cannot be measured reliably are measured at cost less impairment.

Financial assets are derecognised when the contractual rights to the cash flows from the asset expire or are settled, or substantially all the risks and rewards of the ownership of the asset are transferred to another party, or control of the asset has been transferred to another party who has the practical ability to sell the asset to an unrelated party.

Cash and cash equivalents comprise cash at bank and short-term highly liquid investments readily realisable as cash without significant financial penalty.

Financial liabilities

Basic financial liabilities include insurance creditors and other creditors, recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Insurance debtors and creditors

Insurance debtors and creditors include amounts due to and from brokers and contract holders. These are classified as insurance debtors and creditors as they are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

(l) Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate on behalf of members during the year are included in the balance sheet under the heading ‘other debtors’.

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

2 Accounting policies (continued)

(m) Profit commissions

Profit commissions payable to the managing agent, which are expected to arise on closure of a Lloyd's year of account, are recognised on an accruals basis, taking into consideration any deficit clauses. The managing agent's charges for all the 2022, 2021 and 2020 years of account do not include profit commission.

(n) Members' balance and distribution

The members' balance represents the retained profit or loss relating to all underwriting years of account net of any profit distribution or cash calls received in respect of losses.

3 Key judgements and uncertainties

Premium estimates

Critical estimates include premium written and the earning pattern of recognising premium over the life of the policy.

Syndicate 2019 writes a single annual quota share reinsurance contract. Premium written is initially based on estimated premium income (EPI) recognised in full at inception based on what will be ultimately written under the contract.

The premium ceded to, and recognised by, the Syndicate under the quota share contract is net of deemed reinsurance outlined within the quota share reinsurance contract and applied by the cedent prior to cession to the Syndicate. The cedent's reinsurance programme is not exclusive to the portfolio of business ceded under the quota share contract and thus the reinsurance applied prior to cession to the Syndicate represents an allocation of the total reinsurance coverage the cedent has purchased.

Premium written is provided quarterly by PCG, which will include actuals and estimates for future months of the underwriting year, and is adjusted to actual as the underwriting year develops. Premium estimates will also include estimates for the reinsurance applied before the cession of premium. These reinsurance cost estimates will include allocation to the business ceded under the quota share as well as allocation to underwriting year.

Premium estimates are reviewed at least quarterly. Quarterly EPI reflects actual underlying written premium and forecast for future months, which are compared to plan and previous quarters' actuals for reasonableness. The allocation of reinsurance applied by PCG prior to cession is validated against modelling outputs as well as placing broker analysis. Premium estimates are subject to review and approval by the Active Underwriter and Reserve Committee. A source of uncertainty arises from the fact that, at any given point in time, the EPI could be different to final signed premium.

Premium is earned on a straight-line basis for underlying PCG policies, which have been ceded under the quota share contract.

3 Key judgements and uncertainties (continued)

Claims provision

The most critical estimate impacting the balance sheet is the estimate for insurance losses incurred but not reported (IBNR), which is included in claims outstanding in the balance sheet. This estimate is critical as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported at 31 December 2022 is $414.4m (31 December 2021:$374.3m).

The process for estimating claims provisions considers key sources of uncertainty around the following:

* Future development of inward claims, both reported and unsettled and incurred but not reported claims;
* The allocation of claims liabilities by underwriting year prior to cession to the Syndicate;
* Estimates of claims liabilities for catastrophe events;
* Corresponding reinsurance recoveries prior to cession to the Syndicate, including considerations for the recoveries made under the deemed reinsurance outlined within the quota share reinsurance contracts; and
* The splits of future claim liabilities between earned and unearned exposures.

Assumptions and expert judgements made to quantify these uncertainties are produced by the cedent's actuarial, claims and reinsurance personnel. Supporting their production are:

* Monthly and quarterly claims and premium data, both gross and net of reinsurance;
* Quarterly cedent updates on expected premium volumes and rating levels in light of business written and prevalent market conditions;
* Ongoing monitoring of developing claims experience relative to that implied/expected from the reserving model, with quarterly assessment of suitability of actuarial reserving assumptions in light of emerging experience; and
* Annual detailed reviews of actuarial assumptions used in the reserving model, including discussions of impact of rate movements, underwriting strategies, reinsurance protection, etc., on these assumptions.

The Syndicate incurred to ultimate development of catastrophe claims can take longer to develop due to the nature of the portfolio and coverage being provided for HNW clients. The estimates of claims provisions allow for alternative living costs and building code changes which may not be generally typical of a property portfolio.

Deemed inuring reinsurance protection on the PCG HNW portfolio applies before cession to the Syndicate. Catastrophe and other claims may, therefore, develop up to a specific retention. The retention and limit of the deemed inuring reinsurance coverage varies depending on the type of coverage and US state.

TUL receives the reserve data from the cedent and reviews these assumptions and judgements. TUL's Reserve Committee sets the claims liability provisions on a best estimate, undiscounted basis.

The current inflationary environment is an emerging risk to the Syndicate. TUL continues to monitor and assess the impact of rising social and financial inflation on PCG HNW business. The Federal Reserve targets inflation of 2.0% over the long run, as measured by the annual change in the price index for personal consumption expenditures. The US CPI was 6.5% in December 2022 (7.0% December 2021) and remains three times above the targets. Across the world, inflation indices have recently been significantly higher than long term rates, with inflation predicted to remain elevated above the target during 2023. This reflects upward pressures from global energy and tradable goods prices. TUL considers the US CPI to be a suitable index for assessing inflation in the context of the Syndicate.

TUL has established an Inflation Risk Working Group to assess and monitor risks relating to the inflationary environment. At 31 December 2022, and based on the recommendations from this working group and the Reserve Committee, an explicit uplift of 2.9% or $16.9m, of net technical provisions has been allowed for (2021: nil). The inflation allowance was determined based on a detailed review of future cash flow with an uplift to severity trend assumptions to reflect heightened claims inflation rates for the 2022 to 2025 financial years.

