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Talbot Underwriting Ltd Syndicate 1183

Annual Report and Accounts

31 December 2023

Annual Report and Accounts 2023

Contents

Officers and professional advisors

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

Managing Agent's registered number
2202362

Directors

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

Company secretary
M-C Gallagher

Syndicate
Syndicate 1183

Active underwriter
I Peterson

Bankers
Lloyds Bank plc
Citibank NA
Royal Bank of Canada
Barclays plc
JP Morgan Chase NA

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

Corebridge Institutional Investments (Europe) Limited
58 Fenchurch Street
London
EC3M 4AB

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

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

Report of the Directors of the Managing Agent

The Directors of the Managing Agent, Talbot Underwriting Ltd (TUL), present the annual report and audited accounts of Syndicate 1183 (the Syndicate) for the year ended 31 December 2023. The annual report is prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Principal activity and developments in the period

The principal activity of the Syndicate is the underwriting of general insurance and reinsurance business in the Lloyd's market.

The Syndicate writes a diversified portfolio including Marine, Cargo, Fine Art & Specie, Cyber, Energy, Political Risk, Political Violence, Crisis Management, Financial Lines and Property classes of business.

Since 2018, TUL has been an AIG Company, with offices located in London, Singapore and New York.

On 1 November 2023, AIG (the ultimate parent and controlling party of Talbot, which includes TUL) completed the sale of Validus Re to Renaissance Re. This included the sale of the renewal rights of the Syndicate's Treaty Reinsurance business. AIG have retained Talbot, which was purchased as part of its 2018 acquisition of Validus Holding Limited. The sale has had a limited impact on the Syndicate result for 2023.

Results for the financial year

The result for the year was a profit of $220.8m (2022: profit of $77.9m). The Syndicate's key financial performance indicators during the year were as follows:

	2023 $m	2022 $m	2021 $m	2020 $m	2019 $m
Gross premiums written	1,414.7	1,285.8	1,271.6	1,059.1	985.7
Net premiums written	974.3	918.4	975.0	830.8	791.7
Net earned premiums	946.2	907.5	902.8	809.7	769.8
Investment return	74.4	(28.6)	5.6	34.5	51.5
Profit/(loss) for the financial year	220.8	77.9	155.1	(42.3)	89.4
Net claims ratio (%)[1]	49.2	53.2	47.3	74.4	56.1
Net expense ratio (%)[2]	35.2	35.0	35.7	35.6	38.5
Combined ratio (%)[3]	84.4	88.2	83.0	110.0	94.6

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

Report of the Directors of the Managing Agent (continued)

Review of the business

Underwriting

In 2023, the Syndicate delivered a strong underwriting profit for the third consecutive year with a combined ratio of 84.4% (2022: 88.2%). The 2023 result has been achieved through premium growth, favourable attritional experience and rate increases.

Gross Premiums Written

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

	2023 $m	2022 $m	2021 $m	2020 $m	2019 $m
Marine	292.9	246.4	248.1	229.9	226.6
Political Risk	128.7	115.2	119.5	102.3	102.5
Political Violence and War	149.7	149.1	148.4	135.9	124.8
Property	507.8	410.1	365.9	321.0	289.0
Specialty	191.0	245.7	276.7	177.5	149.0
Treaty	144.6	119.3	113.0	92.5	93.8
Total gross premiums written	1,414.7	1,285.8	1,271.6	1,059.1	985.7

Gross premiums written increased by $128.9m to $1,414.7m in the calendar year. The majority of gross premiums written are in US dollars and, at constant rates of exchange compared to the prior year, gross premiums written have increased 9.9% (2022: 3.1%). Premium growth was driven by the Syndicate's Marine, Property and Treaty business classes, and is inclusive of the whole account risk adjusted rate of 11.1% (2022: 9.0%). The renewal rights to the Syndicate's Treaty Reinsurance business were sold during 2023 as part of the sale of Validus Re.

Syndicate coverholder operations are primarily located in Singapore and New York and contributed 15.7% (2022: 17.4%) of gross premiums written.

Outwards Reinsurance Written

The Syndicate purchases outwards reinsurance principally to limit the impact of catastrophes or multiple large losses. Reinsurance is purchased on both an excess of loss and proportional basis. Reinsurance premiums for the calendar year were $440.4m (2022: $367.4m), an increase of $73.0m (19.9%). The 2023 programme was placed with coverage in line with the Syndicate's plan and risk appetite. The increase is primarily due to price increases and increased written premium volumes for classes, which are covered by outwards quota share reinsurance.

The Syndicate continues to benefit from its position within the AIG Group for its reinsurance purchase including the availability of global catastrophe programmes and shared group coverage.

Report of the Directors of the Managing Agent (continued)

Review of the business (continued)

Net claims

The net claims ratio for the year was 49.2% (2022: 53.2%). Net claims incurred as a percentage of net earned premiums were as follows:

	2023	2022
Current year claims – catastrophe losses (%)	8.6	13.9
Current year claims – other losses (%)	41.4	45.7
Change in prior years' net claims (%)	(0.8)	(6.4)
Net claims ratio (%)	49.2	53.2

The reduction in net claims ratio reflects the favourable current year loss experience.

Current year attritional experience improved to 41.4% (2022: 45.7%) driven by the majority of the core classes of business. The 2023 calendar year continued to see persistently high global levels of inflation, which have peaked and are now returning to lower levels, albeit above the Federal Reserve and Bank of England targets.

Catastrophe losses in the year contributed 8.6% to the net claims ratio (2022: 13.9%). Whilst there have been notable losses, including the Hawaiian wildfires, Hurricane Idalia and Cyclone Gabrielle, overall catastrophe losses have been broadly in line with expectation and favourable to the prior year.

The net claims ratio also continued to benefit from prior year releases of $8.0m, or 0.8% of net earned premium (2022: $57.8m, or 6.4% of net earned premium). Refer to note 7 for further details.

Net operating expenses

Net operating expenses for the year are set out below:

	2023	2022	Movement
	$m	$m	$m
Net acquisition costs	185.7	185.3	0.4
Administrative expenses	147.1	132.3	14.8
Net operating expenses	332.8	317.6	15.2
As % of net earned premiums			
Net acquisition expense ratio (%)	19.6	20.4	0.8
Administrative expense ratio (%)	15.6	14.6	(1.0)
Net expense ratio (%)	35.2	35.0	(0.2)

The net expense ratio was 35.2% (2022: 35.0%). The net expense ratio includes the impact from foreign exchange, as administrative expenses are primarily incurred in Sterling and premium income is mainly in US dollars. Administrative expenses include $28.1m (2022: $17.9m) of accrued profit commission payable by the Syndicate to TUL. After exclusion of managing agency profit commissions, and comparing at constant exchange rates, the net expense ratio improved from prior year to 32.0% (2022: 33.0%). The improvement in the acquisition expense ratio is a result of changes in business mix and in an increase in inwards ceded commissions.

Report of the Directors of the Managing Agent (continued)

Review of the business (continued)

Investment return

The return on Syndicate funds by currency is shown below:

	Sterling (£m)	US dollars (US$m)	Canadian dollars (C$m)	Total US dollars (US$m)
2023				
Average Syndicate funds available for investment	251.8	1,167.4	94.2	1,550.3
Investment return for the year	5.4	53.8	3.8	74.4
Calendar year investment return (%)	2.2	4.6	4.0	4.8
2022				
Average Syndicate funds available for investment	255.8	1,061.0	76.6	1,435.0
Investment return for the year	(4.5)	(22.4)	(0.4)	(28.6)
Calendar year investment return (%)	(1.7)	(2.1)	(0.5)	(2.0)

The full year result includes an investment profit of $74.4m (2022: loss of $28.6m) equating to a return of 4.8% (2022: negative return of 2.0%). Investment return includes net unrealised gains of $34.8m (2022: unrealised losses of $49.2m), net realised losses of $6.3m (2022: $7.1m) and income from investments net of expenses of $45.9m (2022: $27.7m). Investment return is due to the increase in coupon income and the mark-to-market impact from decreasing bond yields in the later part of the year. As a result, prior year unrealised losses have partly reversed. Refer to note 6 for further details of investment income, expenses and charges.

Financial position

The Syndicate's member's balance was $207.1m at 31 December 2023 (2022: $109.4m). The main components of the balance sheet are financial investments and technical provisions.

Financial investments consist primarily of debt securities, issued by governments, government agencies, or high-grade corporate entities and comprise 74.1% of the investment portfolio (2022: 77.8%). All investments are traded within liquid markets except for private debt funds, which comprise 2.4% of the investment portfolio (2022: 3.0%). The fair value of investments is determined predominantly by TUL's investment managers, using data from a number of sources including index providers, commercial valuation providers and broker-dealers. Private debt fund investments are valued by the debt fund providers using modelling techniques and analysis. At 31 December 2023, the fair value of investments was $1,439.5m (2022: $1,375.3m) and the portfolio composition, as well as further details on valuation methodology, is shown in note 10.

