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Polo Managing Agency Limited

Report and Financial Statements

Syndicate 1254

for the year ended

31 December 2022

CONTENTS

DIRECTORS AND ADMINISTRATION

Managing agent

Polo Managing Agency Limited (PMA) is the managing agent of Syndicate 1254. PMA is a wholly owned subsidiary of Marco Capital Holdings (UK) Limited.

Directors

Directors who served at PMA during the year or up until the period the Report & Accounts were signed are as follows:
I J Bremner - Chair, Non-Executive Director
K D Curtis - Non-Executive Director
J A Hummerston - Director of Underwriting
P M Laws - Risk & Compliance Director
S Minshall - Non-Executive Director (Appointed 8/11/2022)
R J Montague-Fuller - Finance Director (Resigned 04/11/2022)
R M Richardson-Bunbury - Chief Actuary and Interim Finance Director
M Sebold-Bender - Non Executive Director (Appointed 29/07/2022)
P R Smith - Managing Director
S G J Sykes - Chief Executive Officer
Z Szalkai - Non-Executive Director (Appointed 16/11/2022)
P I Wooldridge - Chief Operations Officer

Company secretary

Capita Group Secretary Limited (Resigned 29/04/2022)
Hackwood Secretaries Limited (Appointed 29/04/2022)

Managing agent’s registered office

c/o Hackwood Secretaries Limited
One Silk Street
London
United Kingdom
EC2Y 8HQ

Managing agent’s registered number

03935227

DIRECTORS AND ADMINISTRATION (continued)

Syndicate

Run-Off Manager
P R Smith

Bankers
Barclays Bank - London
Citibank NA - London and New York
RBC Investor & Treasury Services - Toronto
European Depositary Bank - Luxembourg

Investment Managers
Conning Asset Management Limited

Independent Auditors
Mazars LLP

Statement of actuarial opinion signing actuary
PricewaterhouseCoopers LLP

MANAGING AGENT'S REPORT

The directors of PMA, the managing agent, present their report for Syndicate 1254 ('the Syndicate') for the year ended 31 December 2022. The Syndicate was set up on 1 January 2022.

Directors' Interests
None of the Directors of the managing agency have any participation in the Syndicate's premium income capacity. Directors who served at PMA during the year or up until the period the Report & Accounts were signed are detailed in the 'Directors and Administration' section on page 4.

Capital
Lloyd's unique capital structure provides excellent financial security for policyholders:
- All premiums received are initially held in trust
- Funds at Lloyd's ('FAL') provide an additional layer of capital that can be called upon to pay liabilities. The FAL requirement is set by Lloyd's for new syndicates, until their Internal Model is approved. In accordance with the Lloyd's Making It Happen process, the Syndicate expects to use an internal model to set its capital requirements for the 2025 Year of Account.
- At the discretion of the Council of Lloyd's, the Central Fund provides a further source of funds to settle claims. The Central Fund effectively mutualises risk across the market.

Syndicate 1254 does not have its own security rating; however, it does benefit from Lloyd's global A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard and Poor's, and AA- (Very Strong) from Fitch.

Working Capital
PMA monitors the Syndicate's actual cash flow against projections to help identify any potential future working capital strain and thereby assist in proactive management.

Syndicate Annual General Meeting
PMA does not propose to hold an annual general meeting for the member of the Syndicate. The member is asked to note that any objections to this proposal should be submitted, in writing, to the Risk & Compliance Director within 21 days of this notice.

Related Party Transactions
The Syndicate did not enter into any related party transactions, which were not concluded under normal market conditions. For a full listing of related party transactions please refer to the related parties section in the notes to the accounts.

Auditors
Mazars LLP have been appointed as the Syndicate's auditor.

MANAGING AGENT'S REPORT (continued)

Principal Activities

The principal activity of Syndicate 1254 remains the transaction of reinsurance business in the United Kingdom by way of reinsurance to close (RITC) or other legacy reinsurance transactions. This is the activity for which the Syndicate was approved and it has not changed during the course of the year.

Marco Corporate Capital Limited is the sole corporate member for the Syndicate.

Review of the business

This is the first year of operation for the Syndicate, so it is not possible to compare its performance with previous years.

The result for the Syndicate in calendar year 2022 is a profit of £2.2m (2021: n/a).

In February 2022, the Syndicate signed an inwards RITC for the 2019 and prior Years of Account for Syndicate 2689. The Syndicate received a premium of £75.2m for taking on these liabilities. In line with common market practice, the initial premium and the liabilities have been taken straight to the balance sheet rather than through the statement of profit and loss. In effect, the transfer of the portfolio is a sale/purchase at fair market value based on an arm's-length commercial agreement, therefore the net value of the transferring assets and liabilities is nil.

Legacy reinsurance transactions, and RITC contracts in particular, are generally executed in the first quarter of the year, and there were no further transactions in 2022. The Syndicate continues to enjoy the support of Marco Corporate Capital Limited and is actively negotiating with potential cedants. The Directors anticipate that further inwards reinsurance transactions will be completed in 2023. However, as at the date of this report there have been no important events affecting the Syndicate which have occurred since the end of the financial year.

As a rule, premium income will be low for an RITC syndicate. The last Pure Year of Account is 2019 and no new policies are being underwritten. The £2.1m (Prior: n/a) of premium income (£1.2m net of acquisition costs) relates to premium adjustments on existing policies, for example reinstatement premiums or adjustment premiums ceded for underlying policies. The £0.4m (Prior: n/a) outwards premium is in respect of cover purchased to mitigate losses arising from unexpired exposure as at 1st January 2022.

Incurred claims are the primary performance indicator for an RITC syndicate. Claim reserves will decrease as claims are settled. Reserve releases in excess of claim payments will generate profits for the Syndicate and vice versa. Nevertheless, future insurance claim payments are inherently uncertain and this needs to be understood when interpreting the Syndicate's results.

During 2022, the global economy saw a considerable increase in the rate of inflation. While the Syndicate has seen little direct evidence of claims inflation, there may be considerable delays before current inflation manifests itself in future claim payments. A detailed review by line of business has been performed. This has resulted in an explicit uplift to reserves to allow for anticipated claims inflation. Nevertheless, net reserve releases contributed a £4.7m profit (Prior: n/a) for the year.