Under the single annual quota share, the Syndicate is a reinsurer of primarily US admitted business written by PCG. PCG mitigate the impact of inflation on admitted business through Inflation Guard Protection on the Homeowner's line of business, allowing for an adjustment to pricing on a quarterly basis.

4 Risk management

The principal risks to the business of the Syndicate are insurance, credit, liquidity, market, operational and climate risks, as set out below. All risks are managed by the business and overseen by the Board and its sub-committees (most notably the Risk and Compliance Committee, the Underwriting Committee, the Audit Committee and the People and Remuneration Committee).

Executive oversight of the Risk Management Framework is delegated to the Chief Executive Officer, who is responsible for ensuring that risk management is embedded as part of TUL's culture, ensuring that risks are properly managed, mitigated and that there are appropriate controls, operating effectively.

The Executive Committee is formed by the Chief Executive Officer in order to discharge duties delegated from the Board and there are also a number of other management committees that support oversight of how risk is managed by the business, including the following:

- Insurance Management Committee (responsible for insurance risk with regard to underwriting);
- Reserve Committee (responsible for insurance risk with regard to reserving);
- Finance Committee (responsible for credit risk (excluding investments), liquidity risk, currency matching risk and financial reporting and process risk);
- Environmental, Social and Governance Committee (responsible for the ESG framework and strategy)
- Investment Committee (responsible for market risk and credit risk with regard to investments); and
- Operational Risk Committee (responsible for operational risks).

The Managing Agent for the Syndicate, TUL is ultimately responsible for the management of risk at the Syndicate level and for formulating the risk appetite for approval by the Board. The Executive Committee maintains a comprehensive risk register and risk management framework on behalf of the Syndicate and TUL. This allows new risks to be identified and new controls to be put in place as necessary, either to reduce the likelihood of an event or to mitigate its impact once it has happened. The Executive Committee also oversees the management of the key risks with regard to strategy and relationships with stakeholders.

TUL's Risk Management function provides senior management with a consolidated view of key risks and supports the business and management in the embedding of risk management in business processes and in identifying, assessing, quantifying, managing, monitoring, reporting and mitigating risk exposures. This includes risks related to changing climate conditions, and tracking societal changes that could impact operations and elevate reputational risks. TUL has reviewed its risk appetite and guidelines in respect of climate change including its position in relation to supporting wider government and Lloyd's targets.

(a) Insurance risk

This is risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Insurance risk comprises of both underwriting risk and reserving risk.

Underwriting risk

Underwriting risk arises from differences in timing, frequency and severity of insured events, relative to expectations at the time of underwriting, as well as inappropriate pricing, selection and approval of insurance risks. The PCG business plan, including the deemed reinsurance, for the prospective year of account is reviewed in depth prior to underwriting the quota share contract. The business ceded to the Syndicate is after the application of the PCG deemed reinsurance to arrive at an acceptable level of risk. The Board reviews the deemed reinsurance structure at least annually to determine whether any additional reinsurance is required at a Syndicate level. Underwriting strategy is agreed by the Board and is set out in the Syndicate business plan that is submitted to the Society of Lloyd's for approval each year. Underwriting is aligned with the Syndicate's strategy, agreed business plan and underwriting policy.

The nature of the business exposes the Syndicate to various kinds of natural disaster, such as hurricanes, windstorms, hailstorms, flooding, earthquakes, wildfires, and other catastrophes, in which multiple losses can occur and affect multiple lines of business in any given year. TUL's Risk Appetite Framework establishes and maintains appropriate limits on the material risks identified. A significant proportion of the natural catastrophe-related risks that are underwritten by PCG are renewed on an annual basis. This provides the opportunity to regularly re-underwrite and re-price the risk. TUL, in combination with PCG, uses a blend of proprietary and third-party risk models to help better

4 Risk management (continued)

(a) Insurance risk (continued)

understand the frequency and severity of natural catastrophe risk. TUL and PCG have assembled a collection of hazard and engineering data, client and industry exposure, and loss information all of which have been used to analyse the external catastrophe models, inform catastrophe model selections, and support catastrophe model calibrations which form the in-house view of catastrophe risk. For weather perils TUL models the following: 1) hurricanes including storm surge, 2) floods, 3) wildfires, 4) severe convective storms, and 5) winter storms. TUL has a clear approach for how catastrophe risk is represented in the Internal Model and this includes validation and governance around model selection, model peril evaluation, model use, and model change.

Reserving risk

Reserving risk arises where the claims provisions established in the balance sheet are not adequate to meet eventual claims arising. The level of uncertainty varies significantly across lines of business but can arise from inadequate reserves for known or incurred but not reported (IBNR) claims. These shortfalls can arise from inadequate reserving processes or from the naturally uncertain progress of insurance events.

The Syndicate has exposure to volatile lines of business that carry inherent risk that the ultimate claims settlement will vary from previous assessments of reserves. The Syndicate reserves are annually subject to a formal independent actuarial opinion. The actuarial opinions are covered by a combination of formal Actuarial Professional Standards and specific Lloyd's guidance and rules.

Note 3 contains additional details around the key judgements and uncertainties involved in the estimate for claims provisions. The Syndicate also has in place detailed procedures and controls to manage and monitor the handling and assessment of claims and the setting of appropriate reserves. Note 13 includes further detail on claims provisions and claims development triangles.

(b) Credit risk

Credit risk is defined as the risk that counterparties are unable, or unwilling, to settle their debts as they fall due.

Investment counterparties: Investment guidelines ensure that the Syndicate's investments are held in high quality instruments. The portfolio is monitored for concentration with respect to issuers and credit ratings. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. Of the total fixed interest and cash investments as at 31 December 2022, all are with counterparties having a credit agency rating of A or better (2021: A or better).

