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CFC Syndicate 1988

Syndicate Annual Report and Accounts

31 December 2022

Contents

Directors and administration

Managing Agent

Asta Managing Agency Ltd

Directors

P A Jardine (Chairman)*
R P Barke
C V Barley
E M Catchpole*
K A Green*
L Harfitt
A J Hubbard*
D B Jones
L J M McMaster
S D Redmond*
K Shah*

*Non-Executive Directors

Managing Agent's Registered Office

5th Floor
20 Gracechurch Street
London
EC3V 0BG

Managing Agent's Registered Number

1918744

Active Underwriter

M Taylor

Bankers

Barclays Bank
Citibank NA
RBC Dexia

Registered Auditor

Deloitte LLP

Signing Actuary

Philip Dixon, Deloitte MCS Ltd

Active Underwriter’s report

Syndicate overview

CFC Syndicate 1988 (“the Syndicate”) was established in July 2021 to participate on specialty insurance business with a focus on micro and SME business under the oversight of Asta Managing Agency Limited.

The Syndicate only participates on business underwritten via delegated facilities with entities that are part of CFC Group Limited.

The Syndicate’s portfolio is centred on emerging risk and specialty lines with its core products addressing the intersection of technology and business, such as cyber, intellectual property, digital media, FinTech, eHealth and software companies.

This mix creates a diversified portfolio by class, industry, and geography, with no critical natural catastrophe exposure which is planned to deliver stable and profitable underwriting results.

2022 Syndicate results

The result for the Syndicate in calendar year 2022 is a profit of $22.3 million (2021: loss of $0.8 million). The Syndicate’s net combined ratio for the year is 83.5% (2021: 103.4%). The 2022 results were significantly improved from 2021 driven by strong underwriting performance in the period. Additionally, as the Syndicate continues to build scale its results are less impacted by the upfront recognition of expenses.

Premium growth has been driven by significant rating level increases across the portfolio and the decision by the Syndicate to increase its share of CFC Group’s facilities compared to 2021.

Given this strong performance we are very positive regarding the 2021 and 2022 underwriting year ultimate forecast results to our capacity providers, which are comprised of the performance of the Syndicate plus an additional participation fee. This continued good performance ensures the Syndicate remains competitive in attracting and retaining capacity for the foreseeable future.

The forecast underwriting year results, acknowledging the very early stage in the development of the 2022 underwriting year, for the Syndicate on an ultimate basis as at the end of the fourth quarter of 2022 are outlined below:

	2022 $’000	**2021 $’000**
Gross written premium	293,222	153,209
Syndicate NCOR*	83.8%	81.6%

**The net combined ratio (“NCOR”) is the ratio of net claims and net operating expenses to net premiums on an ultimate basis as per the above, this excludes the additional participation fee paid by members.*

Looking forward to 2023 the Syndicate will seek to continue to support CFC Group’s facilities.

M Taylor
March 2023

Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2022.

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

Results

The total recognised result for calendar year 2022 is a profit of $22,347,698 (2021: Loss of $773,448).

The Syndicate presents its results under FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. In accordance with FRS102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS103.

Principal activity and review of the business

The Syndicate was established in July 2021 to underwrite CFC Underwriting Ltd's facilities in the Lloyd's market. The Syndicate predominantly underwrites cyber focussed business, consisting of specialist, emerging and digital economy risks.

A further review is included in the Active Underwriter's Report on page 2.

Gross written premium income by class of business for the calendar year was as follows:

	2022 $'000	2021 $'000
Cyber and Technology	139,748	46,189
Professional Lines	41,220	14,562
Specialty Liability	23,720	9,534
Transaction Liability	14,064	5,852
	218,752	76,137

The Syndicate's key financial performance indicators for the calendar year were as follows:

	2022 $'000	2021 $'000	Change %
Gross written premiums	218,752	76,137	187.3%
Profit/(Loss) for the financial year	22,348	(773)	-2,991.1%
Combined ratio*	83.5%	103.4%	(19.9%)

**The combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned on a calendar year basis. Lower ratios represent better performance.*

Principal risks and uncertainties

The Syndicate sets risk appetite annually, which is approved by the Agency as part of the Syndicate's business planning and Solvency Capital Requirement ('SCR') process. The Agency Risk Committee meets at least quarterly to oversee the risk management framework. The Syndicate Board, an executive committee of the Agency Board, reviews the risk profile as reflected in the risk register, and monitors performance against risk appetite using a series of key risk indicators. The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the Asta Actuarial team and the Reserving Committee.

Credit risk

The key aspect of credit risk is reinsurance counterparty risk which is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Syndicate Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation where required. The Agency Reinsurance Security Committee sets approval and usage criteria, monitors reinsurer ratings and is required to approve and oversee the application of the reinsurer approval policy.

Market risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates and inflation. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board. Through the course of 2022 we have seen large foreign currency fluctuations and the value of the Great British pound (GBP) fall to record lows (with a late resurgence) against the United States Dollar (USD). Other major currencies such as CAD and AUD have also materially strengthened against the pound.