Claims exposure is primarily from small line-share inwards quota-share reinsurance contracts, mainly on a follow basis, that are diversified across lines of business including Casualty, Marine, Energy, Property, Specialty and Professional. Exposure is predominantly to claims denominated in US Dollars.

Net operating expenses of £4.1m include £0.9m of commission payments arising from the premium income. In addition to ongoing administration costs, expenses include onboarding costs for the current portfolio and future business development costs.

MANAGING AGENT'S REPORT (continued)

Review of the business (continued)

Rising interest rates have increased the returns available on investments; however, in the short-term this has been offset by accompanying falls in the value of existing holdings of fixed interest securities. In addition, the Syndicate suffered a one-off charge from a major cedant due to an overpayment in a prior period. Investment returns in 2023 are expected to be materially higher.

The Syndicate currently invests in government bonds and investment-grade corporate bonds. It does not actively trade in derivative contracts and would only use such contracts to hedge existing risks.

Financial instruments expose the syndicate to the following types of risk:

• Price risk - This is the risk that the value of assets declines due to market factors. The Syndicates assets are mainly fixed interest bonds for which the price is determined by nominal interest rates and credit spreads. The syndicate seeks to hold assets to maturity, and this mitigates the risk of short-term price movements. A 1% increase in interest rates would cause a 1.05% reduction in the market value of the Syndicate's assets, and vice versa.

• Credit risk - This is the risk that an investment counterparty defaults on payments due to the syndicate. This risk is reflected in the credit spreads of the bonds held by the syndicate, see price risk above. The syndicate mitigates this risk by holding a diversified portfolio of investment-grade corporate bonds and government securities. A 1% increase in credit spreads would cause a 1.04% reduction in the market value of the Syndicate's assets, and vice versa.

• Liquidity risk - This is the risk that the syndicate is unable to sell assets to meet liabilities. This risk is mitigated by holding highly marketable bonds, such as government bonds and investment grade corporate bonds with large issues. In addition, the syndicate has an arranged overdraft facility that is available to meet short-term liquidity needs. As an RITC syndicate, the Syndicate is not reliant on cashflows generated from trading activities to be able to pay claims and expenses.

• Hedge accounting - The syndicate does not use hedge accounting.

The principal risk faced by the Syndicate is that future claim payments and expenses exceed the amount already reflected in its reserves.

• The level of future claims inflation is uncertain due to both economic inflation, and social inflation such as increasing litigation, broader definitions of liability, more plaintiff-friendly legal decisions, and larger compensatory jury awards. The Syndicate has included an explicit allowance for both types of inflation in its reserves, although the eventual outcome could be higher or lower than this estimate.

• It is not believed that the Syndicate has material exposure to the war in Ukraine, as the last policies were underwritten in 2019 and the war started in February 2022.

• The Syndicate has some exposure to COVID claims, which remain uncertain due to ongoing litigation. At the balance sheet date, explicit COVID claim reserves were not significant, £0.3m.

• The Syndicate's exposure to risk is partially mitigated by the relatively small shares it has reinsured of each underlying portfolio; however, there could be cases where a number of its cedants are exposed to the same risk.

The managing agent does not undertake any research and development activities on behalf of the Syndicate, other than in the normal course of business.

PMA's governance structure has been applied to Syndicate 1254 as a syndicate under management. A syndicate Management Committee (SMC), has been established which meets on a quarterly basis. There is clear reporting by committees up to the PMA Board.

Objectives for the Syndicate are set following the successful completion of a transaction or at least annually. Objectives are monitored throughout the year by the Run-Off Manager and reported to Marco Group, to which the Syndicate's member belongs, via steering groups and the SMC. Both the Run-Off Manager and Syndicate representatives participate in all syndicate-specific committee meetings to monitor progress.

MANAGING AGENT'S REPORT (continued)

Review of the business (continued)

PMA have successfully onboarded the IRIS system for Syndicate 1254. Work is now underway with DXC to migrate the system to the new Assure platform. This is currently planned to be initiated in Q1 2023.

Following successful onboarding of the Syndicate into PMA, the Steering Group met and reviewed potential Important Business Services (IBSs) of the Syndicate. Due to the nature of the portfolio, small follow-only lines of reinsurance business (no direct underwriting), it has been deemed that no IBS are applicable and that intolerable harm will not be generated to any customers. Operational resilience will be reviewed at least annually or in the event of a new portfolio being secured by the Syndicate.

Objectives of the Syndicate over the next period will be to continue to provide legacy solutions to the Lloyd's market, underwrite legacy deals profitably, maintain pricing discipline and ensure that claims are settled promptly and fairly to customers, in line with governance procedures. Other priorities for the coming year include concluding the data cleansing project, implementing enhanced claims oversight and reporting and monitoring of outsource contracts. In addition, Syndicate 1254 will: commence the build of an internal capital model; maintain cash flow and liquidity reporting; and enhance the target operating model utilising technology where possible.

Review of underwriting activities for 2022

The table below summarises the premium volumes and performance of the Syndicate for 2022.

Key performance indicators

	2022 **£m**
Gross premiums written	2.5
Net premiums earned	1.5
Claims incurred surplus	4.7
Operating expenses	(4.1)
Profit for the year	2.2

The Syndicate does not report loss ratios or combined ratios, as premium income is generally expected to be zero or close to zero. Movements in claims incurred relate to prior underwriting years and are not directly related to, or comparable to, premium movements in the period.

As at 31 December 2022, Syndicate 1254 is declaring a profit of £2.2m.

Other performance indicators

Staff matters

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

Environmental matters

The Syndicate is unable to take environmental matters into account when settling valid claims. However, the Syndicate has discretion to consider environment, social and governance issues ("ESG") when investing its assets. Conning, the Syndicate's appointed investment manager, consider ESG criteria when selecting investments, and monitor against agreed appetites.

MANAGING AGENT'S REPORT (continued)

Disclosure of information to auditors

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

Approved by order of the Board of Polo Managing Agency Limited and signed on its behalf:

Robert Richardson-Bunbury
Director
27 February 2023

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare syndicate annual accounts for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the managing agent must not approve the financial statements 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 Syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;

2. make judgements and estimates that are reasonable and prudent;

3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

4. prepare the annual accounts on the basis that the Syndicate will continue to write future business and administer claims, using the going concern basis of accounting.