Technical provisions include a provision for claims outstanding of $1,920.8m (2022: $2,066.5m) and a provision for unearned premiums of $745.4m (2022: $671.6m). The reinsurers' share of technical provisions is $719.6m (2022: $836.5m) in respect of outstanding claims and $139.3m (2022: $100.6m) for reinsurers' share of unearned premiums. Refer to note 3 for further details on the reserving methodologies used for claims provisions and the judgements and uncertainties involved.

Capital

The capital model is used to set the Syndicate's capital. The Syndicates managed by TUL comply with Lloyd's capital setting processes, which are described in more detail in note 19.

Lloyd's unique capital structure provides excellent financial security to policyholders and capital efficiency for members. Lloyd's is A rated by A.M. Best, AA- by Fitch Ratings, AA- by Kroll Bond Rating Agency and AA- by Standard & Poor's. This chain of security provides the financial strength that ultimately backs the insurance written through Lloyd's.

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

The Syndicate's 2024 underwriting plan is fully capitalised with FAL that is entirely provided by AIG, which is A rated by A.M. Best and A+ by Fitch Ratings and Standard & Poor's.

Report of the Directors of the Managing Agent (continued)

Future developments

The Syndicate capacity for the 2024 underwriting year of account has reduced to £950m (2023: £1,023m; 2022: £870m). This reduction in capacity follows the sale of the Syndicate's Treaty reinsurance business on 1 November 2023.

TUL shares IT infrastructure and support functions with Validus Re. The sale of Validus Re by AIG has necessitated separation, and accelerated the alignment of IT and operations with AIG. Whilst enabling greater strategic and operational alignment of TUL with AIG, it will involve future changes to information technology infrastructure, business applications and processes.

Additionally, TUL will relocate to the AIG London office in the first half of 2024, providing the opportunity to further embed TUL's position within the AIG UK franchise as AIG's centre of underwriting excellence at Lloyd's.

TUL will continue to benefit strategically from the backing of AIG's General Insurance business from both a commercial and capital perspective. TUL and the Syndicate remain a core part of AIG's strategy, providing the group access to the Lloyd's market. TUL has set out strategic and growth initiatives to develop its underwriting capability, develop operational capability and strengthen its partnership with AIG.

The continued focus on rate adequacy and a reinsurance programme that leverages AIG's relationships means that the Syndicate is well positioned moving into 2024. TUL will continue to respond, as required through its risk management framework, to the changes in the global, political and economic environment.

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

Principal risks and uncertainties

The principal risks and uncertainties to the Syndicate are insurance, credit, liquidity, market, operational and climate risks. A description of these principal risks and uncertainties as well as details around TUL's wider risk management framework is set out in note 4 to the financial statements (risk management). Emerging risks and uncertainties associated with environmental, social and governance (ESG) responsibilities are also disclosed in note 4.

Geopolitical uncertainty remains elevated due to the ongoing conflict between Russia and Ukraine (where the Syndicate's exposure remains uncertain – refer to note 3 to the financial statements for further details), and more recently the escalation of tensions in the Middle East. TUL continues to analyse and monitor its potential exposure across its portfolio of business, through its Aggregate Risk Committee, as well as to manage emerging risks in line with its risk management framework. TUL has so far experienced no adverse impact to its operational risk arising from these conflicts and continues to monitor and respond to all changes in applicable sanctions regimes.

Whilst the US and UK levels of high inflation may have peaked in 2023, a continued period of elevated inflation above the Federal Reserve and Bank of England targets is forecasted. TUL will continue to monitor the need for rate increases to keep pace with rising claims costs resulting from inflationary pressures, as well as consider the appropriate inflation assumptions used in reserving methodologies.

The Syndicate is wholly aligned to one member, Talbot 2002 Underwriting Capital Ltd, which is part of the group of companies parented by AIG. The capital and solvency position of the Syndicate remains robust following its performance in 2023 and continued support from AIG, as evidenced by its commitment of capital support for the 2024 Syndicate Business Plan, and the renewal of the member level reinsurance agreement for 2024 with AIG group entities. The Syndicate has available resources, including those through its wholly aligned member's reinsurance, to mitigate all modelled stress scenarios.

Report of the Directors of the Managing Agent (continued)

Directors

The Directors of the Managing Agent during the period from 1 January 2023 to the date of this report were as follows:

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

Active Underwriter

I Peterson

Company Secretary

M-C Gallagher

Statutory Information

Disclosure of information to auditors

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

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

Annual General Meeting

Subject to the consent of Lloyd's, it is not intended to hold a Syndicate Annual General Meeting in 2024.

Report of the Directors of the Managing Agent (continued)

Statement of Managing Agent's responsibilities

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

The Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these accounts, the Directors are required to:

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

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

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

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

RD Cowling, Chief Financial Officer
27 February 2024

Independent auditors' report to the member of Syndicate 1183
Report on the audit of the Syndicate annual accounts

Opinion

In our opinion, Syndicate 1183's syndicate annual accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2023 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Report and Accounts (the "Annual Report"), which comprise: the balance sheet as at 31 December 2023; the profit and loss account: technical account - general business, the profit and loss account: non-technical account, the statement of cash flows, and the statement of changes in member's balance for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 8, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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

In auditing the syndicate annual accounts, we have concluded that the Managing Agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is appropriate.

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

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

Reporting on other information

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

Independent auditors' report to the member of Syndicate 1183 (continued)

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

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

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2023 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the Managing Agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

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

Independent auditors' report to the member of Syndicate 1183 (continued)

Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Paul Pannell (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2024

Profit and loss account: technical account – general business

For the year ended 31 December 2023

	Note	2023 $m	2022 $m
Gross premiums written	5	1,414.7	1,285.8
Outwards reinsurance premiums		(440.4)	(367.4)
Net premiums written		974.3	918.4
Change in gross provision for unearned premiums		(65.7)	(25.7)
Reinsurers' share of change in the provision for unearned premium		37.6	14.8
Change in the net provision for unearned premiums		(28.1)	(10.9)
Earned premiums, net of reinsurance		946.2	907.5
Allocated investment return transferred from the non-technical account		71.8	(28.6)
Gross claims paid		(722.4)	(666.7)
Reinsurers’ share of claims paid		213.6	222.4
Claims paid net of reinsurance		(508.8)	(444.3)
Change in the gross provision for claims		163.2	(296.2)
Change in the provision for claims, reinsurers’ share		(120.2)	258.1
Change in the net provision for claims		43.0	(38.1)
Claims incurred, net of reinsurance		(465.8)	(482.4)
Net operating expenses	8	(332.8)	(317.6)
Balance on the technical account for general business		219.4	78.9

Profit and loss account: non-technical account

For the year ended 31 December 2023

	Note	2023 $m	2022 $m
Balance on the technical account for general business		219.4	78.9
Investment income	6(a)	55.4	30.7
Unrealised gains on investments		36.0	5.0
Investment expenses and charges	6(b)	(15.8)	(10.1)
Unrealised (losses) on investments		(1.2)	(54.2)
		74.4	(28.6)
Allocated investment return transferred to the technical account		(71.8)	28.6
Loss on exchange		(1.2)	(1.0)
Profit for the financial year		220.8	77.9

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

Balance sheet

As at 31 December 2023

	Note	2023 $m	2022 $m
Assets			
Investments	10	1,439.5	1,375.3
Deposits with ceding undertakings		4.3	6.7
Reinsurers' share of technical provisions:			
Provisions for unearned premiums	14	139.3	100.6
Claims outstanding	14	719.6	836.5
		858.9	937.1
Debtors			
Debtors arising out of direct insurance operations	11	369.0	349.1
Debtors arising out of reinsurance operations	12	261.9	315.3
Other debtors	13	42.1	12.4
		673.0	676.8
Other assets			
Cash at bank and in hand		154.1	61.1
Deferred acquisition costs		120.1	107.5
		274.2	168.6
Total assets		3,249.9	3,164.5
Liabilities			
Capital and reserves			
Member's balance		207.1	109.4
Technical provisions			
Provision for unearned premiums	14	745.4	671.6
Claims outstanding	14	1,920.8	2,066.5
		2,666.2	2,738.1
Creditors			
Creditors arising out of direct insurance operations	15	3.4	5.5
Creditors arising out of reinsurance operations	16	267.7	222.5
Other creditors including taxation and social security	17	70.4	63.5
		341.5	291.5
Other Liabilities			
Accrued expenses		4.9	3.7
Reinsurers' share of deferred acquisition costs		30.2	21.8
		35.1	25.5
Total member's balance and liabilities		3,249.9	3,164.5

The notes on pages 17 to 46 are an integral part of these financial statements. The financial statements on pages 12 to 46 were approved by the Board of Directors on 23 February 2024 and signed on its behalf by:

RD Cowling, Chief Financial Officer
27 February 2024

Statement of changes in member's balance

For the year ended 31 December 2023

	Note	2023 $m	2022 $m
Balance at 1 January		109.4	28.0
Profit for the financial year		220.8	77.9
Distribution of profit transferred to Funds in Syndicate	20	65.0	-
Funds in Syndicate released to member	20	(67.6)	-
(Distributions) / cash call		(120.5)	3.5
Balance at 31 December		207.1	109.4

The member participates on the Syndicate by reference to underwriting year of account.