A multitude of factors including Brexit, the Covid 19 pandemic and the Russian invasion of Ukraine has seen inflation increase to its highest level since 1982. Inflation is now expected to remain elevated for longer than previously forecast on higher commodity costs and broader price pressures and these expectations can pose difficulties in the insurance market. Uncertainty surrounding how long existing inflation issues will last could threaten the long-term stability of the insurance industry's reserve levels and underwriting profitability. Inflation has been at the forefront of Lloyd's additional reporting from Q2 2022 onwards and reserves have been analysed and uplifted where appropriate. Expense budgets for both 2022 and 2023 have been adjusted to reflect the current and forecast inflationary environment.

Managing Agent's report continued

Exposure to changes in interest rates comes from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high-quality floating rate notes.

In addition, an Investment Committee which reports to the Syndicate Board ensures that the Syndicate's investment portfolio is managed by the external investment manager in accordance with the Syndicate's risk appetite and to guidelines as approved by the Syndicate Board.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash or can only meet obligations at excessive cost. To mitigate this risk the Syndicate Board and Investment Committee reviews cash flow projections regularly and ensures that, where needed, the Syndicate has liquidity facilities in place or has utilised the option of a cash call from Capital providers.

The Syndicate has in place an overdraft facility with Barclays. None of this was utilised at 31 December 2022 (2021; nil).

Operational risk

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

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a Compliance Officer who manages a function that monitor business activity and regulatory developments to assess any effects on the Agency.

The Syndicate has no appetite for failing to treat customers fairly. The Syndicate manages and monitors its customer risk through a suite of risk indicators and reporting metrics as part of its documented customer risk framework. The customer risk framework is consistently applied across all Asta syndicates and is overseen by the Conduct Oversight Group (COG), which is an Asta Managing Agency (AMA) Board Committee that includes a non-executive director as a member who fulfils the role of Customer Champion.

Managing Agent’s report continued

Group / strategic risk

This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business. The “Group” in the context of this syndicate encompasses all connected parties that can have a significant influence on the activities and reputation of the syndicate. This includes:

- Significant capital providers;
- CFC Group;
- Asta Managing Agency;
- Lloyd’s of London

The impacts from Group risk could include, but are not limited to, operational disruption, reputational damage, reductions in the business plan or increased costs

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest). The impacts of strategic risk could include, but are not limited to, selection of a strategic priorities that do not generate expected returns, reductions in capital support or reductions in the business plan.

Future developments

The Syndicate will continue to transact the current classes of general direct insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The capacity for the 2023 year of account is £275m (2022: £200m).

Environmental, Social and Governance (ESG)

During 2022, Asta has agreed its ESG policy, which defines the principles of ESG, the managing agency’s approach and key initiatives to implement the policy. Asta has also further supported syndicates in the definition of their own ESG strategies, in line with Lloyd’s requirements. The Asta syndicate ESG framework is aligned to Lloyd’s ESG guidance from October 2021, and to Asta’s climate change work detailed below.

Syndicate 1988 has also defined an ESG strategy which defines its overall strategy statement, principles and specific approach to Underwriting and Investments.

Climate change

Following the Prudential Regulation Authority's (PRA) Supervisory Statement in 2019 and subsequent Dear CEO letter in 2020, Asta have built a climate change framework, applicable to all syndicates, covering physical, transition and liability climate change risks, based on the underlying business written by each syndicate. Asta's managed syndicates accept climate change risk where it is an inherent part of an insurance business model, providing it is understood, managed and controlled and/or compensated. There is no appetite for uncontrolled, unmanaged exposure to the financial risks of climate change.

A measure for climate change exposure within insurance risk appetites has been implemented to highlight where time and resource is most required in order to manage the potential exposure and successfully steer portfolios through global changes. The Syndicate has identified the level of climate change exposure in its business plans and will manage this accordingly, with the ability to change the level of risk being taken in future and thereby amend the oversight and monitoring framework.

The framework ensures Board-level engagement and accountability with the PRA's requirements, assigning clear responsibilities for managing the financial risks associated with climate change. The AMA Chief Financial Officer, who is a Board member, is responsible for the climate change framework, including identifying and managing financial climate related risks.

Asta continue to monitor and consider regulatory guidance as it is released on managing the financial risks of climate change (e.g., the PRA's Dear CEO letter in October 2022 giving feedback on their thematic review of the market's response to the 2019 Supervisory Statement).

Coronavirus

The company has now fully transitioned to a hybrid working practice that allows staff to work both at home and within the office environment. The Agency has been able to deliver from both a regulatory and client standpoint with no adverse outcomes through remote working. Through 2022 covid has become very much business as usual and exceptional measures have been phased out.

The Syndicate has assessed its exposure to potential covid losses, and determined this to be nil.

Russian Invasion of Ukraine

During February 2022, Russia instigated military action in Ukraine. This event was assessed by the Directors as an event that will increase risk and uncertainty globally in the foreseeable future and that view is unaltered.