Reinsurance counterparties: There are no reinsurance counterparties.

Broker counterparties: Underwriters may only write business through an approved counterparty. The quota share contract is written through Aon, which has a credit rating of A- (2021: A-).

The Syndicate has no premiums receivable that are past due at the reporting date (31 December 2021: nil).

Notes to the annual accounts (continued)

4 Risk management (continued)

(b) Credit risk (continued)

Balances with investment counterparties are rated as follows:

As at 31 December 2022	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	360.8	90.7	248.9	-	-	-	700.4
Shares and other variable yield securities	48.3	-	-	-	-	4.5	52.8
Overseas deposits	4.2	0.5	0.8	0.4	-	-	5.9
Cash at bank and in hand	-	-	41.5	-	-	-	41.5
	413.3	91.2	291.2	0.4	-	4.5	800.6

As at 31 December 2021	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	207.7	234.7	162.4	-	-	-	604.8
Shares and other variable yield securities	82.0	-	-	-	-	5.9	87.9
Overseas deposits	1.9	1.1	0.5	0.2	-	-	3.7
Cash at bank and in hand	-	-	12.1	-	-	-	12.1
	291.6	235.8	175.0	0.2	-	5.9	708.5

(c) Liquidity risk

Liquidity risk is defined as the risk that the Syndicate is unable to pay debts or meet regulatory funding requirements as they fall due and can arise if the assets held to settle liabilities are either unable to be realised or they are only realisable at materially below market value or funds are not available to satisfy regulatory requirements.

Syndicate cash flow forecasts are prepared and reviewed by the Finance Committee. Liquidity is also considered by the Financial Risk Committee and the Board, when reviewing asset allocation constraints within the investment guidelines.

The Syndicate has a loan facility in place with a group entity. The limit of the loan facility is $300m at the balance sheet date, of which $199.2m was drawn down (31 December 2021: $154.2m facility with nil drawn down). The loan facility has a maturity date of 24 April 2025.

At 31 December 2022, the average duration of Syndicate funds to maturity was 1.4 years (2021: 1.2 years) compared to 2.5 years (2021: 1.3 years) for Syndicate claims outstanding.

Notes to the annual accounts (continued)

4 Risk management (continued)

(c) Liquidity risk (continued)

At 31 December 2022	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	312.1	293.9	10.6	83.8	700.4
Shares and other variable securities	48.3	-	-	-	-	48.3
Overseas deposits	-	0.7	4.7	0.5	-	5.9
Loans and deposits with credit institutions	4.5	-	-	-	-	4.5
Cash at bank and in hand	41.5	-	-	-	-	41.5
	94.3	312.8	298.6	11.1	83.8	800.6
Financial liabilities						
Technical provisions - claims outstanding	-	340.7	179.0	61.3	17.6	598.6
Other creditors including taxation and social security	-	246.2	-	-	-	246.2
	-	586.9	179.0	61.3	17.6	844.8

At 31 December 2021	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial assets						
Debt securities and other fixed income securities	-	293.5	253.0	6.9	51.4	604.8
Shares and other variable securities	82.0	-	-	-	-	82.0
Overseas deposits	-	2.5	1.2	-	-	3.7
Loans and deposits with credit institutions	5.9	-	-	-	-	5.9
Cash at bank and in hand	12.1	-	-	-	-	12.1
	100.0	296.0	254.2	6.9	51.4	708.5
Financial liabilities						
Technical provisions - claims outstanding	-	345.2	111.5	40.4	18.0	515.1
Other creditors including taxation and social security	-	6.5	-	154.2	-	160.7
	-	351.7	111.5	194.6	18.0	675.8

4 Risk management (continued)

(d) Market risk

Market risk is the risk that the value of a portfolio of assets will decline due to changes in market factors. These factors include stock market prices, interest rates, foreign exchange rates and commodity prices. The Syndicate only holds variable yield securities and does not hold shares or commodities, it is not directly exposed to the price risk relating to them. Further detail of investments is shown in note 9.

Foreign exchange risk

This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the Syndicate's reporting currency. The Syndicate's results are reported in US dollars and assets and liabilities are held primarily in US dollars. Therefore, there is minimum risk that fluctuations in exchange rates would have a significant effect on the Syndicates results and net assets.

Interest rate risk

This is the risk that an increase in interest rates or volatility in the fixed income markets could result in significant unrealised or realised losses in the market value of the investment portfolio. The Syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the Syndicate to cash flow interest rate risk. Fixed interest rate assets expose the Syndicate to fair value risk. The Syndicate's strategy is to invest in high quality, liquid, fixed and floating rate interest securities and cash and to manage duration actively. The investment portfolios are managed actively to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business. If interest rates had increased/decreased by 2.0%, investment return for the year would have been lower/higher by $23.1m (2021: $4.5m at a sensitivity rate of 0.5%).

(e) Operational risk

The Syndicate's operations are carried out by TUL. Operational risk is attributable to people, processes, systems and external events and is the risk these may give rise to losses in the Syndicate or wider group. This is a large risk group and the risks within it are managed widely across the business. Operational risks are reported quarterly at the Operational Risk Committee unless they are sufficiently material to be escalated to the Executive Committee. When risks are reported, controls are put in place to mitigate the likelihood of the risk impacting the business. In 2022, particular attention was paid to talent retention and recruitment.

A key element of TUL's operational risk focus includes compliance with the Operational Resilience regulation. TUL has well established business continuity and disaster recovery plans in place and a Continuity Steering Group providing coverage of all front and back office teams to oversee execution of these plans and adherence with the new operational resilience regulations. In addition, TUL has completed and the Board signed-off its first Operational Resilience Self-Assessment during 2022 and is in the process of completing its second assessment during the first half of 2023. This was supported by a new resilience attestation process, comprehensive testing and a review and recalibration of impact tolerances. An operating model that delivers regulatory compliance, management and oversight as part of day-to-day operations was signed-off and is in place in order to transition project activity into business as usual. TUL continues to actively engage with Lloyd's and the Lloyd's Market Association on this. TUL is focused on increasing its understanding of third party resilience, maturing its testing plans, supporting Lloyd's review and enhancing response to market wide incidents.

