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CFC Syndicate 1988

Syndicate Annual Report and Accounts

31 December 2023

Contents

Directors and administration

Managing Agent

Asta Managing Agency Ltd

Directors

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

Non-Executive Directors*

Managing Agent's Registered Office

5th Floor
20 Gracechurch Street
London
EC3V 0BG

Managing Agent's Registered Number

1918744

Active Underwriter

M Taylor

Bankers

Barclays Bank
Citibank NA
RBC Dexia

Registered Auditor

Deloitte LLP

Signing Actuary

Philip Dixon, Deloitte MCS Ltd

Active Underwriter's report

Syndicate overview

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

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

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

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

2023 Syndicate results

The 2023 calendar year has continued the positive trajectory the Syndicate set in 2022, with increased profits resulting from greater scale, improving underwriting performance and an increasing contribution from investment income. The result for the Syndicate in calendar year 2023 is a profit of $55.1 million (2022: profit of $22.3 million). The Syndicate net combined ratio for the year is 80.9% (2022: 83.5%).

The 2021 underwriting year made a profit of $31.5m and is closing at a net combined ratio of 80.5%.

Premium growth has moderated somewhat over the course of 2023 calendar year as CFC seeks to maintain profitability in the face of increasing competition, particularly in the cyber insurance market.

CFC remain positive regarding the 2022 and 2023 underwriting year ultimate forecast results to our capacity providers, which are comprised of the performance of the Syndicate plus an additional participation fee.

The forecast underwriting year results for the 2022 and 2023 years are expected to be at a similar level to 2021, acknowledging the early stage in the development of the 2023 underwriting year. The Syndicate results on an ultimate pure year basis as at the end of the fourth quarter of 2023 are outlined below (unaudited):

	2023 YOA $'000	**2022 YOA $'000**	**2021 YOA $'000**
Gross written premium forecast	319,658	284,227	155,118
Syndicate NCOR*	81.7%	81.9%	80.5%

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

Looking forward to 2024 the Syndicate will seek to continue to support CFC Group's facilities.

M Taylor
February 2024

Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2023.

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

Results

The total recognised result for calendar year 2023 is a profit of $55,130,993 (2022: Profit of $22,347,698).

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

Principal activity and review of the business

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

A further review is included in the Active Underwriter's Report on page 5.

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

	2023 $'000	**2022 $'000**
Cyber and Technology	188,960	139,748
Professional Lines	57,198	41,220
Specialty Liability	30,467	23,720
Transaction Liability	17,544	14,064
	294,169	218,752

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

	2023 $'000	**2022 $'000**	**Change %**
Gross written premiums	294,169	218,752	34.5%
Profit for the financial year	55,131	22,348	146.7%
Combined ratio*	80.9%	83.5%	-2.6%

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

Principal risks and uncertainties

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

Insurance risk

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

Credit risk

The key aspect of credit risk is reinsurance counterparty risk which is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Syndicate policy is to only use approved reinsurers, supported by collateralisation where required. The Agency Reinsurance Security Committee sets approval and usage criteria, monitors reinsurer ratings and is required to approve and oversee the application of the reinsurer approval policy. The Syndicate may also be exposed to broker credit risk, in particular where risk transfer arrangements are in place. Aged debt reporting for premiums is reviewed in the Syndicate Board.

Market risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates and inflation. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board.

Investments are monitored through Investment Managers with quarterly Investment Committees that review the performance, duration and ESG ratings for the investments.

Liquidity risk

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

Operational risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through a robust operational risk and control framework including detailed procedure manuals and a thorough training programme. This is underpinned by a structured programme of testing of processes and systems by internal audit, who serve as an independent line of assurance, reporting directly to the Chair of the Agency Audit Committee. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

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

The Syndicate has no appetite for failing to adhere to the requirements of the FCA Consumer Duty regulations and continues its focus on ensuring that it is treating customers fairly. The Syndicate manages and monitors consumer duty risk through a suite of risk indicators and reporting metrics as part of its documented consumer duty risk framework. The consumer duty risk framework is consistently applied across all Asta syndicates and is overseen by the Conduct Oversight Group (COG), which is an Asta Managing Agency Ltd (AMA) Board Committee that includes a non-executive director as a member who fulfils the role of Consumer Duty Champion.