Statement of cash flows
For the year ended 31 December 2023

	2023 $m	2022 $m
Profit for the year	220.8	77.9
(Decrease) / increase in gross technical provisions	(97.4)	321.9
(Decrease) / increase in reinsurers' share of gross technical provisions	82.6	(272.9)
(Decrease) / increase in debtors	43.9	(166.3)
Increase in creditors	60.9	87.4
Movement in other assets / liabilities	(3.0)	10.6
Investment return	(74.4)	28.6
Foreign exchange	5.5	1.0
Net cash flows from operating activities	238.9	88.2
Cash flows from investing activities		
Purchase of debt instruments	(592.4)	(521.0)
Sale of debt instruments	601.8	395.5
Investment income received	43.3	27.7
Other	(5.9)	(9.9)
Net cash flow from investing activities	46.8	(107.7)
Cash flows from financing activities		
Cash call from member	-	3.5
Distribution to member	(120.5)	-
Distribution of profit transferred to Funds in Syndicate	65.0	-
Funds in Syndicate released to member	(67.6)	-
Net cash flow from financing activities	(123.1)	3.5
Net increase / (decrease) in cash and cash equivalents	162.6	(16.0)
Foreign exchange on cash and cash equivalents	0.1	(3.9)
Cash and cash equivalents at beginning of year	167.1	187.0
Cash and cash equivalents at end of year	**329.8**	**167.1**
Cash at bank and in hand	154.1	61.1
Short term investments – cash equivalents	175.7	111.7
Amounts owed to credit institutions	-	(5.7)
Cash and cash equivalents at end of year	**329.8**	**167.1**

Notes to the financial statements

1 Basis of preparation

The accounts of Syndicate 1183 have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), Insurance Contracts standard (FRS 103) and Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Having assessed the principal risks to the Syndicate, the Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Therefore, they consider it appropriate to continue to adopt the going concern basis of accounting in preparing these accounts.

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

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

2 Accounting policies

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

(a) Insurance contracts – classification

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

(b) Gross premiums written

Gross premiums written comprise premiums on contracts that have been entered into and incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of acquisition costs such as brokerage payable and exclude taxes and duties levied on them. Premiums include estimated amounts of premium due but not yet received or notified – refer to note 3 for more details on premium estimates.

(c) Outwards reinsurance premiums

Outwards reinsurance premiums written comprise premiums for contracts incepted during the financial year as well as adjustments made in the year to outwards reinsurance premiums written in prior accounting periods.

(d) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The provision for unearned premiums is calculated on a daily pro rata basis. Outward reinsurance premiums are earned according to the type of policy. For losses occurring during (LOD) contracts, premiums are earned on a straight-line basis over the period of coverage. For risks attaching during (RAD) contracts, premiums are earned in line with the gross premiums to which the risk attaching contract relates.

(e) Claims incurred

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

Notes to the financial statements (continued)

2 Accounting policies (continued)

(f) Claims provisions and related reinsurance recoveries

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

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

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

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

Provisions are calculated initially gross of any reinsurance recoveries. The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated non-recoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

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

The factors above bring considerable uncertainty to the process of estimating earned ultimate losses and earned claims provisions. This uncertainty is increased for reinsurance business compared with insurance business due to the increased number of parties in the chain of reporting from the original claimant to the reinsurer.

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

(g) Unexpired risks provision

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

The provision for unexpired risks is calculated at the whole account level and by underwriting year of account, after taking into account relevant investment return. There are no unexpired risk provisions to be reported in the current or prior year.

(h) Acquisition costs

Acquisition costs, comprising brokerage and taxes and duties levied are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

2 Accounting policies (continued)

(i) Foreign currency

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

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

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

	2023		2022	
	Average	Closing	Average	Closing
Sterling	0.80	0.78	0.81	0.83
Canadian dollar	1.35	1.32	1.30	1.35

(j) Investment return

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

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

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

(k) Financial assets and liabilities

Financial assets

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

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

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

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

2 Accounting policies (continued)

(k) Financial assets and liabilities (continued)

Financial liabilities

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

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

Insurance debtors and creditors

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

(l) Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate on behalf of the member 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 the member on underwriting results.

(m) Profit commissions

Profit commissions payable to the managing agency, which are expected to arise on closure of a Lloyd’s underwriting year of account, are recognised on an accruals basis and taking into consideration any deficit clauses.

(n) Member’s balance and distribution

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

(o) Comparative disclosures

Comparative balances in notes 4(b) and 4(c) for 31 December 2022 have been reclassified to be consistent with the current year presentation in respect of a $5.7m cash overdraft being included within other creditors including taxation and social security balances, rather than within cash in hand.

3 Key judgements and uncertainties

Premium estimates

Significant estimates include premium estimates and the earning pattern of recognising premium over the life of a policy. Premium written is initially based on the estimated premium income (EPI) of each policy. Where premium is sourced through binders, the binder EPI is assumed to attach and is therefore written evenly over the binder period. The underwriters adjust their EPI and therefore written premium is adjusted as the underwriting year develops and as new information becomes available. EPI is automatically adjusted to signed premium at set points in time depending on the nature of the policy. A source of uncertainty arises from the fact that, at any given point in time, the EPI could be different to final signed premium, thereby leading to an adjustment that could be material in aggregate at a whole account level. To reduce this uncertainty, management complete detailed reviews of EPI and signed premium to demonstrate reasonableness of the estimates being used.

Premiums typically are earned on a straight-line basis over the life of each policy. At a whole account level this is considered to provide a reasonable estimate for the full year of the pattern of risk over the coverage period.

3 Key judgements and uncertainties (continued)

Premium estimates (continued)

The majority of premium estimation arises with binder and lineslip estimates where the premium amounts are dependent on the volume of policies that attach to the binder/lineslip over the coverage period.

Claims provision

Significant estimates include the estimate for insurance losses incurred but not reported (IBNR), which is included in claims outstanding and reinsurers' share of outstanding claims in the balance sheet. This estimate is significant as it outlines the current liability for future expenses expected to be incurred in relation to claims. If this estimation was to prove inadequate then an exposure would arise in future years where a liability has not been provided for. The total estimate for insurance losses incurred but not reported gross of reinsurers' share at 31 December 2023 is $1,123.6m (2022: $1,263.7m). The total estimate for insurance losses incurred but not reported net of reinsurers' share at 31 December 2023 is $642.0m (2022: $669.8m).

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

- Future development of inward claims, both reported but unsettled, and incurred but not reported;
- Corresponding reinsurance recoveries, including reinsurance specific considerations such as the basis of aggregation for the application of retentions and limits; and
- The splits of future claim liabilities between earned and unearned exposures.

Assumptions and expert judgements made to quantify these uncertainties are produced by in-house actuarial, claims and underwriting personnel, and are adopted only after suitable discussion and challenge from management, the Reserve Committee and the Audit Committee. Supporting their production are:

- Monthly and quarterly claims and premium data, both gross and net of reinsurance, with the claims data being both paid and reported and being segmented by the Syndicate's chosen loss type splits;
- Quarterly underwriter updates on expected premium volumes and rating levels in light of business written and prevailing market conditions;
- Ongoing monitoring of developing claims experience relative to that implied/expected from the reserving model, with quarterly assessment of suitability of actuarial reserving assumptions in light of emerging experience; and
- Annual detailed reviews of actuarial assumptions used in the reserving model, including discussions of impact of business mix, rate movements, underwriting strategies, reinsurance protection, etc., on these assumptions.

The reserving model utilises standard actuarial projection techniques (e.g. Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio, and Generalised Cape Cod) for the attritional losses. Exposure-based approaches supported by claim-specific information are used for known large risk and catastrophe losses, with greater weight being placed on claim-specific information for large risk losses and for large catastrophe losses as the loss in question matures and develops.

Allowance is made for future loss adjustment expenses, which are also subject to estimation. Consideration is given to the level of loss adjustment expenses incurred annually, with estimates of loss adjustment expenses considered as a proportion of gross claims reserves, with the reasonableness of the estimate is assessed through benchmarking

The assumptions and expert judgements are applied in line with the Syndicate's reserving philosophy, and are intended to state the claim liability provisions on an undiscounted earned best estimate basis. A management reserve margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty.

Specific reserving uncertainties as at 31 December 2023 include the COVID-19 pandemic and the Russia-Ukraine conflict, where a management reserve margin has been applied. Additionally, the continuing high inflationary environment also remains an area of specific reserve uncertainty. Further details are included below.

Notes to the financial statements (continued)

3 Key judgements and uncertainties (continued)

COVID-19 pandemic

Technical provisions include amounts relating to COVID-19 arising in the discontinued Contingency class of business. Net technical provisions include $27.9m (2022: $43.8m) relating to COVID-19.