The Syndicate has reviewed its portfolio and has little to no direct exposure in the region and no specific claim reserve have been made. The Syndicate has been impacted by secondary factors of the conflict namely the rise in social and economic inflation which impacts operational cost on a day-to-day basis and the increased cost of future claims.

Managing Agent's report continued

Directors and Officers

Details of the Directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 1. Changes to Directors and Officers from the last report were as follows:

N J Burdett**	Resigned 13 July 2022
M D Mohn	Resigned 13 July 2022
L J M McMaster	Appointed 12 September 2022
J M Tighe	Resigned 23 November 2022
D J G Hunt	Resigned 1 December 2022
E M Catchpole	Appointed 1 January 2023
S P A Norton	Resigned 23 February 2023
D B Jones	Appointed 23 February 2023
C N Griffiths	Resigned 28 February 2023

Company Secretary**

Disclosure of information to the auditor

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's Auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

The Managing Agent intends to reappoint Deloitte LLP as the Syndicate's auditor.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 28 April 2023.

On behalf of the Board

C V Barley
Director
1 March 2023

Statement of Managing Agent's responsibilities

The Managing Agent is responsible for preparing the financial statements 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 financial statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial statements are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the financial statements, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and
- prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor’s report to the members of Syndicate 1988

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of Syndicate 1988 (the ‘syndicate’):

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”; 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 financial statements which comprise:

- the statement of profit or loss;
- the statement of changes in members’ balances;
- the statement of financial position;
- the statement of cash flows; and
- the related notes 1 to 20.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the managing agent’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Other information

The other information comprises the information included in the syndicate report and accounts, other than the syndicate annual financial statements and our auditor’s report thereon. The managing agent is responsible for the other information contained within the syndicate report and accounts. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of managing agent

As explained more fully in the managing agent’s responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual financial statements, the managing agent is responsible for assessing the syndicate’s ability to continue in operation, disclosing, as applicable, matters related to the syndicate’s ability to continue in operation and to use the going concern basis of accounting unless the managing agent intends to cease the syndicate’s operations, or has no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the syndicate annual financial statements

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (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 financial statements.

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

Independent auditor's report continued

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the syndicate and its control environment, and reviewed the syndicate's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework that the syndicate operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005); and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the syndicate's ability to operate or to avoid a material penalty. These included the requirements of Solvency II.

We discussed among the audit engagement team including relevant internal specialists such as actuarial and IT regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

- Technical provisions, and in particular IBNR, are a key area of management judgement, contain inherent uncertainty and are material to Syndicate 1988. We have focused our work on those specific lines of business which we have identified as presenting significant or higher levels of risk to our audit, by virtue of size or complexity. We have understood the key controls over the reserving, including over the data used within the reserving, and have tested the design and implementation of those controls. We have engaged our actuarial specialist team to support us to test and challenge the key assumptions and methodology used by management in setting the IBNR; and

- There is a high proportion of premium that has been written but has not been signed through to the syndicate or collected by the Managing General Agent and transferred to the Market Broker for signing through to the syndicate (the "unsigned premium"). This creates a higher than normal risk that the written premium will not turn into signed premium and presents a risk of fraud in revenue recognition. In response to this risk, we have performed detailed testing over the unsigned portion of premium revenue at a significant level of sample assurance and have combined this with substantive testing of the signings through Lloyd's.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing correspondence with Lloyd’s.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the managing agent’s report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the managing agent’s report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified any material misstatements in the managing agent’s report.

Matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 we are required to report in respect of the following matters if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate’s members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate’s members as a body, for our audit work, for this report, or for the opinions we have formed.

Kirstie Hanley
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
1 March 2023

Statement of profit or loss

Technical account - General business

For the period ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Gross premiums written	3	218,752	76,137
Outward reinsurance premiums		(7,507)	(7,183)
Net written premiums		211,245	68,954
Change in the provision for unearned premiums			
• Gross amount		(66,710)	(57,181)
• Reinsurers' share		9	6,282
Change in the net provision for unearned premiums	4	(66,701)	(50,899)
Earned premiums, net of reinsurance		144,544	18,055
Allocated investment return transferred from the non-technical account		340	-
Claims paid			
• Gross amount		(12,163)	(215)
• Reinsurers' share		-	-
		(12,163)	(215)
Changes in claims outstanding			
• Gross amount		(45,668)	(8,520)
• Reinsurers' share		-	-
Change in the net provision for claims	4	(45,668)	(8,520)
Claims incurred, net of reinsurance		(57,831)	(8,735)
Net operating expenses	5	(62,848)	(9,937)
Balance on technical account – general business		24,205	(617)

All the amounts above are in respect of continuing operations.

The notes on pages 21 to 45 form part of these financial statements.

Statement of profit of loss continued

Non-technical account

For the period ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Balance on technical account – general business		24,205	(617)
Investment income	9	287	-
Unrealised gains on investments		52	-
Unrealised losses on investments		-	-
Gains on realisation of investments		1	-
Investment expenses and charges		-	-
		340	(617)
Allocated investment return transferred to the general business technical account		(340)	-
Other income – (loss) on exchange		(1,857)	(156)
Profit/(Loss) for the financial year		22,348	(773)

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

All the amounts above are in respect of continuing operations. The notes on pages 21 to 45 form part of these financial statements.