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

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

Independent auditor’s report to the member of Syndicate 1254

Opinion

We have audited the syndicate annual accounts of Syndicate 1254 (the “syndicate”) for the year ended 31 December 2022 which comprise the Statement of Profit or Loss, Statement of Other Comprehensive Income, Statement of Retained Earnings, Balance Sheet, Statement of Cash Flows, and notes to the syndicate annual accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 “Insurance Contracts” (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the state of the syndicate’s affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

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

Conclusions relating to going concern

In auditing the syndicate annual 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.

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.

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

Independent auditor's report to the member of Syndicate 1254 (continued)

Other information

The other information comprises the information included in the Report and Financial Statements of Syndicate 1254, other than the syndicate annual accounts and our auditor's report thereon. The directors of the Managing Agent are responsible for the other information. Our opinion on the syndicate annual accounts 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 accounts or our knowledge obtained in 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 there is a material misstatement in 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 in this regard.

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

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

- the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the Managing Agent's Report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the managing agent

As explained more fully in the statement of Managing Agent's responsibilities set out on page 11, the Managing Agent is responsible for the preparation of the Syndicate annual accounts 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 the 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 in operation, disclosing, as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the Managing Agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

Independent auditor's report to the member of Syndicate 1254 (continued)

Auditor's responsibilities for the audit of the financial statements

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 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 the syndicate annual accounts.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the syndicate and the insurance sector in which it operates, we considered that non-compliance with the following laws and regulations might have a material effect on the syndicate annual accounts: regulatory permissions and supervisory requirements of the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority, and regulations set by the Council of Lloyd's.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of directors and management of the Managing Agent and the syndicate's management as to whether the syndicate is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the syndicate which were contrary to applicable laws and regulations, including fraud.

Independent auditor's report to the member of Syndicate 1254 (continued)

We also considered those laws and regulations that have a direct impact on the preparation of the syndicate annual accounts such as United Kingdom Generally Accepted Accounting Practice and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In addition, we evaluated the directors' and management of the Managing Agent's and the syndicate management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts, including the risk of management override of controls and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to the valuation of claims outstanding and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management of the Managing Agent and syndicate management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud;
- Addressing the risks of fraud through management override of controls by performing journal entry testing; and
- Reviewing the accounting estimate in relation to valuation of claims outstanding for evidence of management bias and performing procedures to respond to the fraud risk in revenue recognition.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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

Use of our report

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

Andrew Heffron
For and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
London
27 February 2023

Statement of profit or loss
Technical account - General business
Year ended 31 December 2022

	Notes		***2022***
		£000	***£000***
Earned premiums, net of reinsurance			
Gross premiums written	5	2,507	
Outward reinsurance premiums		(403)	
Net written premiums		2,104	
Change in the provision for unearned premiums			
Gross amount	12	(581)	
Reinsurers' share	12	-	
Net change in the provision for unearned premium		(581)	
Earned premiums net of reinsurance			1,523
Allocated investment return transferred from the non-technical account			(10)
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(22,748)	
Reinsurers' share		-	
Net claims paid		(22,748)	
Change in the provision for claims			
Gross amount	13	27,481	
Reinsurers' share	13	(16)	
Net change in the provision for claims		27,465	
Claims incurred net of reinsurance			4,717
Net operating expenses	7		(4,054)
Balance on the technical account for general business			2,176

All items relate to continuing operations.
The accounting policies and notes on pages 21 to 43 form part of these financial statements.

Statement of profit or loss
Non-technical account
Year ended 31 December 2022

	Notes	***2022*** ***£000***
Balance on the technical account for general business		2,176
Investment income	10	139
Unrealised losses on investments	10	(63)
Investment expenses and charges	10	(86)
Total investment return		(10)
Allocated investment return transferred to technical account – general business		10
Non-technical account charges		(59)
Profit for the financial year		2,117

Statement of other comprehensive income for the year ended 31 December 2022

Profit for the financial year	2,117
Foreign exchange differences	52
Total comprehensive income for the financial year	2,169

Statement of Changes in Member's Balances

Balance due to the member at 1 January 2022	-
Total comprehensive income for the financial year	2,169
Distribution in the year	-
Member's fees	-
Balance due to the member at 31 December 2022	2,169

The accounting policies and notes on pages 21 to 43 form part of these financial statements.

Balance Sheet - Assets
at 31 December 2022

	Notes	*2022*
		£000
Investments		
Other financial investments	11	35,551
Deposits with ceding undertakings		39
		35,590
Reinsurers' share of technical provisions		
Provision for unearned premiums	12	-
Claims outstanding	13	-
		-
Debtors		
Debtors arising out of direct insurance operations	15	-
Debtors arising out of reinsurance operations	15	21,522
Other debtors	16	-
		21,522
Other assets		
Cash at bank and in hand	19	2,030
Overseas deposits	17	264
		2,294
Prepayments and accrued income		
Deferred acquisition costs		-
Other prepayments and accrued income		11
		11
Total assets		59,417

The accounting policies and notes on pages 21 to 43 form part of these financial statements.

Balance Sheet - Liabilities
at 31 December 2022

	Notes	*2022*
		£000
Capital and reserves		
Member's balances		2,169
Technical provisions		
Provision for unearned premiums	12	595
Claims outstanding	13	55,574
		56,169
Creditors		
Creditors arising out of reinsurance operations	18	10
Other creditors	18	683
		693
Accruals and deferred income		386
Total liabilities		59,417

The accounting policies and notes on pages 21 to 43 form part of these financial statements.

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

Robert Richardson-Bunbury
Director
27 February 2023

Statement of cash flows
Year ended 31 December 2022

	Notes	2022
		£000
Cash flow from operating activities		
Profit for the financial year		2,169
Exclude investment return		10
Increase in technical provisions		56,169
Increase in debtors		(21,522)
Increase in prepayments and accrued income		11
Increase in other assets		60
Increase in creditors		307
Increase in accruals and deferred income		386
Net cash generated from operating activities		37,590
Cash flows from investing activities:		
Investment income received		109
Purchases of debt and equity instruments		(55,449)
Sales of debt and equity instruments		19,780
Foreign exchange		-
Other		-
Net cash generated from investing activities		(35,560)
Cash flows from financing activities:		
Distribution in the year		-
Net cash generated from financing activities		-
Net increase in cash and cash equivalents		2,030
Cash and cash equivalents at 1 January 2022		-
Cash and cash equivalents at 31 December 2022	19	2,030

The accounting policies and notes on pages 21 to 43 form part of these financial statements.

