

IMPORTANT INFORMATION ABOUT THE SYNDICATE REPORT AND ACCOUNTS

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Polo Managing Agency Limited

Report and Financial Statements
Syndicate 1996
for the year ended
31 December 2023

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Directors and Administration

Managing agent

Polo Managing Agency Limited ("the Managing Agent", "the Agency" or "PMA") is the managing agent of Syndicate 1996 ("the Syndicate").

Directors

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

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

Company secretary

Hackwood Secretaries Limited (Resigned 30/6/2023)

Managing agent's registered office

The Grange
Cheltenham
Gloucestershire
United Kingdom
GL52 8YQ

Managing agent's registered number

03935227

Directors and Administration (continued)

Syndicate

Active Underwriter

C Finn

Bankers

Barclays Bank plc
1 Churchill Place
London
E14 5HP

Independent Auditors

PKF Littlejohn LLP - statutory auditor
15 Westferry Circus
Canary Wharf
London
E14 4HD

Statement of actuarial opinion signing actuary

PKF Littlejohn LLP

Managing Agent's Report

The Directors of Polo Managing Agency, the Managing Agent, present their report for Syndicate 1996 for the year ended 31 December 2023.

Directors' Interests

None of the Directors of the managing agency have any participation in the Syndicate's premium income capacity.

Directors and Officers

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

S G J Sykes - Chief Executive Officer (Resigned 24/03/2023)

P Andrews - Chief Executive Officer (Appointed 22/5/2023)

M J Bishop - Finance Director (Appointed 5/6/2023)

Hackwood Secretaries Limited (Resigned 30/6/2023) **

*Company Secretary***

Syndicate Annual General Meeting

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

Auditors

PKF Littlejohn LLP has been appointed as the Syndicate's auditor and the Managing Agent intends to reappoint PKF Littlejohn as the Syndicate's auditor.

Managing Agent's Report (continued)

Strategic Report

Principal activities

The principal activity of Syndicate 1996 is the underwriting of Property Insurance & Reinsurance business in the Lloyd's market.

Review of the business

This is the first year of operation for the Syndicate, so it is not possible to compare its performance with previous years, however KPIs are presented on the next page.

As at 31 December 2023, Syndicate 1996 is declaring a loss of £0.8m.

The Syndicate solely underwrites wildfire exposed commercial property in California, for a broad range of occupancies. Business is currently accepted by the syndicate via two binding authorities, with the Wildfire Defense Insurance Services ("WDIS") a Lloyd's approved coverholder.

One binding authority is new and led by the Syndicate and written 100%, the second is led by Liberty syndicate at Lloyd's and the Syndicate has written a small follow share.

The Syndicate trades through the Lloyd's worldwide licenses and rating.

The Syndicate is in its first underwriting year which commenced on the 1st July 2023. The written premium attached primarily during Q3 of 2023 and as such there is minimal earned premium at the end of the year. The Syndicate incurred expenses are in line with budget, and it is the expense and the cost of reinsurance that drives the calendar year loss.

The Syndicate has presented 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 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

Net operating expenses of £1,006,401 include £36,028 payments to the WDS response service; calculated as 5% of gross premium earned. The well-established WDS response service provides wildfire mitigation and loss intervention services in 22 states to 7 of the top 10 admitted US national P & C carriers and 34 other carriers in total.

Managing Agent's Report (continued)

Review of underwriting activities for 2023

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

Key performance indicators

| | 2023 |
|------------------------|-------|
| | £m |
| Gross premiums written | 2.7 |
| Net premiums earned | 0.3 |
| Loss for the year | (0.8) |

As the Syndicate commenced trading in the middle of the year, a low net earned premium for the calendar year drives the loss for 2023. In future years, earnings will normalise and the KPIs of the Syndicate will become more relevant.