Statement of changes in members' balances

For the period to 31 December 2022

	2022 $'000	2021 $'000
Members' balances brought forward	(773)	-
Total comprehensive profit/(loss) for the year	22,348	(773)
Distribution to members	-	-
Cash call	-	-
Amount due from members	(65)	-
Members' balances carried forward at 31 December	21,510	(773)

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

The notes on pages 21 to 45 form part of these financial statements.

Statement of financial position

As at 31 December 2022

	Notes	2022 $'000	2021 $'000
Assets			
Investments			
Financial investments	10	29,309	559
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	6,291	6,282
Claims outstanding	4	-	-
		6,291	6,282
Debtors			
Debtors arising out of direct insurance operations	11	84,103	49,818
Debtors arising out of reinsurance operations	12	34	-
Other debtors		17	-
		84,154	49,818
Cash and other assets			
Cash at bank and in hand		42,341	303
Other assets		3,855	3
		46,196	306
Prepayments and accrued income			
Deferred acquisition costs		41,187	18,591
Other prepayments and accrued income		2,107	1,968
		43,294	20,559
Total assets		209,244	77,524

The notes on pages 21 to 45 form part of these financial statements.

Statement of financial position continued

As at 31 December 2022

	Notes	2022 $'000	2021 $'000
Members' balance and liabilities			
Capital and reserves			
Members' balances		21,510	(773)
Liabilities			
Technical provisions			
Provision for unearned premiums	4	122,911	56,484
Claims outstanding	4	53,078	8,513
		175,989	64,997
Creditors			
Creditors arising out of direct insurance operations	13	354	2
Creditors arising out of reinsurance operations	14	9,587	7,183
Amounts owed to credit institutions		-	5,171
Other creditors		-	-
		9,941	12,356
Accruals and deferred income		1,804	944
Total liabilities		187,734	78,297
Total members' balances and liabilities		209,244	77,524

The notes on pages 21 to 45 form part of these annual accounts.

The financial statements on pages 15 to 45 were approved by board of directors on 21 February 2023 and were signed on its behalf by:

R P Barke
Director
1 March 2023

Statement of cash flows

For the year ended 31 December 2022

	Notes	2022 $'000	2021 $'000
Cash flows from Operating activities			
Profit/(Loss) for the financial year		22,348	(773)
Increase in gross technical provisions		110,992	64,997
(Increase) in reinsurers' share of gross technical provisions		(9)	(6,282)
(Increase) in debtors		(34,336)	(49,818)
Increase in creditors		2,756	7,185
Movement in other assets/liabilities		(30,898)	(14,447)
Investment Return		(340)	-
Net cash inflows from operating activities		70,513	862
Cash from Investing activities			
Purchases of other financial investments		(28,750)	(559)
Sale of other financial investments		-	-
Movement in other assets/liabilities/foreign exchange		340	-
Net cash (outflows) from investing activities		(28,410)	(559)
Cash from Financing activities			
Payments of loss from members' personal reserve fund		-	-
Cash calls in period		-	-
Members' agent fees in period		(65)	-
Net cash (outflows) from financing activities		(65)	-
Net increase in cash and cash equivalents		42,038	303
Cash and cash equivalents at beginning of year		303	-
Changes to market value and currency		-	-
Cash and cash equivalents at end of year		42,341	303

Notes to the financial statements

For the period ended 31 December 2022.

1. Basis of preparation

Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared on a going concern basis, under the historical cost convention except for certain financial instruments which are measured at fair value. The financial statements are prepared in USD which is the functional and presentational currency of the Syndicate and rounded to the nearest $'000.

The Directors of the Managing Agent have assessed the Syndicate’s ability to continue as a going concern by considering cash flows, consistency of loss ratios and continued capital support. Based on the assessment, they continue to adopt the going concern basis in preparing the financial statements.

2. Accounting Policies

Use of estimates and judgements

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate’s accounting policies and the reported amounts of assets, liabilities, income and expenses.

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

There are no critical judgements, apart from those involving estimations (which are dealt with separately below), in the process of applying the syndicate’s accounting policies.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. This is a source of significant estimation uncertainty.

Critical judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate. The ultimate cost of outstanding claims is estimated using a range of techniques including actuarial and statistical projections, benchmarking, case by case review and judgement. Statistical techniques assume that past claims development experience can be used as a basis to project ultimate claims costs. Judgement is used to assess the extent to which past trends may not apply in the future. Case estimates are generally set by skilled

Accounting policies continued

claims technicians applying their experience and knowledge to the circumstances of individual claims.

Although the Syndicate is a new undertaking, it participates on binders placed by CFC Underwriting Limited which have an established historical track record. It draws on claims development data from the historical portfolio of CFC Underwriting Limited as a key item of data in the estimation of the provision for claims outstanding.