Notes to the annual financial statements
at 31 December 2022

1. General information

Syndicate 1254 is a Lloyd's Syndicate domiciled in England and Wales, managed by Polo Managing Agency Ltd. The Syndicate's years of account is supported by Marco's corporate name, Marco Corporate Capital Limited.

2. Compliance with accounting standards

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

3. Summary of significant accounting polices

Basis of preparation

The financial statements have been prepared on the historical cost basis, except for some financial assets which are measured at fair value through the profit and loss account.

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

2022 is the first year of trading for the Syndicate, so no prior year comparative disclosures are shown in this report.

Going concern basis

The Directors have concluded there are no material uncertainties that may cast significant doubt about the company's ability to continue as a going concern. Insurance claims settlements are inherently uncertain, but the Syndicate has access to sufficient capital to allow it to continue to trade and pay claims for the foreseeable future, in all reasonably foreseeable circumstances. In accordance with Lloyd's requirements, the total capital available to the Syndicate, including FAL, is sufficient to allow it to meet its ultimate liabilities in a 1-in-200-year adverse scenario.

Basis of accounting

The underwriting results are determined on an annual basis of accounting. Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Premiums written

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 to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium and are recognised when advised by the cedant. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Inwards RITC premiums are not included in premiums written as the net value of assets and liabilities transferred to the Syndicate is nil, see the 'Reinsurance to close' accounting policy on page 24.

Unearned premiums

Unearned premiums represent the proportion of premiums that relate to unexpired terms of policies in force at the balance sheet date, calculated on a time apportionment basis. In line with market practice, all policies are deemed to have expired within 36 months of the start of the relevant year of account, unless cedants explicitly report unexpired premium provisions in respect of the underlying policies.

Notes to the annual financial statements (continued)
at 31 December 2022

3. Summary of significant accounting polices (continued)

Unexpired risks provision
When appropriate, provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated based on information available at the balance sheet date. Unexpired risks surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

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

Reinsurance premium ceded
Reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected or in relation to the coverage period of the contract as appropriate. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.

Technical provisions – claims incurred and reinsurers' share
Gross claims incurred represents the change in the forecast ultimate cost of settling all claims, whether reported or not, including related direct and indirect claims handling costs.

The technical provisions include an estimate of the cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods. This reserve also includes an allowance for any expected deficiency or redundancy in notified outstanding claims. The provision for reserves also includes a provision for related claims handling costs and bad debts. The technical provisions have been calculated using statistical techniques. These are generally statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. These methods can incorporate judgmental allowances, for example, for changes in business mix or market conditions.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projected IBNR, net of estimated irrecoverable amounts, having regard to the relevant reinsurance programme for each class of business.

The most critical assumption, as regards claims provisions, is that the past is a reasonable guide to the likely level of future claims development. In forming its judgements the syndicate has had access to: the historic claims experience; industry benchmark data derived from data provided by its peers in the Lloyd's market; and the expertise of external actuarial consultants with access to their own benchmark data. In addition, claim estimates include an explicit uplift for inflation based on expectations of both economic and social inflation, and their impact on specific classes.

Standard actuarial methods for non-life business usually assume that the development of claims, i.e. reporting, processing, and settlement of claims, is consistent with previous experience. Accumulation of experience over many underwriting years helps to moderate the effect of short-term random variation. The Syndicate's own experience is limited as the portfolio was underwritten over a period of three years commencing in 2017. For this reason, the Syndicate has placed greater reliance on market data that covers a longer period, a greater volume of business, and is more credible as a result.

Notes to the annual financial statements (continued)
at 31 December 2022

3. Summary of significant accounting polices (continued)

Technical provisions – claims incurred and reinsurers' share (continued)
Claim estimates are sensitive to the actual rate of claims development. If the Syndicate's rate of claim development is faster than the market, standard methods would over-estimate future claims. Conversely, if the Syndicate's rate of claim development is slower than the market, standard methods would under-estimate future claims. The Syndicate's portfolio consists of inwards reinsurance policies which generally develop more slowly than direct policies due to reporting delays. The Syndicate has added a delay to the market development patterns to allow for this effect.

Claim estimates are also sensitive to inflation. Types of inflation that can affect claim costs include wage inflation, cost of materials, medical inflation, and social inflation. Current economic inflation is high by recent standards, so it is likely that claim inflation will be higher than the rate implicit captured by claim development patterns. To allow for this, the Syndicate has included an explicit uplift for inflation.

Claim estimates are less sensitive to new claims arising from past events as most policies have already expired. Claim reserves are primarily for unsettled claims for losses that have already occurred. Uncertainty arises from reporting delays, and delays in adjusting losses, for example delays in establishing coverage under a policy, establishing the policyholder's liability, and establishing the quantum of the claim.

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, the 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 opening value of claims provisions, transferred under the RITC, are reflected in the financial statements for the period. The data, methods, and assumptions, and the resulting estimates, are reviewed regularly.

Estimates of IBNR are generally subject to a greater degree of uncertainty than estimates of the cost of settling claims that have already been notified to the Syndicate, where more information about the claim event is generally available. Due to the age of the portfolio, the IBNR held by the Syndicate is believed to be predominantly for deterioration on existing claims, referred to as Incurred But Not Enough Reserved ('IBNER'), as opposed to unreported claims, referred to as Incurred But Not Yet Reported ('IBNYR'). Claims are projected on an underwriting year basis, this methodology projects IBNR as a whole and does not provide separate estimates of IBNER and IBNYR.

As described under Insurance Risk in the Risk Management section, later in this report, there is a thorough review process of claims notifications and reserving estimates, including actuarial evaluation of past claims development. However, there remains a risk that past performance may not be a good indicator of the future developments.

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

Technical provisions are reported on an undiscounted basis due to the relative short-term of the liabilities. The forecast average duration of liabilities is less than 3 years.