Principal risks and uncertainties

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

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate 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 monitors performance against the business plan through the year and reviews pricing on an ongoing basis depending on market conditions. Reserve adequacy is monitored through quarterly review by the PMA Actuarial team and Syndicate Management Committee ("SMC"), which meets quarterly.

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's policy is that it will only reinsure with approved reinsurers, supported by collateralisation where required. The PMA Security Policy sets out usage criteria.

Market risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The syndicates functional currency is USD.

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 the functional currency would be subject to review by the SMC.

Liquidity risk

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

The Syndicate has benefitted from a loan facility in place with WildfireDefenseSystems, Inc., one of its capital providers to support it with operational expenses during the startup phase.

Managing Agent's Report (continued)

Operational risk

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

Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agent is required to comply with the requirements of the Financial Conduct Authority ("FCA"), Prudential Regulation 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. A Compliance Officer manages the function that monitors business activity and regulatory developments to assess any effects on the Managing Agent.

Capital

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

- All premiums received are initially held in trust.
- Funds at Lloyd's ('FAL') provide a layer of capital that can be called upon to pay liabilities. The FAL requirement is set by Lloyd's standard model for new syndicates, until their Internal Model is approved.
- At the discretion of the Council of Lloyd's, the Central Fund provides a further source of funds to settle claims. The Central Fund effectively mutualises risk across the market.

Syndicate 1996 does not have its own security rating; however, it does benefit from Lloyd's global A (Excellent) rating from A.M. Best, AA- (Very Strong) rating from Standard and Poor's, and AA- (Very Strong) from Fitch.

Future developments

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

The capacity for the 2024 year of account is £39.7m (2023 year of account £24.9m).

Environmental, Social and Governance ("ESG")

The Syndicate is aligned to Wildfire Defense companies which follow an environmental professional services model that aligns with wildfire as an evolving environmental impact. Wildfire Defense companies work as a system to support ESG goals with respect to achieving a significant reduction of wildfire loss.

Keeping carbon from being released into the environment is a major strategic goal for leading insurance companies, reinsurance companies and syndicates. Lloyd's continues with a clear net-zero commitment for the Corporation and a commitment to lead the market to a net-zero underwriting position through the championing of new products and services which accelerate these targets. Wildfire Defense companies and the Syndicate play a key strategic role in the achievement of that long-term objective for Lloyd's.

Other performance indicators

Staff matters

The managing agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe, and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace nor any significant actions taken by any regulatory bodies with regard to staff matters.

Managing Agent's Report (continued)

Environmental matters

The managing agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. In fact this syndicate's key partnership with the Wildfire Defense Company can positively contribute to the reduction in carbon emissions, as previously mentioned. As a result the agent does not manage its business by reference to any environmental key performance indicators.

Disclosure of information to auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by order of the Board of Directors and signed on its behalf:

M J Bishop
Finance Director
26 February 2024

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare financial statements as at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 those Syndicate financial statements, the Managing Agent is required to:

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. prepare the financial statements on the basis that the Syndicate will continue to write future business and administer claims, using the going concern basis of accounting unless it is inappropriate to do so.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1996

Opinion

We have audited the syndicate annual financial statements of Syndicate 1996 (the 'syndicate') for the year ended 31 December 2023 which comprise the Statement of Profit or Loss and the Statement of Other Comprehensive Income, the Statement of Changes in Members' Balances, the Balance Sheet, the Statement of Cash Flows and notes to the syndicate annual financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual 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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based upon 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 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 annual report and accounts, other than the syndicate annual financial statements and our auditor's report thereon.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1996 (continued)

The managing agent is responsible for the other information contained within the syndicate annual report. 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 in the syndicate annual financial statements 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.

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

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept on behalf of the syndicate; or
- the syndicate annual financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of managing agent emoluments and other benefits specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities, 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 to write new business, disclosing, as applicable, matters related to its ability to continue to operate and using the going concern basis of accounting, unless the managing agent intends to cease to operate the Syndicate or has no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1996 (continued)

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.