Group / strategic risk

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

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

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

Future developments

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

The capacity for the 2024 year of account is £275m (2023: £275m).

Environmental, Social and Governance (ESG)

The Syndicate has an ESG policy in place, which was submitted to Lloyd’s alongside the 2023 Business plan. The policy was aligned to Lloyd’s ESG guidance from October 2021. In November 2023, Lloyd’s launched a consultation on their roadmap for “Insuring the transition”, setting out their proposed approach for the next three years across all areas of sustainability for the market, including underwriting, investments, exposure management, capital and reserving. During 2024, the Syndicate ESG policy will be reviewed and developed against the roadmap, including the development of management information for ongoing monitoring and action, where required.

Managing the Financial Risks of Climate change

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

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

Asta continue on an ongoing basis to monitor against regulatory guidance and expectations, as it is released, on managing the financial risks of climate change.

Emerging Risks

An emerging risk or opportunity is defined as “a developing issue, triggered externally, with the potential to have a significant business impact but which may not be sufficiently understood or accounted for”. The business impact in this case could represent a downside risk or an upside opportunity. Emerging risks and opportunities include:

- Syndicate insurable risks, as areas of potential future losses or new product offerings;
- Those risks that may affect a syndicate’s ability to carry out normal business operations and/or lead to unplanned significant costs/income;
- Both new risks and those which are re-emerging in a new context.

Managing Agent’s report continued

The Agency and Syndicate continue to monitor the impact of emerging risks on Syndicate business, taking into account their impacts on the strategic direction of the Syndicate. Monitoring takes place in various forums, including the Asta Emerging Risks and Opportunities Group (“EROG”) which meets quarterly and considers emerging risks and opportunities from both an internal and external lens. Specific areas of focus over the external environment across the year at Syndicate and Asta level include:

- The geopolitical landscape from a tension and broader political risk impact, including any exposures stemming from regional conflicts (e.g., Russia – Ukraine, Israel - Gaza conflicts).
- The heightened inflationary environment and subsequent volatility surrounding inflation risk. This has also been considered by the Syndicate within their annual business planning process and reserve reviews.

2024 will see a significant proportion of the world go to the polls in elections including both in the UK and US, which may see changes of government on both sides of the Atlantic. Knock-on impacts from worldwide elections in 2024 may impact geopolitical stability in the wider world as well as having more regional social impacts.

Directors

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

S Bradbury	Appointed 22 May 2023
A J Hubbard	Resigned 30 June 2023

Disclosure of information to the auditors

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

Auditors

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

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members within 21 days of this notice.

On behalf of the Board

C V Barley
Director
27 February 2024

Statement of Managing Agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare financial statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial statements are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

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

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

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

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

Independent auditor's report to the members of Syndicate 1988

Report on the audit of the syndicate annual financial statements

Opinion

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

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

We have audited the syndicate annual financial statements which comprise:

- the statement of profit or loss;
- the statement of changes in members' balances;
- the statement of financial position;
- the statement of cash flows; and;
- the related notes 1 to 21.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Responsibilities of managing agent

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent auditor's report continued

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

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

Report on other legal and regulatory requirements

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

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Independent auditor's report continued

Use of our report

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

Kirstie Hanley, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
27 February 2024