Notes to the annual financial statements (continued)
at 31 December 2022

3. Summary of significant accounting polices (continued)

Reinsurance to close
In the Syndicate's view, an RITC contract of insurance transfers all known and unknown liabilities relating to a year (or years) of account from the ceding Lloyd’s syndicate to the reinsuring syndicate. The use of the term reinsurance is misleading as, for practical purposes, the contract extinguishes the liabilities of the transferor syndicate. Following the RITC, the transferor is released from its obligations to account for and to report on the transferring liabilities. This is unlike a conventional reinsurance contract which reinsures the cedant, but does not transfer the cedant's primary responsibility for the liabilities. The Syndicate understands that there are differing approaches to the accounting treatment of RITC contracts; however, the Syndicate considers that its accounting policy is appropriate and that it assists the users of the accounts to understand both the transaction and subsequent performance.

The RITC premium is the cost to the transferor of transferring the liabilities to the transferee. The RITC does not transfer intangible assets, such as a brand or future policy renewal rights. For an arm's-length transaction, it provides an objective assessment of the fair value of the liabilities. Therefore the net value of the assets and liabilities transferring to the reinsuring syndicate is nil, and they are not recognised through profit or loss. Subsequent revenues, expenses and revaluation of assets and liabilities are included in the statement of profit or loss, or other comprehensive income as appropriate. Any RITC premiums received in the period are disclosed as a note to the annual financial statements.

Net operating expenses
Net operating expenses are accounted for on the accruals basis. Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the managing agent considers to be attributable to this Syndicate.

Non-technical account charges
Non-technical account charges includes any other non-insurance and non-investment related charges, including exchange differences on translation of foreign currency transactions and balances into the functional currency.

Distribution of profits and collection of losses

Lloyd’s operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd’s continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the Syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The Syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd’s requirements.

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

The Syndicate's functional currency is US Dollars, which is the predominant currency of liabilities.

Foreign currency transactions are translated into the functional currency using the opening exchange rate for the month of each transaction.

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

Notes to the annual financial statements (continued)
at 31 December 2022

3. Summary of significant accounting polices (continued)

Foreign currencies (continued)
Non-monetary items measured at historical cost are translated using the opening exchange rate for the month of the transaction and non-monetary items measured at fair value are measured using the exchange rate when the fair value was determined.

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

Non-monetary items - Non-monetary assets and liabilities are translated at the exchange rate at the date of their last valuation. When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. Conversely, when a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

The functional currency amounts are translated into the presentation currency as follows:
• assets and liabilities are translated at the closing rate at the balance sheet date;
• income and expenses are translated at the average rate of exchange during the year; and
• all resulting exchange differences are recognised in other comprehensive income.

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

Investments in shares and other variable yield securities and unit trusts are classified as fair value through profit or loss. Debt securities and other fixed income securities are classified as fair value through profit or loss as they are managed on a fair value basis. Cash at bank, deposits with credit institutions, and debtors are classified as held at amortised cost.

Recognition

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

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

Subsequent measurement
Current debt instruments are subsequently measured at amortised cost using the effective interest method. Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received. Investments in shares and other debt instruments are measured at fair value through profit or loss.

Notes to the annual financial statements (continued)
at 31 December 2022

3. Summary of significant accounting polices (continued)

Subsequent measurement (continued)
Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

De-recognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the Syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Syndicate, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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

Fair value measurement
The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse in time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the Syndicate estimates the fair value by using a valuation technique.

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

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

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

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

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

Notes to the annual financial statements (continued)
at 31 December 2022

3. Summary of significant accounting polices (continued)

Impairment of financial instruments measured at amortised cost (continued)
Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

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

Investment return
Investment return comprises 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 are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

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

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

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

Pension costs
No pension costs are directly borne by the Syndicate.

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

In the Syndicate's judgement, an RITC is a sale/purchase at fair market value based on an arm's-length commercial agreement, therefore the net value of the transferring assets and liabilities is nil.

Notes to the annual financial statements (continued)
at 31 December 2022

3. Summary of significant accounting polices (continued)

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

Key sources of estimation uncertainty in investment valuations

All investments are shown at their fair value as described in the accounting policies above and details of the risks relating to investments are disclosed in the Risk Management section. Most investments are Government securities or investment-grade corporate bonds and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

Key sources of estimation uncertainty in technical provisions valuations

The accounting policy for technical provisions is described on page 22 and the related risks are described within the Risk Management section below. The net technical provisions after the reinsurers' share is £56.2m.

The most uncertain element within these technical provisions is the amount for gross claims outstanding, which covers amounts where either the claim has been notified to the Syndicate, or where there has not yet been a notification, or although notified there has been insufficient information to date to be certain regarding its ultimate costs. This amounted to £55.6m. As described in the Risk Management section there is a thorough review process of claims notifications and reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments.

A large proportion of the reserves held are in respect of business where the claims are handled by the reinsured syndicates and therefore there can be additional lag in notifications, although the Syndicate maintains close contact with the reinsured syndicates.

The inherent uncertainty of future claim payments is mitigated by a diverse portfolio of policies from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. Outwards reinsurance may mitigate uncertainty in gross technical provisions, albeit the reinsurer's share itself is also uncertain.

The 'Technical provisions – claims incurred and reinsurers' share' accounting policy, above, discussed the sensitivity of accounting estimates.

Notes to the annual financial statements (continued)
at 31 December 2022

4. Risk management

Managing Agent approach to Syndicate risk management

The Syndicate's activities expose it to a variety of financial and non-financial risks. In order to achieve its business plan and objectives, the Syndicate recognises that it is necessary to take risk and expects to be rewarded for doing so. The Syndicate is also exposed to several unrewarded risks as a function of its operating model, such as operational risk. The managing agent is responsible for understanding and managing the Syndicate's exposure to all risks and does so by utilising mechanisms outlined within its risk management framework.

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

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

Syndicate risk exposures

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

Insurance risk

Underwriting and pricing for inwards legacy reinsurance contracts are the responsibility of the Marco Group. This, together with the run-off nature of the business mean that the Syndicate is primarily exposed to:
• the uncertainty of in the reporting and quantification of claim payments in respect of losses that have already occurred (Reserving Risk); as opposed to
• the additional uncertainty of losses that might arise due to as yet unknown future events, as would be the case for a traditional syndicate writing live risks (Underwriting Risk).