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 obtained an understanding of the syndicate and the insurance sector in which it operates to identify laws and regulations that could reasonably be expected to have a direct effect on the syndicate annual financial statements. We obtained our understanding in this regard through discussions with management, industry research and the application of our cumulative audit knowledge and experience of the insurance sector.
- We determined the principal laws and regulations relevant to the syndicate in this regard to be those arising from the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA), Lloyd's of London and the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008, and the financial reporting framework (UK GAAP).
- We designed our audit procedures to ensure the audit team considered whether there were any indications of non-compliance by the syndicate with those laws and regulations. These procedures included, but were not limited to:
 - agreeing the syndicate annual financial statements disclosures to underlying supporting documentation;
 - making enquiries of management and review of minutes of Board and management meetings throughout the period;
 - understanding the syndicate's policies and procedures in monitoring compliance with laws and regulations;
 - inspecting correspondence with Lloyd's of London and the PRA; and
 - reviewing internal audit reports relating to the syndicate.
- We also identified possible risks of material misstatement of the syndicate annual financial statements due to fraud. We considered, in addition to the non-rebuttable presumption of a risk of fraud arising from management override of controls, that there was potential for management bias in the reporting of events and transactions in the syndicate annual financial statements relating to the earning pattern on revenue, valuation of technical provisions and the calculation of the reinsurer's share of technical provisions. To address this, we challenged the assumptions and judgements made by management when auditing those significant accounting estimates.
- As in all of our audits, we addressed the risk of fraud arising from management override of controls by performing audit procedures which included, but were not limited to, the testing of journals, reviewing accounting estimates for evidence of bias and evaluating the business rationale of any significant transactions that were unusual or outside the normal course of business.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the syndicate annual financial statements or non-compliance with laws and regulations. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the syndicate annual financial statements, as we will be less likely to become aware of instances of non-compliance. This risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, conclusion, omission or misrepresentation.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1996 (continued)

Use of our report

This report is made solely to 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. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Coulson
(Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

15 Westferry Circus
Canary Wharf
London E14 4HD

26 February 2024

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

| | | | 2023 |
|---|-------|----------------|---------------------|
| | Notes | £000 | £000 |
| Earned premiums, net of reinsurance | | | |
| Gross premiums written | 5 | 2,718 | |
| Outward reinsurance premiums | | <u>(1,935)</u> | |
| Net written premiums | | 783 | |
| | | | |
| Change in the provision for unearned premiums | | | |
| Gross amount | 10 | (1,997) | |
| Reinsurers' share | 10 | <u>1,468</u> | |
| Net change in the provision for unearned premium | | (529) | |
| | | | |
| Earned premiums net of reinsurance | | | 254 |
| | | | |
| Allocated investment return transferred from the non-technical account | | | 3 |
| | | | |
| Claims incurred, net of reinsurance | | | |
| Claims paid | | | |
| Gross amount | 11 | - | |
| Reinsurers' share | 11 | <u>-</u> | |
| Net claims paid | | - | |
| | | | |
| Change in the provision for claims | | | |
| Gross amount | 11 | (143) | |
| Reinsurers' share | 11 | <u>46</u> | |
| Net change in the provision for claims | | (97) | |
| | | | |
| Claims incurred net of reinsurance | | | (97) |
| | | | |
| Net operating expenses | 6 | | (1,006) |
| | | | |
| Balance on the technical account for general business | | | <u><u>(846)</u></u> |

All items relate to continuing operations.

The accounting policies and notes on pages 21 to 36 form part of these financial statements.