Gross reserve uncertainty relating to COVID-19 has decreased relative to 2021 and 2022, given a small number of outstanding inward claims. Uncertainty remains over the COVID-19 reinsurance recoveries. The Syndicate's aged reinsurance recoveries past 6 months, shown in note 4(b), are due mainly to these COVID-19 claims. Outstanding positions have been paid by reinsurers during 2023 and the remaining positions are being progressed towards settlement. The Syndicate's outstanding reinsurance recoveries at 31 December 2023 for COVID-19 claims are with reinsurers with an A rating or higher.

Russia-Ukraine conflict

The Russia-Ukraine conflict presents a unique set of circumstances that make any exposure or coverage analysis complex.

At 31 December 2023, TUL's principal potential exposure related to Aviation War claims. In that regard, during 2023, there were a number of settlements between aircraft lessors and Russian entities resulting in a reduction in overall gross potential exposure. In addition, during the period, legal proceedings continued or commenced in a number of cases. The evidence, including expert evidence, continues to be developed in those proceedings. These legal proceedings are not expected to result in judicial determinations any of the issues below until very late 2024 or 2025. At the current time, any potential exposure continues to remain highly uncertain for a variety of reasons including, but not limited to:

- Whether or to what extent any loss has occurred;
- Whether efforts have been undertaken by insureds to mitigate any loss;
- Whether any loss can be recovered or reduced from other sources;
- Whether any loss that has occurred is caused by war or non-war perils;
- Which limits in the relevant policies will be applicable to any loss; and
- Whether any loss occurred before or after the relevant jurisdictions were excluded from the scope of cover (where applicable) and the effect of such exclusion.

TUL has analysed its potential exposures, including the impact of settlements between lessors and Russian entities, the likely response of any reinsurance as well as the wider financial and operational challenges arising from the conflict. In order to arrive at a loss estimate, a number of scenarios were defined by assuming different outcomes reflecting certain of the uncertainties identified above. A potential loss estimate was generated for each scenario. The updated loss estimate used is based on management's current judgement on probabilities based on the information currently available.

At 31 December 2023, the Syndicate's technical provisions include an allowance net of reinsurance and inclusive of reinstatement premiums for the Russia-Ukraine conflict, which reflects potential exposure described above in the Aviation War class, as well as exposures in the Political Violence, Political Risk and Treaty classes. The ultimate outcomes and loss estimates may be materially different from the assumptions made.

The Syndicate's outwards reinsurance is with counterparties with an A rating or higher and appropriate assumptions have been made for the scenarios noted above. In addition, the Syndicate's wholly aligned member benefits from reinsurance from AIG, which responds in the event of a major loss. Whilst the environment remains complex and the outcome uncertain, modelled stress scenarios are all within the Syndicate's financial risk tolerance.

Inflationary environment

TUL continues to monitor and assess the impact of social and financial inflation on the Syndicate's business. US inflation indices have remained higher than long-term rates throughout 2023 and, whilst inflation is now returning towards the central bank targets during 2023, the US Consumer Price Index (CPI) remains 1.7 times above target at 3.4% in December 2023 (6.5% December 2022). The Federal Reserve targets inflation of 2.0% over the long run, as measured by the annual change in the price index for personal consumption expenditures. Similarly, the Bank of England's Monetary Policy

3 Key judgements and uncertainties (continued)

Inflationary environment (continued)

Committee (MPC) sets monetary policy to meet a 2.0% inflation target. Forecasts predict that US & UK inflation will remain above targets during 2024.

Claims provisions for the 2022 and prior underwriting years of account have been stress tested using different inflationary uplifts, with allowance made for this uncertainty in net technical provisions. In 2022, TUL established an Inflation Risk Working Group to assess and monitor risks relating to the inflationary environment, including modelling and stress testing for different inflationary scenarios. Analysis includes the selection of applicable inflation factors for each class by combining and weighting different economic indices, where appropriate. Comparison is made between the updated total claims inflation estimates to the exposure inflation included within the historical rate assumptions and the difference between these is applied to produce updated loss ratio assumptions, which are used within our reserve projection methods. This explicit approach is applied to the 2022 and prior underwriting years of account; the ongoing inflationary environment is allowed for in the 2023 underwriting year of account reserving loss ratio selections.

4 Risk management

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

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

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

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

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

TUL's Risk Management function provides senior management with a consolidated view of key risks and supports the business and management in the embedding of risk management in business processes and in identifying, assessing, quantifying, managing, monitoring, reporting and mitigating risk exposures. This includes risks related to changing climate conditions, and tracking societal changes that could impact operations and elevate reputational risks.

TUL has developed its Environmental, Social and Governance (ESG) Framework with oversight from the Board. The ESG Framework is also aligned to AIG Group and Lloyd's requirements.

Notes to the financial statements (continued)

4 Risk management (continued)

(a) Insurance risk

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

Underwriting risk

Underwriting risk arises from differences in timing, frequency, aggregation, coverage and severity of insured events, relative to expectations at the time of underwriting, as well as inappropriate pricing, selection and approval of insurance risks. Underwriting strategy is agreed by the Board and set out in the Syndicate business plan that is submitted to the Society of Lloyd's for approval each year. Underwriting is aligned with the Syndicate's strategy, agreed business plan and underwriting policy.

The Underwriting Committee meets regularly to guide the underwriting strategy and to monitor performance against plans. The assessment of underwriting performance considers underwriting metrics, technical pricing management information, premium monitoring, delegated underwriting operations and claims. The risks are managed by the business and overseen by the Committee in line with the underwriting policy.

A key contributor to underwriting risk is catastrophe accumulations, whether natural or man-made. Various controls exist within the business to ensure that the Syndicate accurately records and monitors these accumulations. In addition, TUL underwrites across a broad diversity of business lines, conducts regular reviews of risk appetite and also purchases reinsurance, with an appropriate number of reinstatements, to manage net risk within the Board's appetite. The Syndicate also has exposure to various kinds of man-made catastrophe events including war, terrorism and other geopolitical conflict. TUL's Risk Appetite Framework establishes and maintains appropriate limits on the material risks identified. A significant proportion of the catastrophe-related risks that TUL underwrites are renewed on an annual basis. This provides TUL the opportunity regularly to re-underwrite and re-price the risk.

TUL uses a blend of proprietary and third-party risk models to help better understand the frequency and severity of natural catastrophe risk. TUL has assembled a collection of hazard and engineering data, client and industry exposure, and loss information, all of which have been used to analyse the external catastrophe models, inform catastrophe model selections, and support catastrophe model calibrations which form the in-house view of catastrophe risks impacting underwriting. For weather perils, TUL models the following: (1) cyclones, typhoons and hurricanes; (2) storm surge; (3) flooding; (4) wildfires; (5) severe convective storms; and (6) extratropical storms. Catastrophe risk is also represented in the Internal Model and this includes validation and governance around model selection, model peril evaluation, model use, and model change. Wider climate risk impacts to the Syndicate and their mitigation are detailed in note 4(f) below.

Reserving risk

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

The Syndicate has exposure to volatile lines of business that carry inherent risk that the ultimate claims settlement will vary from our assessments of reserves. The Reserve Committee and Audit Committee are responsible for overseeing, challenging and setting the level of reserves held in the Syndicate. The Syndicate reserves are also subject to an annual, formal independent actuarial opinion. The actuarial opinions are covered by a combination of formal Actuarial Professional Standards and specific Lloyd's guidance and rules.

Note 3 contains additional details around the key judgements and uncertainties involved in the estimate for claims provisions as well as how these are managed and overseen. The Syndicate also has in place detailed procedures and controls to manage and monitor the handling and assessment of claims and the setting of appropriate reserves. Note 14 includes further detail on claims provisions and claims development triangles.

4 Risk management (continued)

(b) Credit risk

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

Investment counterparties

Investment guidelines ensure that the Syndicate's investments are held in high quality instruments. The portfolio is monitored for concentration with respect to issuers and credit ratings. Credit risk exposures are calculated regularly and compared with authorised credit limits before further transactions are undertaken with counterparties. Of the total investments and cash as at 31 December 2023, 84.2% (2022: 86.1%) are with counterparties having a credit agency rating of A or better. US Government credit ratings were downgraded by rating agencies during 2023 resulting in a reduction of AAA and increase in AA rated debt securities.

Reinsurance counterparties

Reinsurance is placed with reinsurers who generally have a rating of A or above and who have a good record of claims payment. New reinsurers are approved by the Broker and Reinsurance Security Committee (which is a sub-committee of the Finance Committee). As at 31 December 2023, 90.5% (2022: 91.7%) of reinsurance balances receivable is with reinsurers with a credit agency rating of A or greater.

Broker and coverholder counterparties

Underwriters may only write business through an approved counterparty. New broker counterparties are approved by the Broker and Reinsurance Security Committee and new coverholder counterparties are approved by the Delegated Authority Oversight Group (which is a sub-committee of the Insurance Management Committee).