As the Syndicate underwrites a single QS treaty reinsurance, operations are also based within AIG in North America, with premiums and claims being processed into the Syndicate under a single quarterly bordereau. Information and data is received under service level agreements and a quarterly attestation process.

(f) Climate risk

The Syndicate underwrites a single quota share contract covering AIG's PCG business in the US, for which ESG is intrinsic to the business strategy and long-term growth. As a global risk management company, AIG aims to lead the way in developing tools and frameworks that assess and address climate risk. Further detail is available in the annual ESG Report published on AIG's website.

4 Risk management (continued)

(f) Climate risk (continued)

Physical risks

Physical risks from climate change arise from weather events (e.g. windstorms, floods and wildfires) and longer-term shifts in the environment (e.g. sea level rise, increases in average temperatures and greater variability in weather events). Climate change risk may manifest through both primary and secondary perils.

Physical climate change risks may have financial impacts, for example challenging PCG's ability to effectively underwrite, model and price catastrophe risk, particularly if there is change over time in the frequency and severity of catastrophic events. The nature of the PCG US HNW portfolio and policies in catastrophe exposed US states, exposes the Syndicate to various kinds of natural disaster, such as hurricanes, tornadoes, windstorms, hailstorms, floods, wildfires and other catastrophes. PCG proactively manages risk by providing clients with a collection of risk management services including a wildfire prevention unit and hurricane protection and outreach.

PCG continues to implement significant re-underwriting to its core product suite to reduce volatility. Strategic initiatives are in-flight, targeting reductions in wildfire, wind and flood perils as well as a shift towards the non-admitted market to provide clients with comprehensive solutions that meet their emerging risk needs. The non-admitted market offers greater pricing flexibility to ensure that premium charged is commensurate with the risk. There have been material reductions in natural catastrophe exposures and modelled catastrophe PMLs throughout 2022, which are expected to continue in 2023.

Physical climate change risks may also have an operational impact, for example on individual facilities and office locations. TUL also assesses and manages these as part of its regular operations.

Transitional and Liability Risks

Transitional risks from climate change arise from the adjustment in the US to a low-carbon economy (e.g. climate-related developments in policy and regulation). Transitional risks around investment and credit risk, litigation and legal risk, reputational risk and technology risk are discussed briefly below.

- *Investment transitional risks* – The Syndicate holds investments and as efforts to move away from a carbon-intensive economy gather pace, TUL recognises the possibility that financial market participants may fundamentally reassess the value of carbon-intensive assets and the businesses that rely on them. TUL has committed to no longer investing in new thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities from 1 January 2022 in line with wider Lloyd's commitments. TUL is also committed to phase out existing investments with companies that derive 30 percent or more of their revenues from these industries by the end of 2025.
- *Litigation and legal transitional risks* - In recent years, the insurance industry has observed an increase in climate-related litigation. TUL will continue to monitor such litigation trends to assess the potential impact of any developments and our overall risk mitigation strategies.
- *Reputational transitional risks* - Investors, customers, regulators and other stakeholders are placing greater scrutiny on climate related topics, and their expectations are evolving. Companies that are unable to meet stakeholders' expectations could suffer from negative publicity, reputational harm or loss of customer or investor confidence, which could adversely affect operations. Key stakeholders are also increasingly focused on other, non-climate change ESG issues. The transition to a low-carbon economy is a gradual process.
- *Technology transitional risks* - Technological advancements that support the transition to a lower-carbon, energy-efficient economic system may have a significant impact on a wide range of stakeholders. The economic transition may also materially affect the demand for insurance in specific sectors, most obviously in energy and transport. Although this may not necessarily reduce the overall demand for insurance products and services, it may alter the patterns of demand and the nature of insurance cover required, to which TUL will need to respond in order to remain competitive.
- *Liability risks* - Liability risks may arise from parties who have suffered loss or damage from physical or transition risk factors and seek to recover losses from those they hold responsible. For example, the physical risk of flooding affecting the value of property assets can lead to increased credit risks, particularly for banks, or to underwriting risks for liability insurers, if it results in legal claims to recover financial losses from this physical damage.

Notes to the annual accounts (continued)

5 Segmental information

All business written by the Syndicate is reinsurance. All premium written is for a single contract in the UK and the domicile of the insured is the US.

6 Net operating expenses

	2022 $m	2021 $m
Brokerage and commission	169.1	259.8
Change in deferred acquisition costs	43.3	(15.2)
Administrative expenses	15.8	16.6
	228.2	261.2

An analysis of the amounts paid to the Syndicate's auditors and associates is given below.

	2022 $m	2020 $m
Fees payable to the Syndicate's auditors and their associates in respect of:		
Audit of the Syndicate annual accounts	0.3	0.3
Other services pursuant to legislation	0.3	0.2
	0.6	0.5

Other services pursuant to legislation relate to the audit and review of Lloyd's regulatory returns as well as the provision of the statement of actuarial opinion as required by Lloyd's Byelaws.

7 Employees and Directors

The Syndicate has no direct employees. The staff and Directors who provide services to the Syndicate are employed by a group service Company. Key management personnel includes TUL Directors and the Active Underwriter. The Managing Agent charges the Syndicate a Managing Agent's fee based on gross written premium for services provided to the Syndicate. Staff costs and numbers are not separately identified.