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

| | Notes | 2023 £000 |
|--|-------|--------------|
| Balance on the technical account for general business | | (846) |
| Investment income | 9 | 3 |
| Allocated investment return transferred to technical account – general business | | (3) |
| Other charges, including value adjustments | | <u>(13)</u> |
| Loss for the financial year | | <u>(859)</u> |

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

| | | |
|--|--|--------------|
| Loss for the financial year | | (859) |
| Foreign exchange differences | | <u>20</u> |
| Total comprehensive loss for the financial year | | <u>(839)</u> |

Statement of changes in Members' balances

| | | |
|---|--|--------------|
| Balance due to members at 1 January | | - |
| Total comprehensive loss for the financial year | | (839) |
| Members' fees | | <u>(59)</u> |
| Balance due from members at 31 December | | <u>(898)</u> |

The accounting policies and notes on pages 21 to 36 form part of these financial statements.

**Balance Sheet - Assets
 at 31 December 2023**

| | Notes | 2023 |
|--|-------|---------------------|
| | | £000 |
| Reinsurers' share of technical provisions | | |
| Provision for unearned premiums | 10 | 1,433 |
| Claims outstanding | 11 | 45 |
| | | <u>1,478</u> |
| Debtors | | |
| Debtors arising out of direct insurance operations | 12 | 793 |
| Debtors arising out of reinsurance operations | 12 | - |
| Other debtors | 13 | 34 |
| | | <u>827</u> |
| Other assets | | |
| Cash at bank and in hand | 15 | 812 |
| Overseas deposits | | - |
| | | <u>812</u> |
| Prepayments and accrued income | | |
| Deferred acquisition costs | | 488 |
| Other prepayments and accrued income | | 186 |
| | | <u>674</u> |
| Total assets | | <u><u>3,791</u></u> |

The accounting policies and notes on pages 21 to 36 form part of these financial statements.

Balance Sheet - Liabilities at 31 December 2023

| | | 2023 |
|---|-------|--------------|
| | Notes | £000 |
| Capital and reserves | | |
| Members' balances | | (898) |
| Technical provisions | | |
| Provision for unearned premiums | 10 | 1,950 |
| Claims outstanding | 11 | 139 |
| | | <u>2,089</u> |
| Creditors | | |
| Creditors arising out of reinsurance operations | 14 | 707 |
| Other creditors | 14 | 1,664 |
| | | <u>2,371</u> |
| Accruals and deferred income | | 229 |
| Total liabilities | | <u>3,791</u> |

The accounting policies and notes on pages 21 to 36 form part of these financial statements.

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

M J Bishop
Finance Director
26 February 2024

Statement of cash flows
Year ended 31 December 2023

| | | 2023 |
|---|-------|-------------|
| | Notes | £000 |
| Cash flow from operating activities | | |
| Loss for the financial year | | (859) |
| Investment return | | (3) |
| Increase in technical provisions | | 611 |
| Increase in debtors | | (886) |
| Increase in other assets | | (488) |
| Increase in prepayments | | (186) |
| Increase in creditors | | 2,371 |
| Increase in accruals and deferred income | | 229 |
| Foreign exchange | | 20 |
| Net cash generated from operating activities | | 809 |
| Cash flows from investing activities: | | |
| Investment income received | | 3 |
| Net cash generated from investing activities | | 3 |
| Cash flows from financing activities: | | |
| (Distribution) in the year | | - |
| Net cash generated from financing activities | | - |
| Net increase in cash and cash equivalents | | 812 |
| Cash and cash equivalents at 1 January | | - |
| Cash and cash equivalents at 31 December | 15 | 812 |

The accounting policies and notes on pages 21 to 36 form part of these financial statements.

Notes to the financial statements

at 31 December 2023

1. General information

Syndicate 1996 is a Lloyd's syndicate domiciled in England and Wales. It is managed by PMA, a private company limited by shares that is incorporated in England and whose registered office is 'The Grange', Cheltenham, Gloucs, United Kingdom, GL52 8YQ.

2. Compliance with accounting standards

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

3. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis.

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

2023 is the first year of trading for the Syndicate, so no prior year comparative disclosures are shown in this report.

Going concern basis

These financial statements are prepared on a going concern basis.