Areas where there is a relatively higher level of uncertainty at Q4 2022:

Cyber

The rapidly changing environment in the cyber class of business has a higher degree of uncertainty due to the propensity for changes to the cyber risk landscape and perils, such as ransomware emerging in the past couple of years.

Rate change

Loss estimates are heavily influenced by expected loss ratios on which there is a high level of uncertainty. There has been a degree of market hardening relevant to the Syndicate's lines of business particularly since 2019, although on a number of classes there has been a high proportion of new business so there is uncertainty as to the appropriate allowance for risk adjusted rate change.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events.

Inflation

There have been significant changes to price inflation in 2022 due to the war in Ukraine as well as supply side issues caused by covid (amongst other factors). Inflation has increased sharply for all economies, and most forward-looking inflation forecasts suggest high levels of inflation in the short term before reverting to previously observed averages over the longer term.

There are a number of factors which impact the inflationary environment; such as government or central bank actions, movements in exchange rates impacting the cost of imports, and geopolitical factors such as those already noted above. As such there is a high level of uncertainty around forward-looking inflation assumptions in both the short and long term.

Significant accounting policies

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

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period. They are recognised on the date on which the policy incepts. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Accounting policies continued

The main assumption underlying future premium, is that past premium development can be used to project future premium development.

Reinsurance premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the policyholder.

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

Claims incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

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

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business and the claims experience for the year. The Syndicate uses a number of statistical techniques to assist in making these estimates.

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Accounting policies continued

Adjustments to the amounts of claims provisions are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired risks

A provision for unexpired risks is made where claims and related expenses are 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 and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business, after taking into account relevant investment return.

At the 31 December 2022 the Syndicate had no unexpired risk provision (2021: nil).

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

Reinsurance assets

The Syndicate cedes insurance risk on its Cyber and Technology line of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2022.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are not recognised when the de-recognition criteria for financial assets have been met.

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicate, despite having retained some, but not all, significant risks and rewards of ownership, has transferred control of the asset to another party

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Where permitted under UK GAAP accounting standards, insurance payables are netted off against insurance receivables where the legally enforceable right to offset exists.

Foreign currencies

The Syndicate’s functional currency and presentational currency is USD.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Exchange differences are recorded in the non-technical account.

Accounting policies continued

The following balance sheet rates of exchange have been used in the preparation of these accounts:

	2022 Year End	2021 Year End
GBP	0.833	0.741
EUR	0.942	0.881
CAD	1.358	1.267
AUD	1.475	1.378

Financial assets and liabilities

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

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate’s investment strategy.

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

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

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

Financial assets at fair value through the profit and loss are measured at fair value with fair value changes recognised immediately in the profit and loss.

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

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or

Accounting policies continued

significant changes in the technological, market, economic or legal environment in which the issuer operates.

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments. Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

Fair value measurement of investments

Financial instruments that are classified as fair value through the profit or loss account are assigned a level using a fair value hierarchy that reflects the significance of the inputs used in these measurements.

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1 financial instruments comprise government bonds that are regularly traded, deposits with credit institutions and collective investment schemes which comprise Money Market Funds.

- Deposits with credit institutions are included at cost plus accrued income.
- Money Market Funds are valued on a stable net asset value (NAV) basis. Money Market Funds are readily convertible into cash, are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Level 2 financial instruments are less regularly traded government and agency bonds, supranational bonds, corporate bonds, currency derivatives, bond futures, and fund investments.

- Investments in regulated collective investment schemes are valued based on the valuations of each of the individual funds as published publicly by the managers.
- Investments in investment pools are valued based on the valuations supplied by the investment manager (Lloyd's).

Accounting policies continued

Level 3 financial instruments have a fair value derived from inputs that are not based on observable market data. The Syndicate does not currently hold any level 3 financial instruments.

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 (currently at 20%) deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

Pension costs

The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Syndicate operating expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed syndicates are apportioned between the Managing Agent and the syndicates depending on the amount of work performed, resources used and volume of business transacted.

3. Segmental analysis

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

2022	Gross written premiums	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Marine	624	778	(212)	(399)	-	167
Fire and other damage to property	2,379	1,945	(965)	(735)	-	245
Third-party liability	204,195	138,996	(53,703)	(57,224)	(7,106)	20,963
Pecuniary loss	2,746	2,344	(1,008)	(876)	-	460
Reinsurance Acceptances	8,808	7,979	(1,943)	(3,614)	(392)	2,030
	218,752	152,042	(57,831)	(62,848)	(7,498)	23,865

2021	Gross written premiums	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Marine	242	61	(27)	(38)	-	(4)
Fire and other damage to property	1,092	275	(112)	(122)	-	41
Third-party liability	70,319	17,558	(8,155)	(9,210)	(868)	(675)
Pecuniary loss	1,372	346	(137)	(170)	-	39
Reinsurance Acceptances	3,112	716	(304)	(397)	(33)	(18)
	76,137	18,956	(8,735)	(9,937)	(901)	(617)

All premiums were concluded in the UK.