8 Investment income, expenses and charges

(a) Investment income

	2022 $m	2021 $m
Income from investments	9.8	4.9
Gains on the realisation of investments	0.5	0.2
	10.3	5.1

(b) Investment expenses and charges

	2022 $m	2021 $m
Losses on the realisation of investments	(2.7)	(1.2)
Investment management expenses	(0.5)	(0.2)
	(3.2)	(1.4)

9 Investments

	Cost 2022 $m	Cost 2021 $m	Market Value 2022 $m	Market Value 2021 $m
Investments at fair value				
Debt securities and other fixed income securities	726.3	610.5	700.4	604.8
Shares and other variable yield securities	53.5	87.9	52.8	87.9
Overseas Deposits	6.0	3.7	5.9	3.7
Total	785.8	702.1	759.1	696.4

	Cost 2022 $m	Cost 2021 $m	Market Value 2022 $m	Market Value 2021 $m
Investments at fair value analysis				
Government debt	287.0	301.0	283.1	300.5
Corporate debt	308.9	196.5	294.9	193.0
Short term investment - cash equivalents	48.3	82.0	48.3	82.0
Asset backed securities	0.2	9.9	0.2	9.7
Mortgage backed securities	70.0	52.2	64.6	51.4
Supranational debt	60.1	50.9	57.6	50.2
Overseas Deposits	6.0	3.7	5.9	3.7
Loan to Lloyd’s Central Fund	5.3	5.9	4.5	5.9
Total	785.8	702.1	759.1	696.4

Shares and other variable yield securities include short-term highly liquid investments of $48.3m (2021: $82.0m) and loans to the Lloyd’s Central Fund of $4.5m (2021: $5.9m). Short–term highly liquid investments are readily convertible to known amounts of cash with an insignificant risk of change in value, i.e. cash equivalents. A fair value adjustment of $0.8m has been recognised in relation to the value of the Syndicate loan to the Lloyd’s Central Fund, where fair value is considered to be below the original cost (2021: $5.9m, held at par value as a proxy for fair value).

Lloyd’s overseas deposits are lodged as a condition of conducting underwriting business in certain countries or states within countries. These funds are managed by Lloyd’s Treasury Services.

9 Investments (continued)

Fair value estimation

The Syndicate recognises investments at their fair value in the balance sheet. The Syndicate's investments valuations are provided principally by BlackRock (AIG Asset Management (Europe) Limited prior to the fourth quarter 2022), who in turn use data from a number of sources including index providers (e.g. Barclays Capital), commercial valuation providers and broker-dealers. Lloyd's Treasury Services provides details of the sourcing of fair value classification together with details by security for the Lloyd's overseas deposits.

Under FRS 102, the Syndicate must determine the appropriate level in a fair value hierarchy for each fair value measurement. The fair value hierarchy under FRS 102 has three levels which should be used to estimate fair value:

- Level 1 – the unadjusted quoted price 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, and
- Level 3 – Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

At 31 December, the Syndicate's investments were allocated between the Levels 1, 2 and 3 as follows:

2022	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	340.6	359.8	-	700.4
Shares and other variable yield securities	48.3	-	4.5	52.8
Overseas Deposits	-	5.9	-	5.9
Total	388.9	365.7	4.5	759.1

2021	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	350.7	254.1	-	604.8
Shares and other variable yield securities	82.0	-	5.9	87.9
Overseas Deposits	0.9	2.8	-	3.7
Total	433.6	256.9	5.9	696.4

10 Debtors arising out of reinsurance operations

All debtors arising out of reinsurance operations for both the 2022 and 2021 financial years are due within one year. There are no overdue debtors as at 31 December 2022 (31 December 2021: nil).

11 Other debtors

	2022 $m	2021 $m
Accrued interest	3.1	1.5
Expense refunds due	2.7	1.2
	5.8	2.7

Accrued interest and expense refunds due are receivable within one year.

Notes to the annual accounts (continued)

12 Statement of changes in members' balance

Year ended 31 December 2022	2020 YOA Closed $m	2021 YOA Open $m	2022 YOA Open $m	Total 2022 $m
Retained loss				
At 1 January	(122.1)	(46.3)	-	(168.4)
Profit / (loss) for the year	(4.5)	15.5	(75.2)	(64.2)
At 31 December	(126.6)	(30.8)	(75.2)	(232.6)

13 Technical provisions

Year ended 31 December 2022	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	400.0	515.1
Movement	(74.6)	83.5
As at 31 December	325.4	598.6

Year ended 31 December 2021	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	354.7	278.4
Movement	45.3	236.7
As at 31 December	400.0	515.1

Claims development triangles

Whole account, underwriting year Gross earned ultimate claims	2020 £m	2021 $m	2022 $m	Total $m
12 months	302.6	294.6	256.5	853.7
24 months	573.8	541.3	-	1,115.1
36 months	569.6	-	-	569.6
Total gross earned ultimate losses	569.6	541.3	256.5	1,367.4
Less paid claims	(444.2)	(297.9)	(26.7)	(768.8)
Gross claims liabilities	125.4	243.4	229.8	598.6

The Syndicate purchases no reinsurance and, as such, gross claims equals net claims. Some business is not off-risk after the first 12 months, therefore it would be anticipated that cumulative claims will increase in the second year as this business is earned.

14 Other creditors including taxation and social security

	2022	2021
	$m	$m
Intra group loan	199.2	154.2
Other amounts due to group companies	1.1	6.5
Payable for investment purchase	45.6	-
Amounts owed to credit institutions	0.3	-
	246.2	160.7

The intra group loan is an interest bearing loan facility in place with a group entity with a maturity date of 24 April 2025. Interest was payable based on a benchmark rate (Commercial Paper rate), which may be amended from time to time by the lender to ensure it represents an arm's length rate. There are no covenants or restrictions placed on the Syndicate in relation to this loan facility.

Other amounts owed to group companies are unsecured, interest free, have no fixed date of payment and are payable on demand.