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

The directors have a reasonable expectation that the Syndicate has adequate resources including the funds at Lloyd's of the members supporting the Syndicate (as detailed in note 16) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 written

Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them. Premiums written comprise premiums on contracts incepted during the financial year.

Change in provision for gross unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns based on seasonality and time apportionment, as appropriate.

Unexpired risk provision

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, 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. No unexpired risk provision has been made at the Balance Sheet date.

Notes to the financial statements (continued) **at 31 December 2023**

3. Summary of significant accounting policies (continued)

Acquisition costs

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

Reinsurance premium ceded

Reinsurance premiums comprise premiums on contracts incepting during the financial year. Reinsurance premiums are disclosed gross of commissions and profit participations recoverable from reinsurers.

Change in provision for reinsurance unearned premiums

Outwards reinsurance premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns, time apportionment or look through to underlying gross exposures as appropriate.

Technical provisions – claims incurred and reinsurers' share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year. Allowance is made 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, or using Lloyd's market statistics, 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. An element of IBNR also relates to specific large losses, such as catastrophe events where applicable.

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 where relevant.

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 adjustments to the amounts provided.

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

Notes to the financial statements (continued) **at 31 December 2023**

3. Summary of significant accounting policies (continued)

Operating expenses

Operating expenses are accounted for on the accruals basis and allocated to the year of account for which they are incurred. 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.

Other charges, including value adjustments

Non-technical account charges includes exchange differences on translation of foreign currency transactions and balances into the functional currency.

Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the Syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off and no reinsurance to close ("RITC") is achieved. The Syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

Foreign currencies

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

The functional currency of the Syndicate is US Dollars which is the currency of the primary economic environment in which the Syndicate operates.

Foreign currency transactions are translated into the functional currency using the exchange rate at the date of transaction.

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

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

Non-monetary items measured at historical cost and non-monetary items measured at fair value are measured using the exchange rate when the fair value was determined.

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

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

Notes to the financial statements (continued) **at 31 December 2023**

3. Summary of significant accounting policies (continued)

Financial assets and liabilities classification

The full provisions of FRS 102 have been applied to the treatment of financial instruments. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

Recognition

Financial assets and liabilities are recognised when the Syndicate becomes party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities.

Initial measurement

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Subsequent measurement

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

De-recognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flow 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 significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Impairment of financial instruments measured at amortised cost

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

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

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

Notes to the financial statements (continued) **at 31 December 2023**

3. Summary of significant accounting policies (continued)

Impairment of financial instruments measured at amortised cost (continued)

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

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

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

Offsetting

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

Investment return

Investment return comprises bank interest received.

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 during the year have been 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.

Pension costs

No pension costs are directly borne by the Syndicate.

Key accounting judgements

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

Key sources of estimation uncertainty

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

Notes to the financial statements (continued) **at 31 December 2023**

3. Summary of significant accounting policies (continued)

Key sources of estimation uncertainty in technical provisions valuations

The accounting policy for technical provisions is described on pages 22 and the related risks are described within the Risk Management section below. The net technical provisions after the reinsurers' share is £0.6m.

The most uncertain element within these technical provisions is the amount for gross claims outstanding, which covers amounts where there has not yet been a notification. This amounted to £0.1m. As described in the Risk Management section there is a thorough review process of reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments.

4. Risk management

Managing Agent approach to Syndicate risk management

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

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

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

Syndicate risk exposures

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

Insurance risk

Insurance risk refers to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Syndicate at the time of underwriting. The very nature of the Syndicate's business exposes it to the likelihood that claims will arise from business written. Insurance risk is the principal risk the Syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The key components of insurance risk are underwriting & pricing risk (including delegated authorities), reinsurance strategy and process risk and reserving risk. Each element is considered below.

i. Underwriting & pricing risk

The risk that losses are higher than planned, due to fluctuations in market conditions and the timing, frequency and severity of insured events, including as a result of climate risk manifestations, or failings in the underwriting process.