Balances with investment and reinsurance counterparties are rated as follows:

	AAA	AA	A	BBB	<BBB	Not rated	Total
As at 31 December 2023	$m	$m	$m	$m	$m	$m	$m
Debt securities and other fixed income securities	68.1	600.7	272.9	124.9	-	-	1,066.6
Shares and other variable yield securities	175.8	-	-	-	-	13.4	189.2
Debt funds	-	-	-	-	-	34.1	34.1
Lloyd's overseas deposits	54.6	9.9	6.6	6.5	21.7	50.3	149.6
Deposits with ceding undertakings	-	-	4.3	-	-	-	4.3
Reinsurers' share of claims outstanding	-	187.0	452.7	-	-	79.9	719.6
Insurance and reinsurance premium receivable	-	-	-	-	-	483.2	483.2
Reinsurance recoveries on paid claims	-	39.8	105.8	-	-	2.1	147.7
Cash at bank and in hand	-	19.2	134.3	-	-	0.6	154.1
	298.5	856.6	976.6	131.4	21.7	663.6	2,948.4

Notes to the financial statements (continued)

4 Risk management (continued)

(b) Credit risk (continued)

As at 31 December 2022 Restated	AAA $m	AA $m	A $m	BBB $m	<BBB $m	Not rated $m	Total $m
Debt securities and other fixed income securities	597.8	164.8	230.8	76.9	-	-	1070.3
Shares and other variable yield securities	111.7	-	-	-	-	12.1	123.8
Debt funds	-	-	-	-	-	41.9	41.9
Lloyd’s overseas deposits	51.0	13.0	6.7	7.0	30.1	31.5	139.3
Deposits with ceding undertakings	-	-	6.7	-	-	-	6.7
Reinsurers’ share of claims outstanding	-	305.2	445.2	-	-	86.1	836.5
Insurance and reinsurance premium receivable	-	-	-	-	-	446.9	446.9
Reinsurance recoveries on paid claims	-	50.2	165.8	-	-	1.5	217.5
Cash at bank and in hand	-	-	61.1	-	-	-	61.1
	760.5	533.2	916.3	83.9	30.1	620.0	2,944.0

Notes to the financial statements (continued)

4 Risk management (continued)

(b) Credit risk (continued)

The Syndicate has premiums receivable and reinsurance recoverables that are past due at the reporting date as follows:

	Up to 3 months past due	3 to 6 months past due	6 months to 1 year past due	Greater than 1 year past due	Total
As at 31 December 2023	$m	$m	$m	$m	$m
Insurance and reinsurance premiums	97.1	41.5	20.0	3.2	161.8
Reinsurance recoveries on paid claims	2.9	10.2	3.0	47.7	63.8
	100.0	51.7	23.0	50.9	225.6

	Up to 3 months past due	3 to 6 months past due	6 months to 1 year past due	Greater than 1 year past due	Total
As at 31 December 2022	$m	$m	$m	$m	$m
Insurance and reinsurance premiums	64.1	20.8	14.4	2.7	102.0
Reinsurance recoveries on paid claims	67.1	29.9	16.7	59.7	173.4
	131.2	50.7	31.1	62.4	275.4

The amounts past due date are not considered to be impaired based on historical payment behaviour and analysis of credit risk. Refer to note 3 for further details relating to reinsurance recoveries for COVID-19 claims. There are no other assets that are past due at the reporting date.

4 Risk management (continued)

(c) Liquidity risk

Liquidity risk is defined as the risk that the Syndicate is unable to pay debts or meet regulatory funding requirements as they fall due and can arise if the assets held to settle liabilities are either unable to be realised or they are only realisable at materially below market value.

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

At 31 December 2023, the average duration of Syndicate funds to maturity was 1.8 years (2022: 1.6 years) compared to 1.9 years (2022: 1.9 years) for Syndicate claims outstanding.

At 31 December 2023	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial liabilities						
Technical provisions - claims outstanding	-	896.9	674.6	209.0	140.3	1,920.8
Creditors arising out of direct insurance operations	-	3.4	-	-	-	3.4
Creditors arising out of reinsurance operations	-	267.5	-	-	-	267.5
Other creditors including taxation and social security	-	70.4	-	-	-	70.4
	-	1,238.2	674.6	209.0	140.3	2,262.1

At 31 December 2022 Restated	No contractual maturity date $m	< 1 year or on demand $m	Between 1 and 3 years $m	Between 3 and 5 years $m	> 5 years $m	Total carrying value $m
Financial liabilities						
Technical provisions - claims outstanding	-	986.1	723.7	214.9	141.8	2,066.5
Creditors arising out of direct insurance operations	-	5.5	-	-	-	5.5
Creditors arising out of reinsurance operations	-	222.4	0.1	-	-	222.5
Other creditors including taxation and social security	-	57.8	-	-	-	57.8
	-	1,271.8	723.8	214.9	141.8	2,352.3

4 Risk management (continued)

(d) Market risk

Market risk is the risk that the value of a portfolio of assets will decline due to changes in market factors. These factors include stock market prices, interest rates, foreign exchange rates and commodity prices. The Syndicate only holds variable yield securities and does not hold shares or commodities, it is not directly exposed to the price risk relating to them. Further detail of investments is shown in note 10.

Interest rate risk

This is the risk that an increase in interest rates or volatility in the fixed income markets could result in significant unrealised or realised losses in the market value of the investment portfolio. The Syndicate is exposed to interest rate risk arising on interest bearing assets. Assets with floating interest rates expose the Syndicate to cash flow interest rate risk. Fixed interest rate assets expose the Syndicate to fair value risk. The Syndicate's strategy is to invest in high quality, liquid, fixed and floating rate interest securities and cash and actively to manage duration. The investment portfolios are actively managed to achieve a balance between cash flow interest rate risk and fair value interest rate risk bearing in mind the need to meet the liquidity requirements of the business. If interest rates were to have increased/decreased by 2.0%, investment return for the year would have been lower/higher by $57.3m (2022: $46.5m).

Foreign exchange risk

This is the risk that foreign exchange rate movements could impact the valuation of assets and liabilities in the Syndicate's reporting currency. While the Syndicate's results are reported in US dollars, funds are also held in other non-US dollar currencies, primarily sterling. Therefore, there is a risk that fluctuations in exchange rates may have an impact, possibly significant on the Syndicate's results and net assets. To manage the economic effect of this exposure, funds by currency are reviewed against liabilities by currency on a quarterly basis. Where practical, assets and liabilities are matched by currency after consideration has been given to the overall TUL group position with the aim of holding surplus funds in US dollars. To give an indication of the sensitivity of the Syndicate's result to this risk, if the US dollar were to have weakened/strengthened against Sterling and Canadian dollar by 5.0%, the member's balance for Canadian dollars would have been higher/lower by $4.6m and Sterling $8.2m (2022: Canadian dollar $4.9m and Sterling $5.2m).

Notes to the financial statements (continued)

4 Risk management (continued)

(d) Market risk (continued)

Currency risk

The Syndicate transacts business in several different currencies. US dollar is the largest currency exposure in the Syndicate. Assets are held in each of the currencies to match the relevant liabilities. The Syndicate monitors that assets match liabilities by currency and takes corrective action where a mismatch arises.

The profile of the assets and liabilities, categorised by currency at their translated carrying amounts is as follows:

At 31 December 2023	US dollar $m	Sterling $m	Euro $m	Canadian dollar $m	Australian dollar $m	Other $m	Total $m
Financial assets							
Debt securities and other fixed income securities	972.6	58.4	-	35.6	-	-	1,066.6
Shares and other variable securities	99.3	13.4	70.7	5.8	-	-	189.2
Debt funds	34.1	-	-	-	-	-	34.1
Lloyd's overseas deposits	7.0	-	-	11.7	59.4	71.5	149.6
Deposits with ceding undertakings	3.3	1.0	-	-	-	-	4.3
Reinsurers' share of technical provisions	774.6	80.3	-	4.0	-	-	858.9
Insurance and reinsurance premium receivable	490.7	133.7	-	1.2	5.3	-	630.9
Other assets	103.3	56.6	-	1.3	-	1.0	162.2
Cash at bank and in hand	29.3	48.8	0.1	11.1	54.3	10.5	154.1
Total assets	2,514.2	392.2	70.8	70.7	119.0	83.0	3,249.9
Financial liabilities							
Technical provisions	2,175.5	462.1	-	28.6	-	-	2,666.2
Creditors arising out of direct insurance operations	3.0	0.4	-	-	-	-	3.4
Creditors arising out of reinsurance operations	229.4	37.8	-	0.5	-	-	267.7
Other liabilities	50.6	57.6	-	-	-	(2.7)	105.5
Total liabilities	2,458.5	557.9	-	29.1	-	(2.7)	3,042.8
Total assets less total liabilities	55.7	(165.7)	70.8	41.6	119.0	85.7	207.1

Notes to the financial statements (continued)

4 Risk management (continued)

(d) Market risk (continued)

Currency risk (continued)

At 31 December 2022	US dollar $m	Sterling $m	Euro $m	Canadian dollar $m	Australian dollar $m	Other $m	Total $m
Financial assets							
Debt securities and other fixed income securities	909.8	132.1	-	28.4	-	-	1,070.3
Shares and other variable securities	79.0	24.3	-	20.5	-	-	123.8
Debt funds	41.9	-	-	-	-	-	41.9
Lloyd's overseas deposits	7.3	-	-	11.1	59.7	61.2	139.3
Deposits with ceding undertakings	3.9	2.8	-	-	-	-	6.7
Reinsurers' share of technical provisions	854.3	78.8	-	4.0	-	-	937.1
Insurance and reinsurance premium receivable	542.4	113.3	-	6.1	2.6	-	664.4
Other assets	70.3	48.4	-	0.5	-	0.7	119.9
Cash at bank and in hand	30.3	20.5	-	-	2.0	8.3	61.1
Total assets	2,539.2	420.2	-	70.6	64.3	70.2	3,164.5
Financial liabilities							
Technical provisions	2,267.6	444.6	-	25.9	-	-	2,738.1
Creditors arising out of direct insurance operations	3.8	1.7	-	-	-	-	5.5
Creditors arising out of reinsurance operations	188.4	34.0	-	0.1	-	-	222.5
Other liabilities	46.7	45.0	-	-	-	(2.7)	89.0
Total liabilities	2,506.5	525.3	-	26.0	-	(2.7)	3,055.1
Total assets less total liabilities	32.7	(105.1)	-	44.6	64.3	72.9	109.4

4 Risk management (continued)

(e) Operational risk

Operational risk is attributable to people, processes, systems and external events and is the risk these may give rise to losses in the Syndicate or wider group. This is a large risk group and the risks within it are managed widely across the business.