The managing agency is responsible for approving all inwards legacy reinsurance contracts, including that sufficient and effective due diligence has been undertaken on behalf of the Syndicate before approving any transactions. The Underwriting function is responsible for the day-to-day operational aspects of managing the Syndicate's portfolio, including any reinsurance arrangements, should these be deemed necessary.

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

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

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

Claim estimates are sensitive to the actual rate of claims development. If the Syndicate's rate of claim development is faster than the market, standard methods would over estimate future claims. Conversely, if the Syndicate's rate of claim development is slower than the market, standard methods would under estimate future claims. The Syndicate's portfolio consists of inwards reinsurance policies which generally develop more slowly than direct policies due to reporting delays. The Syndicate has added a delay to the market development patterns to allow for this effect.

Notes to the annual financial statements (continued)
at 31 December 2022

4. Risk management (continued)

Insurance risk (continued)

Claim estimates are also sensitive to inflation. Types of inflation that can affect claim costs include wage inflation, cost of materials, medical inflation, and social inflation. Current economic inflation is high by recent standards, so it is likely that claim inflation will be higher than the rate implicit captured by claim development patterns. To allow for this, the Syndicate has included an explicit uplift for inflation.

Sensitivity of claims outstanding to assumptions	**£000**	**% change**
Best estimate	55,574	
Assume less inflation already allowed for in case reserves	+349	+1%
Assume more inflation already allowed for in case reserves	-348	-1%
Prolonged period of excess inflation	+1,608	+3%
Shorter period of excess inflation	-793	-1%
Claims development tail factor increased by 10%	+1,382	+2%
Claims development tail factor decreased by 10%	-1,444	-3%
Specific IBNR for large losses doubles	+3,599	+6%
Specific IBNR for large losses is redundant	-3,599	-6%

The following table shows how estimates, of ultimate claims for the Syndicate's portfolio, have developed over time. It includes the estimates made by Syndicate 2689, i.e. prior to the RITC of the portfolio.

Insurance contract outstanding claims provision by year of account as at 31 December 2022:

Analysis of claims development by year of account in £000

	2019	**2018**	**2017**
Estimate of cumulative gross claims incurred:			
At end of underwriting year	38,332	39,700	35,747
After one year	68,611	90,327	62,114
After two years	71,562	96,468	62,914
After three years	57,689	89,084	65,996
After four years	-	78,715	64,390
After five years	-	-	60,403
After six years	-	-	-
After seven years	-	-	-
After eight years	-	-	-
After nine years	-	-	-
Cumulative gross payments to date	36,692	53,916	50,922
Outstanding gross claims provision at 31 December 2022	20,997	24,799	9,480
Estimate of cumulative net claims incurred:			
At end of underwriting year	37,832	36,686	35,747
After one year	69,462	86,813	62,114
After two years	71,545	97,587	62,914
After three years	57,689	85,571	65,996
After four years	-	75,202	64,390
After five years	-	-	60,403
After six years	-	-	-
After seven years	-	-	-
After eight years	-	-	-
After nine years	-	-	-
Cumulative net payments to date	36,692	50,106	50,922
Outstanding net claims provision at 31 December 2022	20,997	25,096	9,480

Notes to the annual financial statements (continued)
at 31 December 2022

4. Risk management (continued)

Insurance risk (continued)

The increase in claims incurred in the early years are largely attributable to exposure to new claims during the on-risk period of the underlying policies. Most policies are off-risk after two years from the end of the underwriting year.

Market risk

The Syndicate's investments expose it to investment risk, comprised of the following sub-risk types: currency risk, interest rate risk, spread risk and concentration risk.

The Syndicate’s assets are managed according to Marco Group's Investment policy, which has been adopted by the Syndicate’s Investment Committee. In order to mitigate market risk, the Committee has engaged external fund managers that provide a specialist service for insurers. The Committee assesses the fund managers reports, monitors economic developments, and takes appropriate action to mitigate their effect on the value of Syndicate assets. Asset-liability matching, by currency and duration, is used to mitigate currency risk and interest rate risk. Spread risk and concentration risk are mitigated by Investment Guidelines, which place limits on the amounts that can be invested with different grades of counterparty.

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

Currency risk

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

The Syndicate is exposed to changes in the unmatched value of assets and liabilities due to movements in foreign exchange rates. The Syndicate has six settlement currencies: UK Sterling; Canadian dollars; Euros; Australian dollars; US dollars; and Japanese Yen. Transactions also take place in other currencies, although these are immediately converted to US dollars or UK Sterling, as required. A 10% adverse movement in the values of all non US Dollar (the functional currency) net assets due to exchange rate movements would lead to a £0.2m loss. Similarly a 10% favourable movement would lead to a £0.2m profit. For currencies for which net assets are positive, an adverse movement would be a weakening of that currency. For currencies for which there is a net liability, an adverse movement would be a strengthening of that currency.

The Syndicate has not taken out any transactions to hedge these balances.

At 31 December 2022	Sterling £000	US Dollar £000	Euro £000	Other £000	Total £000
Total assets	533	58,532	173	179	59,417
Total liabilities	(1,977)	(54,353)	(593)	(325)	(57,248)
Net assets/member's balances	(1,444)	4,179	(420)	(146)	2,169

Other currencies, aggregated on grounds of low materiality, include Canadian Dollars, Australian Dollars, and Japanese Yen.

Notes to the annual financial statements (continued)
at 31 December 2022

4. Risk management (continued)

Interest rate risk

The Syndicate's main exposure to fluctuation in interest rates arises from its effect on the valuation of assets invested in fixed interest securities, such as government and corporate bonds. Asset-Liability Matching (ALM) by currency and duration is used to mitigate the interest rate risk in each currency. Interest rates in different currencies can move independently. Discounting of future cash flows using risk-free interest rates is not recognised in the GAAP technical provisions, but it is recognised in solvency returns.

A large element of the Syndicate's investments comprises fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the Syndicate's fixed interest investments would tend to rise and vice versa.