Underwriting at the Syndicate is solely through binding authorities written to the Wildfire Defense owned Managing General Agent ("MGA"), WDIS. As this is 'delegated authority' business, it is subject to the Managing Agent's robust coverholder and binder due diligence process and continues to be monitored closely, according to the Delegated Authority Framework. A coverholder audit will be undertaken.

Insurance risk is further mitigated, in respect of wildfire exposures, by the extensive experience of the Wildfire Defense companies, who provide extensive technical data to support the risk selection and pricing of the portfolio. Furthermore, in the event of a wildfire loss, Wildfire Defense resources are deployed to defend threatened insured properties.

Notes to the financial statements (continued) **at 31 December 2023**

ii. Reinsurance strategy and process risk

Reinsurance strategy and process risk is the risk that losses are higher than planned, due to fluctuations in market conditions and the timing, frequency and severity of insured events, including as a result of climate risk manifestations, or failings in the underwriting process.

To protect against material insurance losses, the Syndicate has bought two standard reinsurance programmes.

The first, a risk excess of loss which will respond in the event of individual risk losses and the second, a catastrophe programme, which responds to an event impacting more than one insured risk.

Both programmes have been placed with well rated reinsurers which meet PMA's reinsurance security requirements. All reinsurers have an S&P or AM Best rating of A- or above, in line with the agreed reinsurance strategy.

Reinsurance process risk is managed in line with agreed reinsurance procedures.

iii. Reserving risk

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

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

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

Claim estimates are sensitive to the actual rate of claims development. If the Syndicate's rate of claim development is faster than the market, standard methods would overestimate future claims. Conversely, if the Syndicate's rate of claim development is slower than the market, standard methods would underestimate future claims.

Market risk

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

Currency risk

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

The syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates and deals in two main currencies: Sterling and US dollars. Transactions are not expected to take place in any other currencies.

Interest rate risk

The Syndicate's main exposure to fluctuation in interest rates would be the effect on the valuation of funds invested in bonds and equities. At present the syndicate does not hold any financial investments, hence there is no exposure to interest rate risk.

Notes to the financial statements (continued)
at 31 December 2023

4. Risk management (continued)

Liquidity risk

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

To mitigate liquidity risk, the agency monitors cash flow projections and maintains cash levels consistent with the needs of the Syndicate, providing commentary into the SMC. A \$3.5m loan facility has been agreed, in order to provide an additional layer of liquidity.

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

| As at 31 December 2023 | No Stated Maturity | Within one year | Between one and three years | Between three and five years | Over five years | Total |
|--------------------------------|-----------------------|--------------------|--------------------------------------|------------------------------------|--------------------|-------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Outstanding claims liabilities | - | 53 | 78 | 6 | 2 | 139 |
| Creditors | | 707 | 1,664 | - | - | 2,371 |
| Total | - | 760 | 1,742 | 6 | 2 | 2,510 |

Credit risk

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

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

The Syndicate has a very low appetite for credit risk, as its principal business is to accept insurance risk. This approach is intended to protect the Syndicate’s capital from erosion from credit risk so that it can meet its insurance liabilities.

Notes to the financial statements (continued)
at 31 December 2023

4. Risk management (continued)

Credit risk (continued)

The Syndicate has debtors, creditors and bank balances in the normal course of its business. The Syndicate's exposure to credit risk is typical for an insurer. At present there is little exposure to reinsurers and current exposures to brokers are limited. The Syndicate does not actively enter into derivatives, hedging or other uses of financial instruments as part of its financial risk management.

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

| At 31 December 2023 | AAA | AA | A | BBB & <BBB | Non-rated | Total |
|--|-------------|-------------|-------------|------------------------------|------------------|--------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Reinsurers share of outstanding claims | - | 3 | 42 | - | - | 45 |
| Cash at bank and in hand | - | - | 812 | - | - | 812 |
| Total | - | 3 | 854 | - | - | 857 |

Insurance receivables are not shown above but would be categorised as 'Non-rated' as a majority of the balance relates to insurance broker debt which falls outside credit rating requirements.