TUL shared IT infrastructure and support functions with Validus Re. The sale of Validus Re by AIG in November 2023 has necessitated separation, and accelerated the alignment of IT and operations with AIG. Whilst enabling greater strategic and operational alignment of TUL with AIG, it will involve future changes to information technology infrastructure, business applications and processes.

People risk is the risk that TUL fails to attract and retain an effective workforce, including failure to establish and maintain a culture that promotes TUL's values; is diverse and inclusive; facilitates employees to thrive; and deliver a competitive advantage. Management pays close attention to managing people risk, not least because of organisational change occurring at TUL as a result of the sale of Validus Re.

Operational risks are reported quarterly at the Operational Risk Committee and, if appropriate, are escalated to the Executive Committee and Board Risk Committee. When risks are reported, controls are put in place to mitigate the likelihood of the risk impacting the business.

A key element of TUL's operational risk focus includes compliance with Operational Resilience regulation. TUL has well established business continuity and disaster recovery plans in place and a Continuity Steering Group providing coverage of all front and back-office teams to oversee execution of these plans and adherence with the new Operational Resilience regulations. TUL continues to actively engage with Lloyd's on Operational Resilience and is focussed on embedding the Lloyd's principals, ongoing scenario testing and third party resilience. TUL is also focussed on digitalisation initiatives including the Lloyd's Blueprint 2.0 Phase 1 adoption.

(f) Environmental responsibilities and climate risk

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

TUL has also committed to no longer providing new insurance cover for thermal coal-fired power plants, thermal coal mines, oil sands or arctic energy exploration, as well as phasing out existing insurance risks with clients that derive 30 percent or more of their revenues from these industries by 1 January 2030 or sooner. This is in line with Lloyd's commitments.

TUL has committed to reduce its own greenhouse gas emissions by reviewing energy efficiencies in its facilities, business travel, printing and procurement areas. This is aligned to AIG Group's 'Operational Pathway to Net Zero emissions' by 2050 Programme with a "Path to Net Zero Operations Working Group" established in 2022.

The transition period to a low carbon economy is likely to provide opportunities to TUL's business strategy. With the possibility for new products and services to help clients and customers manage their climate-related risks and improving resource efficiency. TUL recognises the risks posed by climate change on its business and the need for a robust risk management response. Risks associated with climate change are commonly grouped under physical risks, transitional risks and liability risks.

Physical risks

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

Physical climate change risks may have financial impacts, for example by challenging TUL's ability to effectively underwrite, model and price catastrophe risk, particularly if there is change over time in the frequency and severity of catastrophic events. The nature of the business exposes TUL to various kinds of natural disaster, such as hurricanes, tornadoes, windstorms, hailstorms, floods, wildfires, and other natural catastrophes.

Notes to the financial statements (continued)

4 Risk management (continued)

(f) Environmental responsibilities and climate risk (continued)

Physical risks (continued)

TUL manages these physical risks through underwriting, in particular risk models that have been adjusted to allow for the impact of climate change over time providing forward-looking scenario analysis for natural catastrophe risk pricing. Further details are provided in note 4 (underwriting risks).

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

Transitional and liability risks

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

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

(g) Corporate and social responsibilities

TUL is committed both to making lasting, positive change to the communities in which we operate and to our employees. TUL values Diversity, Equity and Inclusion (DEI) and seeks to embed a culture of inclusion with a motivated and committed workforce, equipped with the skills required to deliver the strategy and perform at their best. TUL is committed to equitable pay and also identifies skill requirements and delivers these through training and recruitment designed to attract, develop and retain diverse talent. TUL works with a number of charities to raise funds and promote their cause, as well as supporting our communities, either by financial charitable contributions or by donating time to a range of volunteering initiatives. There are also a number of partnerships with non-profit initiatives, such as mentoring, to extend our charitable reach.

Notes to the financial statements (continued)

5 Segmental information

Year ended 31 December 2023	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Total $m
Direct business						
Accident and health	8.7	7.8	(3.3)	(6.2)	0.4	(1.3)
Motor	-	-	-	-	-	-
Marine, aviation & transport	93.4	88.2	(40.8)	(36.7)	(15.8)	(5.1)
Energy – marine	43.6	38.4	(45.1)	(12.7)	0.5	(18.9)
Energy – non-marine	84.7	77.9	(28.0)	3.6	(31.7)	21.8
Fire and other damage to property	352.2	320.2	(77.0)	(123.6)	(80.1)	39.5
Third party liability	141.6	164.6	(69.4)	(42.0)	(19.9)	33.3
Pecuniary loss	98.3	90.3	(2.5)	(17.6)	(17.9)	52.3
Total direct	822.5	787.4	(266.1)	(235.2)	(164.5)	121.6
Reinsurance business	592.2	561.6	(293.1)	(155.6)	(86.9)	26.0
Total	1,414.7	1,349.0	(559.2)	(390.8)	(251.4)	147.6

Year ended 31 December 2022	Gross premiums written $m	Gross premiums earned $m	Gross claims incurred $m	Gross operating expenses $m	Reinsurance balance $m	Total $m
Direct business						
Accident and health	7.1	7.1	(2.8)	(3.8)	-	0.5
Motor	-	-	(0.9)	-	0.7	(0.2)
Marine, aviation & transport	93.0	95.9	(71.1)	(33.7)	17.9	9.0
Energy – marine	32.9	32.2	(7.5)	(10.0)	(2.6)	12.1
Energy – non-marine	74.4	64.7	(34.8)	(7.5)	(14.6)	7.8
Fire and other damage to property	270.7	249.1	(218.7)	(88.3)	43.9	(14.0)
Third party liability	187.2	182.1	(109.4)	(46.9)	(10.6)	15.2
Pecuniary loss	90.0	92.3	(105.9)	(25.6)	41.5	2.3
Total direct	755.3	723.4	(551.1)	(215.8)	76.2	32.7
Reinsurance business	530.5	536.7	(411.8)	(146.8)	96.7	74.8
Total	1,285.8	1,260.1	(962.9)	(362.6)	172.9	107.5

The reinsurance balance represents the credit (charge) to the technical account from the aggregate of all items relating to outwards reinsurance. All premiums written are for contracts concluded in the UK.

Notes to the financial statements (continued)

5 Segmental information (continued)

The geographical analysis of gross premiums written by destination (domicile of the insured) is as follows:

	2023	2022
	$m	$m
UK	128.4	167.2
EU countries	123.4	101.7
US	685.2	562.8
Other	477.7	454.1
	1,414.7	1,285.8

6 Investment income, expenses and charges

(a) Investment income

	2023	2022
	$m	$m
Income from Investments	47.7	28.9
Gains on the realisation of Investments	7.7	1.8
	55.4	30.7

Included in the above is a gain of $2.6m (2022: nil) of investment return related to Funds in Syndicate deposited by Talbot 2002 Underwriting Capital Ltd into the Syndicate. Refer to note 20 to the financial statements for more detail.

(b) Investment expenses and charges

	2023	2022
	$m	$m
Investment management expenses	(1.8)	(1.2)
Losses on the realisation of investments	(14.0)	(8.9)
	(15.8)	(10.1)

7 Movement in prior year's provision for claims outstanding

There has been a reassessment of the net provision for claims outstanding held at the previous year end. The release in 2023 amounted to $8.0m (2022: $57.8m), attributable to the following classes of business:

	2023	2022
	$m	$m
Marine	1.0	20.5
Political Risk	6.6	7.5
Political Violence and War	(7.0)	11.0
Property	14.9	31.2
Specialty	(0.4)	(13.2)
Treaty	(7.1)	0.8
	8.0	57.8

Notes to the financial statements (continued)

8 Net operating expenses

	2023 $m	2022 $m
Brokerage and commission	230.6	205.2
Other acquisition costs	16.1	14.5
Acquisition costs	246.7	219.7
Acquisition costs - change in deferred acquisition costs	(3.0)	10.6
Administrative expenses	147.1	132.3
Gross operating expenses	390.8	362.6
Reinsurance commissions and profit participations	(58.0)	(45.0)
	332.8	317.6

Brokerage and commission for direct insurance business (included within the brokerage and commission total amount above) for the financial year amounted to $141.5m (2022: $129.9m).