Statement of profit or loss

Technical account - General business

For the period ended 31 December 2023

	Notes	2023 $'000	2022 $'000
Gross premiums written	3	294,169	218,752
Outward reinsurance premiums		(6,527)	(7,507)
Net written premiums		287,642	211,245
Change in the provision for unearned premiums			
• Gross amount		(28,886)	(66,710)
• Reinsurers' share		468	9
Change in the net provision for unearned premiums	4	(28,418)	(66,701)
Earned premiums, net of reinsurance		259,224	144,544
Allocated investment return transferred from the non-technical account		4,771	340
Claims paid			
• Gross amount		(31,287)	(12,163)
• Reinsurers' share		-	-
		(31,287)	(12,163)
Changes in claims outstanding			
• Gross amount		(69,225)	(45,668)
• Reinsurers' share		-	-
Change in the net provision for claims	4	(69,225)	(45,668)
Claims incurred, net of reinsurance		(100,512)	(57,831)
Net operating expenses	5	(109,217)	(62,848)
Balance on technical account – general business		54,266	24,205

All the amounts above are in respect of continuing operations.

The notes on pages 24 to 50 form part of these financial statements.

Statement of profit of loss continued

Non-technical account

For the period ended 31 December 2023

	Notes	2023 $'000	2022 $'000
Balance on technical account – general business		54,266	24,205
Investment income	9	3,953	287
Unrealised gains on investments		814	52
Unrealised losses on investments		(27)	-
Gains on realisation of investments		85	1
Losses on realisation of investments		(14)	-
Investment expenses and charges		(40)	-
		4,771	340
Allocated investment return transferred to the general business technical account		(4,771)	(340)
Other income/(loss) on exchange		865	(1,857)
Profit for the financial year		55,131	22,348

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

All the amounts above are in respect of continuing operations. The notes on pages 24 to 50 form part of these financial statements.

Statement of changes in members' balances

For the period to 31 December 2023	2023 $'000	2022 $'000
Members' balances brought forward	21,510	(773)
Total comprehensive profit for the year	55,131	22,348
Distribution to members	-	-
Cash calls	-	-
Amount due from members	(80)	(65)
Exchange difference on Members Agents fees	(5)	-
Members' balances carried forward at 31 December	76,556	21,510

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

The notes on pages 24 to 50 form part of these financial statements.

Statement of financial position

As at 31 December 2023

	Notes	2023 $'000	2022 $'000
Assets			
Investments			
Financial investments	10	176,471	29,309
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	6,759	6,291
Claims outstanding	4	-	-
		6,759	6,291
Debtors			
Debtors arising out of direct insurance operations	11	120,158	84,103
Debtors arising out of reinsurance operations	12	2,358	34
Other debtors		24	17
		122,540	84,154
Cash and other assets			
Cash at bank and in hand		9,017	42,341
Other assets		10,326	3,855
		19,343	46,196
Prepayments and accrued income			
Deferred acquisition costs		52,064	41,187
Other prepayments and accrued income		1,867	2,107
		53,931	43,294
Total assets		379,044	209,244

The notes on pages 24 to 50 form part of these financial statements.

Statement of financial position continued

As at 31 December 2023

	Notes	2023 $'000	2022 $'000
Members' balance and liabilities			
Capital and reserves			
Members' balances		76,556	21,510
Liabilities			
Technical provisions			
Provision for unearned premiums	4	154,423	122,911
Claims outstanding	4	123,965	53,078
		278,388	175,989
Creditors			
Creditors arising out of direct insurance operations	14	8,801	354
Creditors arising out of reinsurance operations	15	13,374	9,587
Other creditors		-	-
		22,175	9,941
Accruals and deferred income		1,925	1,804
Total liabilities		302,488	187,734
Total members' balances and liabilities		379,044	209,244

The notes on pages 24 to 50 form part of these annual accounts.