15 Related parties

Parent companies

The immediate parent Company of Talbot Underwriting Ltd (TUL) is Talbot Underwriting Holdings Ltd, a Company registered in England and Wales.

The ultimate parent and controlling party of Talbot is American International Group, Inc (AIG). The registered office of which is 175 Water Street, New York, NY 10038, United States of America. AIG is listed on the New York Stock Exchange.

PCG proportional quota share reinsurance contract

The Syndicate reinsured a single quota share contract for the 2020, 2021 and 2022 underwriting years. This quota share contract is with AIG group entities and was brokered and priced on an arm's length basis.

Intra group loan

The Syndicate has a loan facility with an AIG Group entity, AIG Transaction Execution Limited. The loan facility was for $300m at the balance sheet date, of which $199.2m was drawn down (31 December 2021: $200m facility with $154.2m drawn down). The facility has a maturity date of 24 April 2025.

Corporate member

PCG 2019 Corporate Member Ltd (PCGCM), an AIG Company, has the following participation by underwriting year 2020: 97.2%, 2021: 82.5% and 2022: 82.5%, 2023: 100%.

Managing agent

During the year, the Syndicate has been charged an annual fee by TUL, the Managing Agent of the Syndicate, amounting to $5.9m (2021: $8.2m). The outstanding net balance due to TUL at the year end was $1.0m (2021: $6.2m).

16 Capital

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

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, license and ratings objectives. Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements applies at an overall member level. Accordingly the capital requirement in respect of Syndicate 2019 is not disclosed in these financial statements.

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement 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 SCR of the Syndicate is subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Uplift (ECU). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2022 was 35.0% (2021: 35.0%) of the members' SCR to ultimate. The members' SCR to ultimate plus the uplift is known as Economic Capital Assessment (ECA).

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), assets held and managed within a Syndicate (Funds in Syndicate, not applicable for Syndicate 2019) and/or as the members' share of the Solvency II members' balances on each Syndicate on which it participates.

An additional level of security is the Central Fund to which all Syndicates contribute, based on their premium income, for every year of account. Claims may be paid out of the Central Fund once approved by the Council of Lloyd's if a Syndicate's members' capital resources cannot cover all claims.

Talbot Underwriting Ltd Syndicate 2019

Underwriting Year Accounts for the 2020 Year of Account

31 December 2022

Underwriting Year - Report of the directors of the managing agent

The Directors of the Managing Agent present their report at 31 December 2022.

The report comprises the cumulative result to 31 December 2022 for the closed 2020 underwriting year of account (year of account).

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by the Insurance Accounts Directives (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The reinsurance to close for the 2020 underwriting year was approved by the Board of Directors on 8 February 2023.

Refer to the Report of the Directors of the Managing Agent within the Annual Report and Accounts for the year ended 31 December 2022 for a review of the business and future developments.

Principal activity

The Syndicate underwrote a single 49.1% proportional quota share reinsurance contract covering high net worth (HNW) personal lines insurance business underwritten by American International Group Inc (AIG) companies, as part of its Private Clients Group (PCG): the PCG HNW portfolio. The quota share contract provides coverage for PCG HNW policies incepting from 1 January each year.

2020 Closed year of account

The 2020 year of account has closed with a loss of $126.6m which is to be settled by the respective participating members in June 2023. As the first year of operation of the Syndicate, the 2020 year of account does not include any surplus or deficiency in relation to reinsurance to close of an earlier year of account.

The 2020 year of account loss includes an underwriting loss of $120.2m, which has been heavily impacted by the frequency and severity of US catastrophes during 2020 and 2021, the largest being US Winter Storm Uri ($52.9m). The result includes a $4.9m investment loss due to unrealised losses on the fixed income portfolio.

Gross premiums written for the 2020 year of account were $697.9m and capacity utilisation was 81.1% when measured using the Lloyd's planning rate of £1 = $1.27. The portfolio was protected by a reinsurance programme comprising excess of loss, quota share and facultative covers, which is applied before premium is ceded to the Syndicate. The Syndicate did not purchase any reinsurance for the 2020 year of account.

Directors

The Directors of the Managing Agent are disclosed in the Syndicate 2019 annuals accounts.

Disclosure of information to auditors

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

The current Syndicate auditors, PricewaterhouseCoopers LLP, will be reappointed.

Annual General Meeting

Subject to the consent of Lloyd's, it is not intended to hold a Syndicate Annual General Meeting in 2023.

Underwriting Year – Statement of managing Agent's responsibilities

The directors of the Managing Agent are responsible for preparing the Managing Agent's report and the Syndicate underwriting year accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure.

In preparing the Syndicate underwriting year accounts, the Managing Agent is required to:

* Select suitable accounting policies and then apply them consistently; and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the Syndicate affected. In particular the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members' and reinsured members' are members of the same Syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
* Take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
* Make judgements and estimates that are reasonable and prudent; and
* State whether applicable accounting standards, have been followed, subject to any material departures disclosed and explained in underwriting years accounts.

The Managing Agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate underwriting year accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed on behalf of the Board

RD Cowling, Chief Financial Officer
27 February 2023

Independent auditors' report to the members of Syndicate 2019 – 2020 closed year of account

Report on the audit of the syndicate underwriting year financial statements

Opinion

In our opinion, Syndicate 2019's syndicate underwriting year financial statements for the 2020 year of account for the 36 months ended 31 December 2022 (the "underwriting year financial statements"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 and of its loss for the 2020 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the underwriting year financial statements included within the Underwriting Year Accounts for the 2020 year of account (the "Underwriting Year Accounts"), which comprise: the balance sheet as at 31 December 2022; the profit and loss account: technical account - general business and the profit and loss account: non-technical account for the 36 months then ended; and the notes to the underwriting year financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)"), including ISA (UK) 800, and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and other applicable law. Our responsibilities under ISAs (UK) are further described in the *Auditors' responsibilities for the audit of the underwriting year financial statements* section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the underwriting year financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Emphasis of matter – Basis of preparation

Without modifying our opinion, we draw attention to note 1 of the underwriting year financial statements, which describes the basis of preparation. In particular, as these underwriting year financial statements relate to a closed underwriting year of account, matters relating to going concern are not relevant to these underwriting year financial statements. The underwriting year financial statements are prepared in accordance with a special purpose framework for the specific purpose as described in the *Use of this report* paragraph below. As a result, the underwriting year financial statements may not be suitable for another purpose.