Reinsurance credit risk

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

The Managing Agent oversees the operation of the Syndicate's reinsurance programme and monitors reinsurer concentrations as well as recoveries as they fall due. Outwards reinsurance credit matters are reported at the Syndicate's Management Committee, which meets quarterly.

Solvency risk

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

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

Notes to the financial statements (continued) **at 31 December 2023**

4. Risk management (continued)

Operational risk

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

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

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

Operational risk is monitored via regular risk and control assessments, reporting to management committees, and tested for adequate risk mitigation in place through scenario assessments. The insight from these processes is used to quantify operational risk.

Operational Resilience

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

The PMA Operations Committee is responsible for monitoring the implementation of operational resilience requirements and to consider the work undertaken to date on the existing client base and also the future strategy / framework for new clients. The Managing Agent has determined that no 'important business services', as defined by operational resilience requirements, are currently being provided in relation to the Syndicate's business.

Regulatory risk

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 FCA, 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. Failure to comply with applicable regulations could result in a variety of sanctions or fines, with the most extreme being a withdrawal of the right to conduct business at Lloyd's.

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

Notes to the financial statements (continued) at 31 December 2023

4. Risk management (continued)

Climate Change

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

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

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

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

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

5. Segmental analysis

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

| 2023 | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Gross operating expenses £000 | Re- insurance balance £000 | Total £000 |
|-----------------------------------|--|---|---|--|---|-----------------------|
| Direct insurance: | | | | | | |
| Fire and other damage to property | 2,718 | 721 | (143) | (1,006) | (421) | (849) |
| | <u>2,718</u> | <u>721</u> | <u>(143)</u> | <u>(1,006)</u> | <u>(421)</u> | <u>(849)</u> |

Total commissions payable for direct insurance written in the year amounted to £680k.

All premiums were concluded in the United Kingdom.

Notes to the financial statements (continued)
at 31 December 2023

6. Net operating expenses

| | 2023 |
|--------------------------------------|---------------------|
| | £000 |
| Brokerage and commissions | 680 |
| Acquisition costs | <u>680</u> |
| Change in deferred acquisition costs | (500) |
| Administration expenses | 480 |
| Member's standard personal expenses | <u>346</u> |
| | <u><u>1,006</u></u> |

Members' standard personal expenses amounting to £346k include Lloyd's subscriptions, New Central Fund contributions and Managing Agent's fees.

Administrative expenses include:

| | 2023 |
|---|-------------|
| | £000 |
| Administration expenses include: | |
| Auditor's remuneration: | |
| Audit of the Syndicate's financial statements | 55 |
| Other audit related services | 25 |

7. Employees

The Syndicate pays a managing agency fee to PMA and is not specifically recharged in respect of salary and related costs and has no employees.

8. Directors' and Active Underwriter's emoluments

No emoluments of the directors of PMA were directly charged to the Syndicate and consequently no meaningful disclosure can be made.

No staff of PMA were directly charged to the Syndicate. The emoluments of the Active Underwriter are borne by the Syndicate.

No other compensation was payable to key management personnel.

9. Investment return

| | 2023 |
|---|-----------------|
| | £000 |
| Income from financial investments | |
| Investment income | <u>3</u> |
| <i>Allocated investment return transferred to the technical account from the non-technical account.</i> | <u><u>3</u></u> |

Notes to the financial statements (continued)
at 31 December 2023

10. Provision for unearned premiums

| 2023 | Gross £000 | Reinsurers' share £000 | Net £000 |
|------------------------------|-----------------------|-----------------------------------|---------------------|
| At 1 January 2023 | - | - | - |
| Premiums written in the year | 2,718 | (1,935) | 783 |
| Premiums earned in the year | (721) | 467 | (254) |
| Foreign exchange | (47) | 35 | (12) |
| At 31 December 2023 | <u>1,950</u> | <u>(1,433)</u> | <u>517</u> |