The financial statements on pages 18 to 50 were approved by board of directors on 22 February 2023 and were signed on its behalf by:

R P Barke
Director
27 February 2023

Statement of cash flows

For the year ended 31 December 2023

	Notes	2023 $'000	2022 $'000
Cash flows from Operating activities	13		**Restated**
Profit for the financial year		55,131	22,348
Increase in gross technical provisions		102,399	110,992
(Increase) in reinsurers' share of gross technical provisions		(468)	(9)
(Increase) in debtors		(38,386)	(34,336)
Increase in creditors		12,234	2,756
Movement in other assets/liabilities		(16,987)	(30,898)
Investment Return		(4,771)	(340)
Net cash inflows from operating activities		109,152	70,513
Cash from Investing activities			
Purchases of other financial investments		(102,342)	(10,699)
Sale of other financial investments		70,181	-
Movement in other assets/liabilities/foreign exchange		3,984	340
Net cash (outflows) from investing activities		(28,177)	(10,359)
Cash from Financing activities			
Payments of loss from members' personal reserve fund		-	-
Cash calls in period		-	-
Members' agent fees in period		(80)	(65)
Changes to market value and currency		(5)	-
Net cash (outflows) from financing activities		(85)	(65)
Net inflow in cash and cash equivalents		80,890	60,089
Cash and cash equivalents at beginning of year		60,951	862
Changes to market value and currency		-	-
Cash and cash equivalents at end of year	13	141,841	60,951

Notes to the financial statements

For the period ended 31 December 2023.

1. Basis of preparation

Statement of compliance

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

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

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

2. Accounting Policies

Use of estimates and judgements

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

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

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

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

Accounting policies continued

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

Sensitivities relating to this critical judgement have been assessed in further detail in note 20.

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

Areas where there is a relatively higher level of uncertainty at Q4 2023:

Cyber

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

Rate change

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

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

Inflation

Continued focus remained on inflation throughout 2023 due to the continuing war in Ukraine as well as other supply side issues. Inflation is generally considered to have peaked during 2023, and most inflation forecasts suggest gradually decreasing levels of inflation are to be expected over the foreseeable future.

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

Accounting policies continued

Significant accounting policies

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

Gross premiums

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

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

Reinsurance premiums

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

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

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

Claims incurred

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

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

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

Accounting policies continued

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

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

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

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

Provisions for unearned premiums

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

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

Unexpired risks

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

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

At the 31 December 2023 the Syndicate had no unexpired risk provision (2022: nil).

Deferred acquisition costs

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

Accounting policies continued

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

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

Reinsurance assets

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

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

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2023.

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

Insurance receivables

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

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

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

Accounting policies continued

Insurance payables

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

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

Foreign currencies

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

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

Exchange differences are recorded in the non-technical account.

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

	2023 Year End	**2022 Year End**
GBP	0.787	0.833
EUR	0.906	0.942
CAD	1.323	1.358
AUD	1.472	1.475

Financial assets and liabilities

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

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

Accounting policies continued

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

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

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

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

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

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, fixed term cash deposits with maturities of three months or less from the acquisition date, and shares in collective investment schemes that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Accounting policies continued

Fair value measurement of investments

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

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

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

- Deposits with credit institutions are included at cost plus accrued income.

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

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

- Investments in regulated collective investment schemes are valued based on the valuations of each of the individual funds as published publicly by the managers.

- Investments in investment pools are valued based on the valuations supplied by the investment manager (Lloyd's).

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

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

Taxation

Under Schedule 19 of the Finance Act 1993 Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from Syndicate investment income is recoverable by Managing Agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

Accounting policies continued

Pension costs

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

Syndicate operating expenses

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

3. Segmental analysis

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

2023	Gross written premiums	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Marine	298	255	(106)	(169)	-	(20)
Fire and other damage to property	3,133	2,558	(2,328)	(940)	-	(710)
Third-party liability	248,857	233,792	(88,084)	(94,023)	(6,802)	44,883
Pecuniary loss	2,052	828	(375)	(352)	-	101
Reinsurance Acceptances	39,829	27,850	(9,619)	(13,733)	743	5,241
	294,169	265,283	(100,512)	(109,217)	(6,059)	49,495

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

Commissions on direct insurance gross premiums written during 2023 were $90.3m (2022: $72.2m).

All premiums were concluded in the UK.