An analysis of the amounts paid to the Syndicate's auditors and associates is given below. The audit and non-audit fees are borne by Talbot Underwriting Services Ltd (TUSL) and are incorporated in the management fee charged. Refer to note 18 for further details of the management fee.

	2023 $m	2022 $m
Fees payable to the Syndicate's auditors and their associates in respect of:		
Audit of the Syndicate annual accounts	0.5	0.5
Other services pursuant to legislation	0.4	0.4
	0.9	0.9

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

9 Employees and Directors

The Syndicate has no direct employees. The staff and key management personnel who provide services to the Syndicate are employed by various group companies, which are responsible for paying their remuneration. Key management personnel includes TUL Directors and the active underwriter. As disclosed in note 18, these group companies charge management fees to the Syndicate for providing services to the Syndicate. However, staff cost or numbers are not separately identified.

The estimated aggregate emoluments of the active underwriter allowed for within the management fees charged by group companies to the Syndicate were as follows:

	2023 $m	2022 $m
Aggregate emoluments	0.5	0.5
	0.5	0.5

The estimated key management personnel emoluments allowed for within the management fees charged by group companies to the Syndicate were as follows:

	2023 $m	2022 $m
Aggregate emoluments	2.4	2.7
	2.4	2.7

Included in the above are the estimated emoluments of the highest paid Director as follows:

	2023 $m	2022 $m
Aggregate emoluments	0.5	0.8
	0.5	0.8

10 Investments

	Cost 2023	Cost 2022	Market Value 2023	Market Value 2022
	$m	$m	$m	$m
Investments at fair value				
Debt securities and other fixed income securities	1,084.8	1,122.2	1,066.6	1,070.3
Shares and other variable yield securities	190.1	125.2	189.2	123.8
Debt funds	24.2	38.7	34.1	41.9
Lloyd's overseas deposits	149.6	139.3	149.6	139.3
Total	1,448.7	1,425.4	1,439.5	1,375.3
Investments at fair value analysis				
Government debt	375.6	407.8	376.2	401.3
Quasi Government debt	90.8	120.3	88.7	113.3
Corporate debt	442.9	368.2	439.1	347.9
Supranational debt	33.3	72.1	31.3	67.5
Asset backed securities	-	9.8	-	9.3
Mortgage backed securities	142.2	144.0	131.3	131.0
Short term investment - cash equivalents	175.8	111.7	175.8	111.7
Debt funds	24.2	38.7	34.1	41.9
Lloyd's overseas deposits	149.6	139.3	149.6	139.3
Loans to Lloyd's Central Fund	14.3	13.5	13.4	12.1
Total	1,448.7	1,425.4	1,439.5	1,375.3

Shares and other variable yield securities include short-term highly liquid investments of $175.8m (2022: $111.7m) and loans to the Lloyd's Central Fund of $13.4m (2022: $12.1m). Short–term highly liquid investments are readily convertible to known amounts of cash with an insignificant risk of change in value, i.e. cash equivalents. A fair value adjustment has been recognised in relation to the value of the Syndicate loan to the Lloyd's central fund where fair value is considered to be below the original cost. This loan is held at par value as a proxy for fair value.

Debt funds represent capital TUL has provided to a fund company in return for either a limited partner interest or shares in the fund. The fund company will in turn utilise this capital by purchasing a portfolio of private debt and mezzanine securities.

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

Fair value estimation

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

10 Investments (continued)

Fair value estimation (continued)

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

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

The debt funds have been classified as level 3 assets. The valuation techniques adopted by the fund company establishes the fair transaction price of the Syndicate's assets based upon modelling techniques and analysis which incorporates unobservable inputs for which market data is unavailable. The Syndicate's interest in the fund is a proportionate share of the underlying.

Loans to the Lloyd's Central Fund are classified as level 3 assets.

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

2023	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	496.2	570.4	-	1,066.6
Shares and other variable yield securities	175.8	-	13.4	189.2
Debt funds	-	-	34.1	34.1
Lloyd's overseas deposits	40.2	109.4	-	149.6
Total	712.2	679.8	47.5	1,439.5

2022	Level 1 $m	Level 2 $m	Level 3 $m	Total $m
Investments at fair value				
Debt securities and other fixed income securities	582.1	488.2	-	1,070.3
Shares and other variable yield securities	111.7	-	12.1	123.8
Debt funds	-	-	41.9	41.9
Lloyd's overseas deposits	26.2	113.1	-	139.3
Total	720.0	601.3	54.0	1,375.3

At 31 December 2023 the Syndicate had capital commitments to a number of debt fund companies up to a value of $31.7m (2022: $27.7m).

11 Debtors arising out of direct insurance operations

	2023	2022
	$m	$m
Premiums due from intermediaries within one year	368.9	349.0
Premiums due from intermediaries after one year	0.1	0.1
	369.0	349.1

12 Debtors arising out of reinsurance operations

	2023	2022
	$m	$m
Reinsurance premiums due from ceding insurers and intermediaries within one year	113.8	97.2
Reinsurance premiums due from ceding insurers and intermediaries after one year	0.4	0.6
Reinsurance recoveries on paid claims due from reinsurers and intermediaries within one year	147.7	217.5
	261.9	315.3

13 Other debtors

	2023	2022
	$m	$m
Amounts due from group companies	-	0.5
Investment receivables	30.0	-
Other debtors	5.1	6.8
Accrued interest	7.0	5.1
	42.1	12.4

Amounts owed by group companies are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Notes to the financial statements (continued)

14 Technical provisions

Year ended 31 December 2023	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	671.6	2,066.5
Movement	65.7	(163.2)
Exchange adjustment	8.1	17.5
As at 31 December	745.4	1,920.8
Reinsurers' share of technical provisions		
As at 1 January	100.6	836.5
Movement	37.6	(120.2)
Exchange adjustment	1.1	3.3
As at 31 December	139.3	719.6
Net technical provisions		
As at 31 December 2022	571.0	1,230.0
As at 31 December 2023	606.1	1,201.2

Year ended 31 December 2022	Provisions for unearned premium $m	Claims outstanding $m
Gross technical provisions		
As at 1 January	662.5	1,806.7
Movement	25.7	296.2
Exchange adjustment	(16.6)	(36.4)
As at 31 December	671.6	2,066.5
Reinsurers' share of technical provisions		
As at 1 January	87.4	585.3
Movement	14.8	258.1
Exchange adjustment	(1.6)	(6.9)
As at 31 December	100.6	836.5
Net technical provisions		
As at 31 December 2021	575.1	1,221.4
As at 31 December 2022	571.0	1,230.0

Notes to the financial statements (continued)

14 Technical provisions (continued)

Claims development triangles

Some business is not off-risk after the first 12 months, therefore it would be anticipated that cumulative claims will increase in the second year as this business is earned.

Whole account, underwriting year **Gross earned ultimate claims**	2013 and prior years $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	2022 $m	2023 $m	Total $m
12 months		312.5	268.9	266.7	475.4	319.6	282.9	294.6	379.8	453.2	377.8	
24 months		575.0	504.7	572.4	770.2	642.1	734.9	556.0	817.7	679.5	-	
36 months		612.5	516.5	600.2	792.2	730.0	759.1	589.7	780.4	-	-	
48 months		590.2	527.3	600.7	785.3	740.0	763.2	584.9	-	-	-	
60 months		601.9	541.9	611.5	777.1	805.1	789.1	-	-	-	-	
72 months		588.6	529.5	622.0	768.4	797.6	-	-	-	-	-	
84 months		568.5	523.5	622.1	769.5	-	-	-	-	-	-	
96 months		578.8	542.6	620.7	-	-	-	-	-	-	-	
108 months		545.6	539.9	-	-	-	-	-	-	-	-	
120 months		542.9	-	-	-	-	-	-	-	-	-	
Total gross earned ultimate losses		542.9	539.9	620.7	769.5	797.6	789.1	584.9	780.4	679.5	377.8	
Less paid claims		512.8	509.7	566.9	691.1	650.7	652.4	402.2	384.0	211.5	35.6	
Gross claims liabilities	55.4	30.1	30.2	53.8	78.4	146.9	136.7	182.7	396.4	468.0	342.2	1,920.8