	2022
	£000
Impact of a 100 basis point increase in interest rates on result	(378)
Impact of a 100 basis point decrease in interest rates on result	378
Impact of a 100 basis point increase in interest rates on net assets	(378)
Impact of a 100 basis point decrease in interest rates on net assets	378

Liquidity risk

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

To mitigate liquidity risk, the Investment Committee regularly reviews cash flow projections and maintains cash levels consistent with the needs of the Syndicate. In addition, an overdraft facility has been arranged, in order to provide an additional layer of liquidity.

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

As at 31 December 2022	**Within one year**	**Between one and three years**	**Between three and five years**	**Over five years**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***
Outstanding claims liabilities	18,593	20,913	7,507	8,561	55,574
Creditors	693	-	-	-	693

Credit risk

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

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

Notes to the annual financial statements (continued)
at 31 December 2022

4. Risk management (continued)

Credit risk (continued)

The Syndicate has debtors, creditors, bank balances and investments in various currencies in the normal course of its business. The Syndicate's exposure to credit risk is typical for an insurer. At present there is no exposure to reinsurers and current exposures to brokers are immaterial. The most material exposure is a £21.5m debtor balance for funds withheld by a major cedant, AXA XL; however, this balance can be netted off against equivalent claims liability to the same cedant, which mitigates the credit risk. Exposures to individual issuers of bonds are capped by the Investment Guidelines. The Syndicate does not actively enter into derivatives, hedging or other uses of financial instruments as part of its financial risk management.

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

At 31 December 2022	*AAA*	*AA*	*A*	*BBB & <BBB*	*Non- rated*	*Total*
	£000	£000	£000	£000	£000	£000
Variable yield securities and unit trusts	921	-	408	-	3,137	4,466
Debt securities and other fixed income securities (including derivative contracts)	1,976	3,758	18,518	6,832	-	31,084
Participation in investment pools	-	-	-	-	-	-
Deposits with credit institutions	-	-	-	-	-	-
Deposits with ceding undertakings	-	-	39	-	-	39
Reinsurers share of outstanding claims	-	-	-	107	30	137
Debtors arising out of reinsurance operations	-	-	-	-	21,522	21,522
Cash at bank and in hand	-	-	2,030	-	-	2,030
Overseas deposits	96	13	19	-	-	128
Total	2,993	3,771	21,014	6,939	24,689	59,406
Amounts attributable to largest single counterparty	-	-	4,057	-	-	4,057
Amounts Past due	-	-	-	-	-	-
Fair Value of impaired assets	-	-	-	-	-	-

Debtors arising out of reinsurance operations relate to funds withheld by a major cedant. The credit risk on this balance is mitigated by netting-off against an equivalent liability for future claim payments.

Reinsurance credit risk

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

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

Notes to the annual financial statements (continued)
at 31 December 2022

4. Risk management (continued)

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

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

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

In relation to the former, the managing agent maintains a Business Continuity Plan (BCP) which sets out the anticipated risks, including those relating to the robustness and sustainability of IT infrastructure and business applications, and the arrangements in place to mitigate those risks. The BCP is monitored and updated regularly. In addition, to mitigate the risk of loss of key staff, the managing agent seeks to maintain a succession plan to reduce the dependence on any one individual so far as is practicably possible.

Operational risk is monitored via regular risk and control assessments, facilitated by the Risk Management function.

Regulatory risk
The managing agent is required to comply, inter alia, with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Failure to comply with applicable regulations could result in a variety of sanctions, the most extreme being a withdrawal of the right to conduct business at Lloyd's.

The managing agent has established a culture of compliance and sound risk management, proportionate to the nature, scale and complexity of the Syndicate's operations. Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard. The Risk & Compliance Director monitors regulatory developments to ensure the managing agent remains compliant. In addition, the Risk Management function reports on changes to the regulatory risk profile on a regular basis. The Internal Audit function supports the monitoring process, and reports into the Audit Committee, itself comprised of non-executive directors of the managing agent.

Covid-19
Direct exposure to the Covid-19 pandemic is not believed to be material to the Syndicate as the portfolio is in run-off. The underlying insurance policies were originally underwritten between 2017 and 2019 and, in most cases, coverage had ceased before the start of the pandemic. At the balance sheet date, explicit COVID claim reserves were not significant, £0.3m. However, the secondary effects of the pandemic could still affect future claim settlements; for example, the economic fallout has lead to higher inflation and higher claims awards as a consequence.

Notes to the annual financial statements (continued)
at 31 December 2022

4. Risk management (continued)

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

Given factors such as the increasing interconnectedness of the financial system, increasing outsourcing / concentration risks, unprecedented levels of change, unproven technology (in addition to ageing legacy systems), high profile disruptions, and rising political concern, the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) consider operational resilience to be “at least as important as Financial Resilience”, and is consequently a major focus for the UK regulators.

PMA’s Operations Committee is responsible for monitoring the implementation of operational resilience requirements and to consider the work undertaken to date on the existing client base and also the future strategy / framework for new clients. For run-off syndicates, operational resilience is far less onerous as the books of business have typically been in run-off for a long time and most policies have expired. The managing agent has determined that no 'important business services', as defined by operational resilience requirements, are currently being provided in relation to the Syndicate's business.

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

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

Climate change is one of the issues addressed by the Syndicate's Environmental, Social and Governance framework ('ESG'). The syndicate will work with the appointed investment managers to:
• Consider adverse impacts of investment decisions, including greenhouse gas emissions, the use of finite natural resources, and hazardous and non-recyclable waste, as well as violation of social norms and employee rights.
• Consider Lloyd’s market-wide ambition of phasing out investment in thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities.
• Identify, measure, and monitor exposures using industry research.

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

Notes to the annual financial statements
at 31 December 2022

5. Analysis of underwriting results
An analysis of the technical account balance before investment return is set out below:

2022	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses*	*Re-insurance balance*	*Total*
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Direct insurance:						
Fire and other damage to property	-	-	-	-	-	-
Marine, aviation and transport	-	-	-	-	-	-
Third party liability	-	-	-	-	-	-
Pecuniary loss	-	-	-	-	-	-
Other	-	-	-	-	-	-
	-	-	-	-	-	-
Reinsurance acceptances:						
Casualty	503	387	4,531	(814)	(95)	4,009
Property	1,571	1,207	1,152	(2,541)	(257)	(439)
Marine	230	176	(538)	(371)	(35)	(768)
Energy	191	147	(620)	(309)	(29)	(811)
Motor	-	-	184	-	(1)	183
Aviation	12	9	24	(19)	(2)	12
	2,507	1,926	4,733	(4,054)	(419)	2,186

On 10th February 2022 and with effect from 1st January 21022, an inwards RITC was executed for Syndicate 2689's 2017,2018 and 2019 years of account. A premium of £75,243k ($101,578k converted at 1.35 $/£) was received. The Syndicate's accounting policy is not to recognise RITC premiums through profit or loss, see the reinsurance to close accounting policy.