The segmental analysis is based on Lloyd's of London classes of business, as reported at market level.

4. Technical provisions

	2022 Gross provisions $'000	2022 Reinsurance assets $'000	2022 Net $'000	2021 Gross provisions $'000	2021 Reinsurance assets $'000	2021 Net $'000
Claims outstanding						
Balance at 1 January	8,513	-	8,513	-	-	-
Change in claims outstanding	45,668	-	45,668	8,520	-	8,520
Effect of movements in exchange rates	(1,103)	-	(1,103)	(7)	-	(7)
Balance at 31 December	**53,078**	**-**	**53,078**	**8,513**	**-**	**8,513**
Claims notified	5,796	-	5,796	723	-	723
Claims incurred but not reported	47,282	-	47,282	7,790	-	7,790
Balance at 31 December	**53,078**	**-**	**53,078**	**8,513**	**-**	**8,513**
Unearned premiums						
Balance at 1 January	56,484	(6,282)	50,202	-	-	-
Change in unearned premiums	66,710	(9)	66,701	57,181	(6,282)	50,899
Effect of movements in exchange rates	(283)	-	(283)	(697)	-	(697)
Balance at 31 December	**122,911**	**(6,291)**	**116,620**	**56,484**	**(6,282)**	**50,202**
Deferred acquisition costs						
Balance at 1 January	18,591	-	18,591	-	-	-
Change in deferred acquisition costs	22,700	-	22,700	18,807	-	18,807
Effect of movements in exchange rates	(104)	-	(104)	(216)	-	(216)
Balance at 31 December	**41,187**	**-**	**41,187**	**18,591**	**-**	**18,591**

5. Net Operating Expenses

	2022 $'000	2021 $'000
Acquisition costs	(76,115)	(25,045)
Change in deferred acquisition costs	22,700	18,807
Administration expenses	(9,433)	(3,699)
Net operating expenses	(62,848)	(9,937)

6. Staff Costs

No salary costs were recharged to the Syndicate during 2022 (2021: nil). All services are provided by CFC Underwriting Ltd and the Managing Agent (which invoices the Syndicate for the services provided). The salary costs forming part of the overall service invoices are not separately identifiable.

7. Auditor's remuneration

	2022 $'000	2021 $'000
Fees payable to the Syndicate's auditor of these financial statements	(161)	(128)
Other audit services pursuant to Regulations and Lloyd's Byelaw	(118)	(84)
Other non-audit services relating to actuarial review	(60)	(57)
	(339)	(269)

Auditor's remuneration is included as part of the administrative expenses in note 5 to the financial statements.

8. Emoluments of the Directors of Asta Managing Agency Ltd

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of J M Tighe, S P A Norton, D J G Hunt and L Harfitt. J M Tighe and S P A Norton's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of D J G Hunt and L Harfitt is disclosed in the financial statements of Asta Insurance Markets Ltd, and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. (2021: nil)

No other compensation was payable to key management personnel.

The Active Underwriter's salary was not recharged to the Syndicate during 2022. The cost is borne by CFC Management Ltd.

9. Investment return

	2022	2021
	$'000	**$'000**
Income from other financial investments	287	-
Gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	1	-
Total investment income	288	-
Losses on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	-	-
Investment expenses and charges	-	-
	-	-
Unrealised gains and losses on investments		
- Financial instruments at fair value through profit and loss	52	-
Total investment return	340	-

10. Financial investments

	2022	
	Carrying value	Purchase price
	$'000	$'000
Shares and other variable yield securities and units in unit trusts	18,610	18,610
Debt securities and other fixed income securities	10,699	10,648
	29,309	29,258

	2021	
	Carrying value	Purchase price
	$'000	$'000
Shares and other variable yield securities and units in unit trusts	559	559
Debt securities and other fixed income securities	-	-
	559	559

Amounts included within shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These are treated as cash and cash equivalents with the carrying value and purchase price being the same.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the period.

Financial investments continued

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2022				
Shares and other variable yield securities and units in unit trusts	-	18,610	-	18,610
Debt securities and other fixed income securities	-	10,699	-	10,699
Deposits with credit institutions (overseas deposits)	166	3,689	-	3,855
Total	166	32,998	-	33,164

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2021				
Shares and other variable yield securities and units in unit trusts	-	559	-	559
Debt securities and other fixed income securities	-	-	-	-
Deposits with credit institutions (overseas deposits)	-	3	-	3
Total	-	562	-	562

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

Financial investments continued

Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data.

11. Debtors arising out of direct insurance operations

	2022	2021
	$'000	$'000
Debtors arising out of direct insurers (within one year)	84,103	49,818
Debtors arising out of direct insurers (after one year)	-	-
Total	84,103	49,818

12. Debtors arising out of reinsurance operations

	2022	2021
	$'000	$'000
Due from ceding reinsurers (within one year)	34	-
Due from ceding reinsurers (after one year)	-	-
Total	34	-

13. Creditors arising out of direct insurance operations

	2022	2021
	$'000	$'000
Due to direct insurers (within one year)	354	2
Due to direct insurers (after one year)	-	-
Total	354	2

14. Creditors arising out of reinsurance operations

	2022	2021
	$'000	$'000
Due to ceding reinsurers (within one year)	9,587	7,183
Due to ceding reinsurers (after one year)	-	-
Total	9,587	7,183

15. Related parties

The ultimate parent company of Asta Managing Agency Ltd is Tennessee Topco Ltd following the acquisition of Asta Capital Ltd by the Davies Group Ltd on 13 July 2022.