Reporting on other information

The other information comprises all of the information in the Underwriting Year Accounts other than the underwriting year financial statements and our auditors' report thereon. The Managing Agent is responsible for the other information. Our opinion on the underwriting year financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

Independent auditors' report to the members of Syndicate 2019 – 2020 closed year of account (continued)

Responsibilities for the underwriting year financial statements and the audit

Responsibilities of the Managing Agent for the underwriting year financial statements

As explained more fully in the Underwriting Year - Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the underwriting year financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2020 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of underwriting year financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities for the audit of the underwriting year financial statements

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the underwriting year financial statements. We also considered those laws and regulations that have a direct impact on the underwriting year financial statements such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the underwriting year financial statements (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussion with the Board, management, the compliance function and the Internal Audit Group of the Managing Agent, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud;
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of investigations of such matters;
- Reviewing relevant meeting minutes, including those of the Board, Risk and Compliance Committee and Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including the Council of Lloyd's, the Prudential Regulation Authority, and the Financial Conduct Authority;
- Testing and challenging where appropriate the assumptions and judgements made by management in their significant accounting estimates, particularly in relation to the valuation of the reinsurance to close premium payable;
- Identification and testing of journal entries identified as potential indicators of fraud, particularly backdated journal entries, those with unusual words, those with unusual account combinations, duplicate journals and reversals posted within the same period, or journals posted by employees who have left the entity; and
- Designing audit procedures to incorporate unpredictability around the nature, timing, and extent of testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the underwriting year financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Independent auditors' report to the members of Syndicate 2019 – 2020 closed year of account (continued)

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Managing Agent in respect of the syndicate; or
- the underwriting year financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Paul Pannell
(Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2023

Profit and loss account: technical account – general business

2020 year for the 36 months ended 31 December 2022

	Note	2020 year of account $m
Syndicate Allocated Capacity		571.5
Gross premiums written	3	697.9
Outwards reinsurance premiums		-
Net premiums written		697.9
Earned premiums, net of reinsurance		697.9
Allocated investment return, transferred from the non-technical account		(4.9)
Claims incurred, net of reinsurance		
Gross claims paid		(444.2)
Reinsurers' share of claims paid		-
Claims paid, net of reinsurance		(444.2)
Reinsurance to close premium payable, net of reinsurance	4	(125.4)
Claims incurred, net of reinsurance		(569.6)
Net operating expenses	6	(248.5)
Balance on the technical account for general business		(125.1)

Profit and loss account: non-technical account

2020 year for the 36 months ended 31 December 2022

	Note	2020 year of account $m
Balance on the technical account for general business		(125.1)
Investment income	5(a)	7.1
Unrealised gains on investments		1.2
Investment expenses and charges	5(b)	(1.9)
Unrealised losses on investments		(11.3)
		(4.9)
Allocated investment return transferred to/from the technical account		4.9
Loss on exchange		(1.5)
Loss for the 2020 closed year of account		(126.6)

There was no other comprehensive income or expense during the accounting period.

The notes on pages 45 to 48 form an integral part of these underwriting year accounts

Balance Sheet
2020 account at 31 December 2022

	Note	2020 year of account $m
Assets		
Investments	7	161.5
		161.5
Debtors		
Debtors arising out of reinsurance operations	8	(0.2)
Other debtors	9	0.1
		(0.1)
Other assets		
Cash at bank and in hand		-
Overseas deposits		-
Prepayments and accrued income		0.8
		0.8
Total assets		162.2
Liabilities		
Capital and reserves		
Members' balance		(126.6)
Reinsurance to close premium payable	4	125.4
Creditors		
Other creditors including taxation and social security	10	163.3
		163.3
Other Liabilities		
Accrued expenses		0.1
		0.1
Total Liabilities		162.2

The notes on pages 45 to 48 form an integral part of these underwriting year accounts.

The financial statements on pages 42 to 48 were approved by the Board of Directors on 24 February 2023 and signed on its behalf by:

RD Cowling, Chief Financial Officer
27 February 2023

Notes to the underwriting year accounts

1 Basis of preparation

The accounts of Syndicate 2019 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Insurance Contracts standard ("FRS 103"), Regulation 6 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture.

These accounts relate to the 2020 year of account which has been closed by reinsurance to close as at 31 December 2022. Consequently, the balance sheet represents the assets and liabilities of the 2020 year of account at the date of closure. These accounts cover the three years from the date of inception of the 2020 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

Effective at each year-end 31 December, the reinsurance to close process means that all assets and liabilities have been transferred to a reinsuring year of account. To this extent, the risks that the syndicate is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account, full disclosures relating to these risks are provided in the Syndicate 2019 annual accounts.

2 Accounting policies

The accounting policies adopted are the same as those disclosed in the Syndicate 2019 annual accounts with the exception of the below.

(a) Insurance

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

i. Premiums written

The Syndicate underwrites a single annual quota share contract covering the PCG HNW portfolio which incepts 1 January. Both Syndicate gross premium and the underlying PCG HNW policies which are covered are allocated to year of account the basis of the inception date of the policies. Premiums are shown gross of acquisition costs and include estimated amounts of premium due but not yet received or notified.

ii. Claims paid

Gross claims paid are allocated to the same year of account as the original premium for the underlying policy.

iii. Reinsurance to close premium payable

The reinsurance to close premium is determined by reference to outstanding liabilities, including claims incurred but not reported (IBNR), relating to the closed year and to all previous closed years reinsured therein. Although the estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined.