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

4. Technical provisions

	2023 Gross provisions $'000	2023 Reinsurance assets $'000	2023 Net $'000	2022 Gross provisions $'000	2022 Reinsurance assets $'000	2022 Net $'000
Claims outstanding						
Balance at 1 January	53,078	-	53,078	8,513	-	8,513
Change in claims outstanding	69,225	-	69,225	45,668	-	45,668
Effect of movements in exchange rates	1,662	-	1,662	(1,103)	-	(1,103)
Balance at 31 December	**123,965**	**-**	**123,965**	**53,078**	**-**	**53,078**
Claims notified	18,038	-	18,038	5,796	-	5,796
Claims incurred but not reported	105,927	-	105,927	47,282	-	47,282
Balance at 31 December	**123,965**	**-**	**123,965**	**53,078**	**-**	**53,078**
Unearned premiums						
Balance at 1 January	122,911	(6,291)	116,620	56,484	(6,282)	50,202
Change in unearned premiums	28,886	(468)	28,418	66,710	(9)	66,701
Effect of movements in exchange rates	2,626	-	2,626	(283)	-	(283)
Balance at 31 December	**154,423**	**(6,759)**	**147,664**	**122,911**	**(6,291)**	**116,620**
Deferred acquisition costs						
Balance at 1 January	41,187	-	41,187	18,591	-	18,591
Change in deferred acquisition costs	10,000	-	10,000	22,700	-	22,700
Effect of movements in exchange rates	877	-	877	(104)	-	(104)
Balance at 31 December	**52,064**	**-**	**52,064**	**41,187**	**-**	**41,187**

5. Net Operating Expenses

	2023 $'000	2022 $'000
Acquisition costs	(106,429)	(76,115)
Change in deferred acquisition costs	10,000	22,700
Administration expenses	(12,788)	(9,433)
Net operating expenses	(109,217)	(62,848)

6. Staff Costs

No salary costs were recharged to the Syndicate during 2023 (2022: nil). All services are provided by CFC Underwriting Ltd and the Managing Agent (which invoices the Syndicate for the services provided). The salary costs forming part of the overall service invoices are not separately identifiable.

7. Auditor's remuneration

	2023 $'000	2022 $'000
Fees payable to the Syndicate's auditor of these financial statements	(171)	(161)
Other audit services pursuant to Regulations and Lloyd's Byelaw	(129)	(118)
Other non-audit services relating to actuarial review	(68)	(60)
	(368)	(339)

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

8. Emoluments of the Directors of Asta Managing Agency Ltd

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of SPA Norton, L Harfitt and RP Barke. SPA Norton's and L Harfitt's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of RP Barke is disclosed in the financial statements of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. (2022: nil)

No other compensation was payable to key management personnel.

The Active Underwriter's salary was not recharged to the Syndicate during 2023. The cost is borne by CFC Underwriting Ltd.

9. Investment return

	2023	2022
	$'000	**$'000**
Income from other financial investments	3,953	287
Gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	85	1
Total investment income	4,038	288
Losses on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	(14)	-
Investment expenses and charges	(40)	-
	(54)	-
Unrealised gains and losses on investments		
- Financial instruments at fair value through profit and loss	787	52
Total investment return	4,771	340

10. Financial investments

	2023	
	Carrying value	Purchase price
	$'000	$'000
Shares and other variable yield securities and units in unit trusts	125,353	125,353
Debt securities and other fixed income securities	43,647	42,860
Deposits with credit institutions	7,471	7,471
	176,471	175,684

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

Amounts included within shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These are treated as cash and cash equivalents with the carrying value and purchase price being the same. Deposits with credit institutions are also treated as cash and cash equivalents where the deposit is due to mature within 3 months.