Asta Managing Agency Ltd (Asta) is the Syndicate's Managing Agent. Asta provides services and support to the Syndicate in its capacity as Managing Agent. During the year, managing agency fees of $1.82m (2021: $0.71m) were charged to the Syndicate. Asta also recharged $2.06m worth of service charges in the year (2021: $0.64m) and as at 31 December 2022 an amount of $0.38m (2021: $0.09m) was owed to Asta in respect of this service.

CFC Underwriting Ltd manages the binders on which the Syndicate participates, and charges commission fees to the Syndicate in relation to their services. During the year, commission fees of $76.1m (2021: $25.0m) were charged to the Syndicate. As at 31 December 2022 an amount of $17.9m (2021: $22.4m) was owed to CFC Underwriting Ltd in respect of these fees. The CFC Group also own a Lloyd's Corporate Member which participates on the Syndicate.

From time to time, syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Byelaw provisions. All transactions are entered into on an arms-length basis.

16. Disclosure of interests

During 2022 Asta was the Managing Agent for twelve Syndicates, two Special Purpose Arrangements and six Syndicates in a Box. Syndicates 1609, 1699, 1729, 1892, 1980, 1988, 2288, 2525, 2689, 2786, 3268 and 4242 as well as Special Purpose Arrangements 1416 and 6131 and Syndicates in a Box 4747, 1796, 1902, 2880, 3456 and 5183 were managed on behalf of third party capital providers.

On 1 January 2022, Asta took on the management of Syndicate 1699.

On 1 January 2022, Asta took on the management of Syndicate in a box 1902.

On 10 February 2022, Asta took on management of Syndicate in a box 2880.

On 10 February 2022, Asta reinsured to close Syndicate 1980 into Riverstone Syndicate 3500.

On 22 March 2022, Asta took on the management of Syndicate in a box 3456.

On 13 May 2022, Asta migrated the management of Syndicate 3268 to IQUW.

On 10 June 2022, Asta took on the management of Syndicate in a box 5183.

On 18 July 2022, Asta took on the management of Syndicate in a box 1796.

On 1 October 2022, Asta migrated Syndicate 1729 and SPA 6131 to Dale Managing Agency.

On 1 January 2023, Asta took on the management of Syndicate 1985.

On 1 January 2023, Asta took on the management of Syndicate 1322.

Disclosure of interests continued

The agency also provides administrative services to Syndicates and Special Purpose Arrangements, also undertaking several ancillary roles for other clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

17. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

18. Off-balance sheet items

The Syndicate has not been party to any arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

19. Risk management

a) Governance framework

The Syndicate's risk and financial management framework aims to protect the Syndicate's members' capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, while maximising the returns to its members. The directors recognise the critical importance of having efficient and effective risk management systems in place.

Asta maintains a risk management function for the Syndicate with clear terms of reference from the Board, its committees and sub committees. Asta supplements this with a clear organisational structure with documented delegated authorities and responsibilities from the main Asta Managing Agency board to the Syndicate who perform the underwriting activities. Lastly, the Syndicate policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the Syndicate.

The Board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. The Board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate's risk appetite.

Risk management continued

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence 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 apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 1988, which was set using the Lloyd’s Syndicate Benchmark Model, is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2022 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 18, represent resources available to meet members' and Lloyd's capital requirements.

Risk management continued

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of

long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on a non-proportional basis. Non-proportional reinsurance is excess-of-loss reinsurance designed to mitigate the Syndicate’s net exposure to large losses. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Syndicate’s placement of reinsurance is diversified such that it is not dependent on a single reinsurer.

Sub committees of the Syndicate board oversee the management of reserving risk. The use of standardised and internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the Syndicate’s risk appetite as decided by the Syndicate board.

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

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on net liabilities, profit and members' balances.

Risk management continued

The table below shows how a five percent increase or decrease in gross and net claim liabilities would affect the Syndicate's profit for the financial year and its members' balances.

5% move in loss ratio would be a $7.23m impact on P&L.