(b) Foreign currency

The functional and presentational currency of the Syndicate is the US dollar. Transactions in other currencies are translated into US dollars at the average rates of exchange for the period or at the contracted forward rates of exchange. Assets and liabilities denominated in other currencies are translated into US dollars at the closing rates of exchange for the period.

Foreign exchange gains and losses resulting from the translation of transactions or the translation of assets and liabilities are recognised in the profit and loss account except when deferred in other comprehensive income as qualifying cashflow hedges.

(c) Investment return

Investment returns arising in a calendar year are apportioned to years of account in proportion to the average funds available on each year of account. Investment returns arising on overseas deposits are allocated to the year of account that funded the deposit.

(d) Operating expenses

Syndicate operating expenses are allocated to the year of account for which they are incurred. Where expenses incurred in a financial year do not relate to any specific year of account they are apportioned between years of account based the volume of business transacted. Ceding commission is charged to the year of account to which the relevant policy is allocated.

(e) Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate on behalf of members during the year are included in the balance sheet under the heading 'other debtors'.

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

3 Segmental information

All business written by the Syndicate is reinsurance. All premium written is for a single contract in the UK and the domicile of the insured is the US.

4 Reinsurance to close premium payable

	Reported $m	IBNR $m	Total $m
Reinsurance to close premium payable	(55.0)	(70.4)	(125.4)

The reinsurance to close has been assumed by the following year of account of the Syndicate.

5 Investment Income, expenses and Charges

(a) Investment income

	$m
Income from investments	6.8
Gains on the realisation of investments	0.3
	7.1

(b) Investment expenses and charges

	$m
Losses on the realisation of investments	(1.6)
Investment management expenses	(0.3)
	(1.9)

Notes to the underwriting year accounts (continued)

6 Net operating expenses

	$m
Brokerage and commission	234.5
Administrative expenses	14.0
Total	248.5

An analysis of the amounts paid to the Syndicate's auditors and associates is given below.

	$m
Fees payable to the Syndicate's auditors and their associates in respect of:	
Audit of the Syndicate underwriting year accounts	0.1
Total	0.1

7 Investments

	Cost $m	Market Value $m
Debt securities and other fixed income securities	150.1	144.9
Shares and other variable yield securities	15.2	14.5
Overseas deposits	2.1	2.1
Total	167.4	161.5

8 Debtors arising out of reinsurance operations

	$m
Premium due from intermediaries due within one year	(0.2)
Total	(0.2)

9 Other Debtors

	$m
Accrued interest	0.1
Total	0.1

Accrued interest and expense refunds are receivable within one year.

Notes to the underwriting year accounts (continued)

10 Other creditors including taxation and social security

	$m
Intra group loan	(127.7)
Inter-year loan	(35.5)
Amounts owed to credit institutions	(0.1)
Total	(163.3)

The intra group loan is an interest bearing loan facility in place with a group entity with a maturity date of 24 April 2025. Interest was payable based on a benchmark rate (Commercial Paper rate), which may be amended from time to time by the lender to ensure it represents an arm's length rate. There are no covenants or restrictions placed on the Syndicate in relation to this loan facility.

11 Financial assets and liabilities

The assets and liabilities of the closing year of the Syndicate are financial assets and liabilities. The Directors consider the carrying value of the financial assets and liabilities to be equal to their fair value.

12 Related parties

Parent companies

The immediate parent Company of Talbot Underwriting Ltd (TUL) is Talbot Underwriting Holdings Ltd, a Company registered in England and Wales.

The ultimate parent and controlling party of Talbot is American International Group, Inc (AIG). The registered office of which is 175 Water Street, New York, NY 10038, United States of America. AIG is listed on the New York Stock Exchange.

PCG proportional quota share reinsurance contract

The Syndicate reinsured a single quota share contract for the 2020 year of account. This quota share contract is with AIG group entities and was brokered and priced on an arm's length basis.

Corporate member

PCG 2019 Corporate Member Ltd (PCGCM), an AIG company, has a 97.2% participation on the 2020 underwriting year.

Managing agent

During the period, the Syndicate has been charged an annual fee by TUL, the Managing Agent of the Syndicate, amounting to $3.5m

Intra group loan

The Syndicate has a loan facility with an AIG Group entity, AIG Transaction Execution Limited. The total loan facility is for $300m at the balance sheet date, of which $199.2m was drawn down. The draw down on the facility in respect of the 2020 underwriting year of account was $127.7m.

One-year summary of closed year results (unaudited)

At 31 December 2022

Year of account	2020 $m
Syndicate allocated capacity - £m	450.0
Syndicate allocated capacity - $m	571.5
Capacity utilised	81.1%
Number of underwriting members	2
Net premiums net of brokerage	463.4
Return on stamp	(22.2%)

Results for an illustrative share of £10,000 ($12,700)	2020 $
Gross premiums	10,297
Net premiums	10,297
Net claims paid	(9,871)
Reinsurance to close	(2,787)
Syndicate operating expenses	(122)
Personal expenses	(188)
Balance on technical account before investment return	(2,671)
Loss on exchange	(32)
Investment return	(110)
Loss	(2,813)

Notes:

1. The one year summary has been prepared from the audited accounts of the Syndicate
2. Personal expenses have been stated at the amount which would be incurred pro-rata by members writing the illustrative premium income in the Syndicate, irrespective of any minimum charge applicable. Personal expenses include managing agent fees, central fund contributions and Lloyd's subscriptions.
3. Capacity utilised represents gross premiums as a percentage of allocated capacity. For this calculation, gross premiums are net of brokerage.
4. Gross and net premium amounts shown above are net of brokerage.