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

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

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
31 December 2023				
Shares and other variable yield securities and units in unit trusts	-	125,353	-	125,353
Debt securities and other fixed income securities	-	43,647	-	43,647
Deposits with credit institutions	-	7,471	-	7,471
Overseas deposits	2,006	8,320	-	10,326
Total	2,006	184,791	-	186,797

Financial investments continued

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

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

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

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

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

11. Debtors arising out of direct insurance operations

	2023 $'000	2022 $'000
Debtors arising out of direct insurers (within one year)	120,158	84,103
Debtors arising out of direct insurers (after one year)	-	-
Total	120,158	84,103

12. Debtors arising out of reinsurance operations

	2023 $'000	2022 $'000
Due from ceding reinsurers (within one year)	2,358	34
Due from ceding reinsurers (after one year)	-	-
Total	2,358	34

13. Cash and cash equivalents

	2023 $'000	2022 $'000
Cash at bank and in hand	9,017	42,341
Cash equivalents presented within financial investments (note 10)	132,824	18,610
Total	141,841	60,951

The prior year Statement of Cash Flow has been restated to correct an error. Previously, acquisition of money market funds that qualify as cash equivalents was presented as a cash outflow whereas it should have been excluded from cash flows given it is an acquisition of a cash equivalent. The restated amounts have reduced the purchases of other financial investments by $18.6m and have increased the cash and cash equivalents at end of the year by $18.6m.

14. Creditors arising out of direct insurance operations

	2023	2022
	$'000	$'000
Due to direct insurers (within one year)	8,801	354
Due to direct insurers (after one year)	-	-
Total	8,801	354

15. Creditors arising out of reinsurance operations

	2023	2022
	$'000	$'000
Due to reinsurers on contracts ceded (within one year)	13,374	9,587
Due to reinsurers on contracts ceded (after one year)	-	-
Total	13,374	9,587

16. Related parties

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

Asta Managing Agency Ltd (AMA) is the Syndicate's Managing Agent. Asta provides services and support to the Syndicate in its capacity as Managing Agent. During the year, managing agency fees of $2.6m (2022: $1.8m) were charged to the Syndicate. Asta also recharged $2.2m worth of service charges in the year (2022: $2.1m) and as at 31 December 2023 an amount of $0.2m (2022: $0.4m) was owed to Asta in respect of this service.

CFC Underwriting Ltd manages the binders on which the Syndicate participates, and charges commission fees to the Syndicate in relation to their services. During the year, commission fees of $106.4m (2022: $76.1m) were charged to the Syndicate. As at 31 December 2023 an amount of $38.8m (2022: $17.9m) was owed to CFC Underwriting Ltd in respect of these fees. The CFC Group also own a Lloyd's Corporate Member which participates on the Syndicate.

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

17. Disclosure of interests

During 2023 Asta was the Managing Agent for twelve Syndicates, one Special Purpose Arrangements and five Syndicates in a Box. Syndicates 1322, 1609, 1699, 1892, 1985, 1988, 2288, 2525, 2689, 2786, 4242 and 4747 as well as Special Purpose Arrangements 1416 and Syndicates in a Box 1796, 1902, 2880, 3456 and 5183 were managed on behalf of third-party capital providers.

On 1 January 2024, Asta took on the management of Syndicate in a box 1922.

On 1 January 2024, Asta reinsured to close Syndicate 2288 into Renaissance Re Syndicate 1458.

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

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

18. Funds at Lloyd's

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

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

19. Off-balance sheet items

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

20. Risk management

a) Governance framework

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

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

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

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 1988 is not disclosed in these financial statements.

Lloyd's capital setting process

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

Risk management continued

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2023 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 21, represent resources available to meet members' and Lloyd's capital requirements.

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

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

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

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

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

Risk management continued

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

Sensitivities

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

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on net liabilities, profit and members' balances. The table below shows how a five percent increase or decrease in gross and net claim liabilities would affect the Syndicate’s profit for the financial year and its members' balances.

5% move in loss ratio would be a $12.96m impact on P&L. (2022: $7.23m).