	2022 Loss/(Profit)	2021 Loss/(Profit)
Gross	**$'000**	**$'000**
Five percent Increase (claims liabilities)	2,654	426
Five percent decrease (claims liabilities)	(2,654)	(426)
Net		
Five percent Increase (claims liabilities)	2,654	426
Five percent decrease (claims liabilities)	(2,654)	(426)

Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

Estimate of cumulative gross claims incurred:

Underwriting year	**2021**	**2022**
	$'000	**$'000**
At end of underwriting year	8,349	15,735
One year later	49,651	
Less cumulative paid	(11,141)	(1,167)
Liability for gross outstanding claims	38,510	14,568
Total gross outstanding claims (all years)		**53,078**

Estimate of cumulative net claims incurred:

Underwriting year	**2021**	**2022**
	$'000	**$'000**
At end of underwriting year	8,349	15,735
One year later	49,651	
Less cumulative paid	(11,141)	(1,167)
Liability for gross outstanding claims	38,510	14,568
Total net outstanding claims (all years)		**53,078**

Risk management continued

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for future experience potentially being more adverse than assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus.

d) Financial risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

1) Credit Risk

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

The following policies and procedures are in place to mitigate the exposure to credit risk:

- Reinsurance is placed with counterparties that either have a good credit rating or are unrated collateralised reinsurers, and the concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub-committee of the Syndicate Board.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2022		**$'000**		
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	18,610	-	-	18,610
Reinsurer's share of claims outstanding	10,699	-	-	10,699
Debtors arising out of direct insurance operations	84,103	-	-	84,103
Debtors arising out of reinsurance insurance operations	-	-	-	-
Overseas deposits	3,855	-	-	3,855
Other debtors	49,636	-	-	49,636
Cash at bank and in hand	42,341	-	-	42,341
Total	209,244	-	-	209,244

Risk management continued

2021	$'000			
	Neither past due or impaired	Past due	Impaired	Total
Shares and other variable yield securities	559	-	-	559
Reinsurers share of claims outstanding	-	-	-	-
Debtors arising out of direct insurance operations	49,818	-	-	49,818
Debtors arising out of reinsurance insurance operations	-	-	-	-
Overseas deposits	3	-	-	3
Other debtors	26,841	-	-	26,841
Cash at bank and in hand	303	-	-	303
Total	77,524	-	-	77,524

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2022, along with 2021 prior year comparative, by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. These non-rated debtors totalled $133.7m.

	$'000					
2022	AAA	AA	A	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	18,610	-	-	18,610
Debt securities	3,154	2,768	3,999	778	-	10,699
Reinsurers share of claims outstanding	-	-	-	-	-	-
Debtors arising out of reinsurance operations	-	-	-	-	-	-
Overseas deposits	2,173	725	294	373	290	3,855
Cash at bank and in hand	-	-	42,341	-	-	42,341
Total	5,327	3,493	65,244	1,151	290	75,505

2021	AAA	AA	A	BBB or less	Not Rated	Total
			$'000			
Shares and other variable yield securities	-	-	559	-	-	559
Reinsurers share of claims outstanding	-	-	-	-	-	-
Debtors arising out of reinsurance operations	-	-	-	-	-	-
Overseas deposits	2	1	-	-	-	3
Cash at bank and in hand	-	-	303	-	-	303
Total	2	1	862	-	-	865

2) Liquidity risk

Liquidity risk is the risk that the Syndicate may not have enough cash to pay insurance claims and other liabilities. The Syndicate tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

2022	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
			$'000			
Claims outstanding	-	17,756	24,272	7,904	3,146	53,078
Creditors	-	9,941	-	-	-	9,941
Total	-	27,697	24,272	7,904	3,146	63,019

2021	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
			$'000			
Claims outstanding	-	1,600	2,752	2,155	2,006	8,513
Creditors	-	12,356	-	-	-	12,356
Total	-	13,956	2,752	2,155	2,006	20,869

3) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly.

4) Currency risk

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

The Syndicate's functional currency is US Dollars and its exposure to foreign exchange risk arises primarily with respect to transactions in Sterling, Euros, Canadian Dollars and Australian Dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

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

2022	GBP	USD	EUR	CAD	AUD	Total
				$'000		
Total Assets	39,859	113,577	6,294	33,900	15,614	209,244
Total Liabilities	(37,335)	(105,742)	(5,408)	(26,547)	(12,702)	(187,734)
Net Assets	2,524	7,835	886	7,353	2,912	21,510

Risk management continued

2021	GBP	USD	EUR	$'000 CAD	AUD	Total
Total Assets	17,740	41,219	2,070	11,114	5,381	77,524
Total Liabilities	(19,174)	(41,556)	(2,153)	(10,389)	(5,025)	(78,297)
Net Assets	(1,434)	(337)	(83)	725	356	(773)

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. It is noted that the Syndicate does not currently have great exposure to foreign currency risk, as the majority of its business is conducted in US Dollars.

Sensitivity to changes

The table below gives an indication of the impact on profit of a percentage change in the relative strength of US Dollars against the value of the Sterling, Euro, Canadian Dollar and Australian Dollar simultaneously. The analysis is based on the information as at 31st December 2022.

	Impact on profit and members' balance	
	2022 $'000	2021 $'000
US Dollar weakens		
10% against other currencies	1,368	44
20% against other currencies	2,735	87
US Dollar strengthens		
10% against other currencies	(1,368)	(44)
20% against other currencies	(2,735)	(87)

20. Post balance sheet events

There are no post balance sheet events to report.