Whole account, underwriting year **Net earned ultimate claims**	2013 and prior years $m	2014 $m	2015 $m	2016 $m	2017 $m	2018 $m	2019 $m	2020 $m	2021 $m	2022 $m	2023 $m	Total $m
12 months		265.9	230.4	229.6	291.3	240.2	211.7	251.3	256.7	277.7	271.3	
24 months		455.0	432.0	471.7	545.2	458.2	551.2	418.3	496.0	477.7	-	
36 months		474.2	438.6	502.9	556.0	519.9	562.6	423.9	482.9	-	-	
48 months		459.2	450.4	509.3	548.0	518.5	556.9	420.6	-	-	-	
60 months		461.9	462.6	512.8	536.5	521.1	569.6	-	-	-	-	
72 months		467.3	450.5	517.2	523.5	532.1	-	-	-	-	-	
84 months		454.3	446.8	514.6	529.0	-	-	-	-	-	-	
96 months		453.8	446.5	514.1	-	-	-	-	-	-	-	
108 months		438.8	445.5	-	-	-	-	-	-	-	-	
120 months		436.4	-	-	-	-	-	-	-	-	-	
Total net earned ultimate losses		436.4	445.5	514.1	529.0	532.1	569.6	420.6	482.9	477.7	271.3	
Less paid claims		411.5	419.8	473.0	480.5	467.2	475.6	304.5	280.8	174.5	28.6	
Net claims liabilities	38.0	24.9	25.7	41.1	48.5	64.9	94.0	116.1	202.1	303.2	242.7	1,201.2

Notes to the financial statements (continued)

15 Creditors arising out of direct insurance operations

	2023	2022
	$m	$m
Due within one year	3.4	5.5
	3.4	5.5

16 Creditors arising out of reinsurance operations

	2023	2022
	$m	$m
Due within one year	267.7	222.4
Due after one year	-	0.1
	267.7	222.5

17 Other creditors including taxation and social security

	2023	2022
	$m	$m
Amounts due to group companies	68.2	47.4
Investment payables	-	8.2
Amounts owed to credit institutions	-	5.7
Other payables	2.2	2.2
	70.4	63.5

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

18 Related parties

Parent Companies

The immediate parent company of Talbot Underwriting Ltd is Talbot Underwriting Holdings Ltd, a company registered in England and Wales.

The ultimate parent and controlling party of TUL is American International Group, Inc (AIG). The registered office of which is 1271 Avenue of the Americas, New York, NY 10020, United States of America. AIG is listed on the New York Stock Exchange.

On 1 November 2023, AIG (the ultimate parent and controlling party of TUL) completed the sale of Validus Re (the intermediate parent company of TUL) which included the renewal rights of the Syndicate's Treaty reinsurance business to Renaissance Re. AIG retains control of TUL. AIG received total consideration of $3,300.0m in cash, including a pre-closing dividend, and approximately $275.0m in Renaissance Re common shares. Following the sale, the TUL group continues to provide transitional services to Validus Re.

Directors' interests

J Hancock and T Bolt hold, and held in the year, senior management positions and executive directorships within the AIG group of companies.

Corporate member

Talbot 2002 Underwriting Capital Ltd (T2002) is the sole corporate member underwriting on the Syndicate.

The distributions and cash calls during the year between the Syndicate and T2002 are reported in the statement of changes in member's balance.

During the year, T2002 contributed $65.0m (2022: nil) as Funds in Syndicate (FIS). This balance of FIS was released to T2002 on 6 December 2023. At 31 December 2023, there is nil amount payable by the Syndicate to T2002 (2022: nil). Refer to note 20 for more details.

Managing agent

TUL, the Managing Agent of the Syndicate, charges the Syndicate an annual management fee and profit commission. The annual fee for 2023 was $12.9m (2022: $10.7m). Profit commission of $28.1m was chargeable in 2023 (2022: $17.9m).

Reinsurance

The Syndicate places a limited number of reinsurance contracts with National Union Fire Insurance Company of Pittsburgh, PA (NUFIC), a subsidiary of AIG. These reinsurance contracts are written on an arm's length basis. During the year, reinsurance premiums charged for these policies were $70.4m (2022: $63.4m) and the amount of reinsurance premium earned in 2023 was $68.8m (2022: $59.2m). Reinsurance recoveries on incurred claims for these policies amounted to $14.3m in 2023 (2022: $43.6m). The amount payable by the Syndicate to NUFIC at 31 December 2023 was $5.3m (2022: $17.3m).

The Syndicate has also previously placed reinsurance contracts with Validus Re, which, up until its sale, was a subsidiary of AIG during the year. These reinsurance contracts are written on an arm's length basis. During the year, reinsurance premiums charged for these policies were $2.0m (2022: $0.9m) and the amount of reinsurance premium earned in 2023 was $0.3m (2022: $(0.5m)). Reinsurance recoveries on incurred claims for these policies amounted to $15.9m in 2023 (2022: $24.9m). The amount payable by the Syndicate to Validus Re at 31 December 2023 was $20.5m (2022: $20.7m). Validus Re also manages collateral on behalf of the Syndicate to the value of $65.5m (2022: $84.4m). Refer to note 21 for further details on collateral.

AIG completed the sale of Validus Re to Renaissance Re on 1 November 2023. The Syndicate is named on the reinsurance contracts where collateral is concerned and there are agreements in place with Renaissance Re regarding how to manage the shared reinsurance and collateral going forward.

18 Related parties (continued)

Coverholders

The following group companies provided services to the Syndicate as coverholders and charged management fees to the Syndicate on an arm's length basis.

	Management fees charged to the Syndicate		(Receivable)/Payable by the Syndicate at	
	2023	2022	2023	2022
	$m	$m	$m	$m
Talbot Risk Services Pte Ltd	4.1	3.5	(5.9)	(3.4)
Validus Specialty Underwriting Services, Inc. *	8.9	9.3	(1.3)	(2.4)
Validus Reaseguros, Inc.*	0.4	0.3	-	(0.1)
	13.4	13.1	(7.2)	(5.9)

*balances are included as these companies were related parties during the year, but following the sale of Validus Re by AIG on 1 November 2023 are no longer related parties at 31 December 2023.

An additional group company, Talbot Underwriting Risk Services Ltd, also provides coverholder services to the Syndicate, however no management fees are payable (2022: nil).

Management fees are stated before any reallocation to other acquisition costs or claims handling expenses.

Service Companies

The following group companies provided services to the Syndicate and charged management fees to the Syndicate on an arm's length basis.

	Management fees charged to the Syndicate		(Receivable)/Payable by the Syndicate at	
	2023	2022	2023	2022
	$m	$m	$m	$m
Talbot Underwriting Services Ltd	86.2	85.2	23.1	19.9
Talbot Underwriting Ltd	(0.3)	(0.3)	25.6	14.6
Validus Research Inc.*	0.3	0.5	-	(0.5)
Validus Services (Bermuda) Ltd*	-	-	-	0.1
Validus America Inc.*	2.6	2.9	-	0.7
	88.8	88.3	48.7	34.8

*balances are included as these companies were related parties during the year, but following the sale of Validus Re by AIG on 1 November 2023 are no longer related parties at 31 December 2023.

Management fees are stated before any reallocation to other acquisition costs or claims handling expenses.

19 Capital

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

Within this supervisory framework, Lloyd’s applies capital requirements at member level and centrally to ensure that Lloyd’s complies with Solvency II, and beyond that to meet its own financial strength, license and ratings objectives. Although Lloyd’s capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd’s capital requirements applies at an overall member level. Accordingly, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

In order to meet Lloyd’s requirements, the 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 SCR of the Syndicate is subject to review by Lloyd’s and approval by the Lloyd’s Capital and Planning Group. Over and above this, Lloyd’s applies a capital uplift to the member’s capital requirement, known as the Economic Capital Uplift (ECU). The purpose of this uplift, which is a Lloyd’s not a Solvency II requirement, is to meet Lloyd’s financial strength, licence and ratings objectives. The capital uplift applied for 2023 was 35.0% (2022: 35.0%) of the members’ SCR to ultimate. The member’s SCR to ultimate plus the uplift is known as Economic Capital Assessment (ECA).

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd’s specifically for that member (Funds at Lloyd’s), assets held within and managed within a Syndicate (Funds in Syndicate) and/or as the members’ share of the Solvency II members’ balances on each Syndicate on which it participates.

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

20 Funds in Syndicate

The member participates on the Syndicate by underwriting year. The balance due to/ (from) the member is payable on the closure of an underwriting year usually at the end of three years. The Syndicate is wholly aligned to one member, Talbot 2002 Underwriting Capital Ltd (T2002), and is therefore able to retain closed year profits as capital to support its underwriting activities. The member may also pay additional funds into the Syndicate to be held as capital. These are known as Funds in Syndicate (FIS).

During 2023, the Syndicate retained $65.0m of profits from the closure of the 2020 underwriting year as FIS. The full amount of FIS, in addition to investment return of $2.6m, was released to T2002 and, as at 31 December 2023, the value of FIS is nil (2022: nil).

21 Collateral arrangements

The Syndicate benefits from collateral pledged by ceded reinsurance counterparties, which is not held on the balance sheet. The collateral is held in segregated funds, and acts as additional security in the event of failure of those counterparties to meet their contractual obligations. Collateral of $153.7m (2022: $140.2m) is held in third party trust accounts to guarantee the Syndicate against reinsurance counterparties and is available for immediate drawdown in the event of a default.

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