	2023 Loss/(Profit)	2022 Loss/(Profit)
Gross	**$’000**	**$’000**
Five percent Increase (claims liabilities)	6,198	2,654
Five percent decrease (claims liabilities)	(6,198)	(2,654)
Net		
Five percent Increase (claims liabilities)	6,198	2,654
Five percent decrease (claims liabilities)	(6,198)	(2,654)

Claims development table

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

Estimate of cumulative gross claims incurred:

Underwriting year	2021	2022	2023
	$’000	**$’000**	**$’000**
At end of underwriting year	8,503	16,000	17,503
One year later	50,500	94,261	
Two years later	56,147		
Less cumulative paid	(26,655)	(16,631)	(660)
Liability for gross outstanding claims	29,492	77,630	16,843
Total gross outstanding claims (all years)			**123,965**

Risk management continued

Estimate of cumulative net claims incurred:

Underwriting year	**2021**	**2022**	**2023**
	$'000	**$'000**	**$'000**
At end of underwriting year	8,503	16,000	17,503
One year later	50,500	94,261	
Two years later	56,147		
Less cumulative paid	(26,655)	(16,631)	(660)
Liability for gross outstanding claims	29,492	77,630	16,843
Total net outstanding claims (all years)			**123,965**

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

d) Financial risk

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

1) Credit Risk

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

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

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

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

Risk management continued

2023	$'000			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	125,353	-	-	125,353
Debt securities	43,647	-	-	43,647
Deposits with credit institutions	7,471	-	-	7,471
Debtors arising out of direct insurance operations	120,158	-	-	120,158
Debtors arising out of reinsurance insurance operations on contracts ceded	-	-	-	-
Overseas deposits	10,326	-	-	10,326
Other debtors	63,072	-	-	63,072
Cash at bank and in hand	9,017	-	-	9,017
Total	379,044	-	-	379,044

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

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2023, along with the prior year comparative, by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Certain assets have been excluded from the table, as it is not possible to obtain relevant credit ratings. These non-rated assets totalled $183.2m. (2022: $133.7m).

Risk management continued

2023	AAA	AA	A	BBB or less	Not Rated	Total
			$'000			
Shares and other variable yield securities	106,100	-	19,253	-	-	125,353
Debt securities	28,956	-	13,190	1,501	-	43,647
Deposits with credit institutions	-	-	7,471	-	-	7,471
Reinsurers share of claims outstanding	-	-	-	-	-	-
Debtors arising out of reinsurance operations on contracts ceded	-	-	-	-	-	-
Overseas deposits	4,656	1,394	790	800	2,686	10,326
Cash at bank and in hand	-	-	9,017	-	-	9,017
Total	139,712	1,394	49,721	2,301	2,686	195,814

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

Risk management continued

2) Liquidity risk

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

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

			$'000			
2023	**No stated maturity**	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Claims outstanding	-	48,258	45,324	19,501	10,882	123,965
Creditors	-	22,175	-	-	-	22,175
Total	-	70,433	45,324	19,501	10,882	146,140

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

3) Market risk

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

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

Risk management continued

4) Currency risk

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

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

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

				$’000		
2023	**GBP**	**USD**	**EUR**	**CAD**	**AUD**	**Total**
Total Assets	75,629	193,405	14,713	63,986	31,311	379,044
Total Liabilities	(62,374)	(160,449)	(10,995)	(45,437)	(23,233)	(302,488)
Net Assets	13,255	32,956	3,718	18,549	8,078	76,556

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

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

Risk management continued

Sensitivity to changes

The table below gives an indication of the impact on profit of a percentage change in the relative strength of US Dollars against the value of the Sterling, Euro, Canadian Dollar and Australian Dollar simultaneously. The analysis is based on year-end exchange rates.

	Impact on profit and members' balance	
	2023	**2022**
	$'000	**$'000**
US Dollar weakens		
10% against other currencies	4,360	1,368
20% against other currencies	8,720	2,735
US Dollar strengthens		
10% against other currencies	(4,360)	(1,368)
20% against other currencies	(8,720)	(2,735)

21. Post balance sheet events

In 2024, the Syndicate will distribute £31.5m to members of the 2021 YOA.