11. Claims outstanding

| 2023 | Gross £000 | Reinsurers' share £000 | Net £000 |
|-----------------------------|-----------------------|-----------------------------------|---------------------|
| At 1 January 2023 | - | - | - |
| Claims incurred in the year | 143 | (46) | 97 |
| Claims paid during the year | - | - | - |
| Foreign exchange | (4) | 1 | (3) |
| At 31 December 2023 | <u>139</u> | <u>(45)</u> | <u>94</u> |

12. Debtors

| | 2023 £000 |
|--|----------------------|
| Debtors due within one year | |
| Due from intermediaries | |
| Amounts arising out of direct insurance operations | <u>793</u> |
| | <u>793</u> |

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

13. Other debtors

| | 2023 £000 |
|----------------|----------------------|
| Sundry Debtors | <u>34</u> |
| | <u>34</u> |

14. Creditors

| | 2023 £000 |
|------------------------------------|----------------------|
| Amounts arising out of: | |
| Reinsurance operations | 707 |
| Other creditors including taxation | 1,664 |
| | <u>2,371</u> |

Notes to the financial statements (continued) at 31 December 2023

15. Cash and cash equivalents

| | 2023 |
|--------------------------|-------------|
| | £000 |
| Cash at bank and in hand | 812 |
| | <u>812</u> |

16. Regulatory capital requirements

Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of that business. FAL is not hypothecated to any specific syndicate participation by a member, therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

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

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1996 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 are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

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

Notes to the financial statements (continued) **at 31 December 2023**

16. Regulatory capital requirements (continued)

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

The Syndicate's objective and policy is to comply with the Lloyd's capital setting process. The Syndicate manages its member's balances, while FAL is managed by the corporate members. Member's balances consist of retained surpluses and there are no other types of capital, such as subordinated loans. There are no inadmissible assets. 2023 was the first year of account for the Syndicate, so there are no changes from the previous period to report. The Syndicate and its corporate members complied with all Lloyd's requirements throughout the year.

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 (FAL), 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.

There are no funds in syndicate held for this syndicate, accordingly all of the assets less liabilities of the Syndicate, as represented by the members' balances reported on the balance sheet represent resources available to meet members' and Lloyd's capital requirements.

17. Derivatives

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

18. Off-balance sheet

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

19. Related parties

During the year the syndicate entered into an unsecured loan facility with Wildfire Defense Systems, Inc. which is related to Wildfire Defense Corporate Member Limited by virtue of common control. Wildfire Defense Corporate Member Limited participates on the syndicate as one of the corporate members. At the balance sheet date the outstanding loan from WDS is £1.7m and interest of £30,994 has been accrued.

20. Post Balance Sheet

There are no post balance sheet events.

21. Controlling Party of the Managing Agent

The Managing Agent's immediate parent undertaking is Marco Capital Holdings (UK) Limited, a company incorporated in England and Wales. Registered address 24 Monument Street, 4th Floor, London, United Kingdom, EC3R 8AJ.

The Managing Agent's ultimate parent undertaking is Marco Capital Holdings Limited, a company incorporated in Malta. Registered address is 171 Old Bakery Street, Valletta, VLT1455, Malta.

The ultimate controlling party is Oaktree Capital Group, LLC.

Notes to the financial statements (continued)
at 31 December 2023

22. Disclosure of Interest

PMA provided services and support to the Syndicate in its capacity as Managing Agent. In the year, Managing Agency Fees of £0.3m were charged to the syndicate, in addition to service charges of £0.08m. At the year end £0.08m was owed to PMA by the Syndicate.

Managing Agent's interest:

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

Syndicates taken on this year are:

On 1 January 2023, PMA took on the management of Syndicate 1347

On 13 July 2023, PMA took on management of Syndicate 1996

On 2 October 2023, PMA took on the management of Syndicate 1975

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 4).