All premiums were concluded in the United Kingdom.

6. Particulars of business written

The premiums received during the year are from a variety of inwards quota-share reinsurance contracts. They are understood to be reinstatement premiums and adjustment premiums on existing underlying policies, as opposed to premiums in respect of new risks because the last quota-share contract was issued in 2019. Quota-share contracts limit access to the underlying policy records.

	2022 Gross premiums written	*2022 Profit/ (loss)*
	£000	**£000**
Direct	-	-
Reinsurance	2,507	2,176
	2,507	2,176

Notes to the annual financial statements (continued)
at 31 December 2022

7. Net operating expenses

	2022
	£000
Acquisition costs	879
Administrative expenses	3,175
	4,054

The acquisition costs incurred during the year are commissions payable on a variety of inwards quota-share reinsurance contract. They are believed to be payable on reinstatement premiums and adjustment premiums on existing underlying policies, as opposed to commissions in respect of new risks because the last policy was issued in 2019. Quota-share contracts limit access to the underlying policy records.

The member's standard personal expenses amounting to £485k are included in administrative expenses. This includes Lloyd's subscriptions £10k, New Central Fund contributions £45k and managing agent's fees £430k.

Administrative expenses include:

	2022
	£000
Auditor's remuneration:	
Audit of the Syndicate's financial statements	94
Audit /review of the Syndicate's returns to Lloyd's	93
Other audit related services	-
Total auditors' remuneration	187
Standard personal expenses	485

8. Employees

The following amounts were recharged to the Syndicate in respect of salary and related costs:

	2022
	£000
Wages and salaries	70
	70

Salaries and related costs, where they relate to unallocated loss-adjustment expenses (ULAE) are treated as paid claims and charged against the ULAE reserve.

The average number of employees working for the Syndicate during the year was as follows:

	2022
Underwriting	1
Underwriting support	1
Claims	1
Administration and finance	3
	6

Notes to the annual financial statements (continued)
at 31 December 2022

9. Directors’ and run-off manager’s emoluments

The following amounts in respect of emoluments paid to the run-off manager were charged to the Syndicate during the year.

	2022
	£000
Run-off manager’s emoluments	70
	70

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

10. Investment return
(a) Investment return

	2022
	£000
Income from financial investments	132
Realised gains on investments	7
Investment income	139
Realised losses on investments	(62)
Investment expenses	(24)
Investment expenses and charges	(86)
Unrealised gains on investments	134
Unrealised losses on investments	(197)
Net unrealised gains and losses on Investments	(63)
Allocated investment return transferred to the technical account from the non-technical account.	(10)

(b) Average amount of funds available for investment during the year

	2022
	£000
U.S. dollars	37,122
Sterling (including other settlement currencies)	846
Canadian dollars	167
Combined in sterling	38,135

Net calendar year investment yield	***2022***
U.S. dollars	0.8%
Sterling (including other settlement currencies)	0.3%
Canadian dollars	1.6%
Combined in sterling	0.8%

Notes to the annual financial statements (continued)
at 31 December 2022

11. Other financial investments

	2022 *Cost* £000	*2022* *Fair value* £000
Shares and other variable yield securities and units in unit trusts	4,466	4,466
Debt securities and other fixed income securities	30,940	31,085
Participation in investment pools	-	-
Other investments	-	-
	35,406	35,551
Amounts Past due		-
Fair Value of impaired assets		-

Breakdown of investments by currency

	US Dollar £000	*Pound Sterling & Other currencies* £000	*Total* £000
Year ended 31 December 2022			
Shares and other variable yield securities and units in unit trusts	4,059	407	4,466
Debt securities and other fixed income securities	31,085	-	31,085
Participation in investment pools	-	-	-
Other investments	-	`	
	35,144	407	35,551

Notes to the annual financial statements (continued)
at 31 December 2022

11. Other financial investments (continued)

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

	Level 1 £000	*Level 2* £000	*Level 3* £000	*Total* £000
Year ended 31 December 2022				
Shares and other variable yield securities and units in unit trusts	-	4,135	331	4,466
Debt securities and other fixed income securities	-	31,085	-	31,085
Participation in investment pools	-	-	-	-
Other investments	-	-	-	-
Total	-	35,220	331	35,551

In accordance with FRS 102 paragraph 11.27 the above financial instruments have been classified using three levels to estimate their fair values, with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

Level 1: The unadjusted quoted prices 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.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

12. Provision for unearned premiums

2022	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2022	-	-	-
Premiums written in the year	2,507	(403)	2,104
Premiums earned in the year	(1,926)	403	(1,523)
Foreign exchange	14	-	14
At 31 December 2022	595	-	595

Notes to the annual financial statements (continued)
at 31 December 2022

13. Claims outstanding

2022	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2022	-	-	-
Inwards RITC of liabilities	75,257	(14)	75,243
Change in the provision for claims in the year	(27,481)	16	(27,465)
Foreign exchange	7,798	(2)	7,796
At 31 December 2022	55,574	-	55,574

On 10th February 2022 and with effect from 1st January 2022, the Syndicate executed an inwards RITC for Syndicate 2689's 2017, 2018 and 2019 years of account. A premium of £75,243k ($101,578k converted at 1.35 $/£) was received with a consequent inwards transfer of liabilities to the same value. The premium was deemed to be the fair value of the liabilities transferring.

The RITC premium was settled with the following assets. Other financial investments were valued to fair value. All other amounts were valued at amortised cost.

	£000
Other financial investments	18,809
Debtors arising out of reinsurance operations	45,650
Cash at bank and in hand	11,613
Overseas deposits	268
Creditors arising out of reinsurance operations	(122)
Accruals and deferred income	(975)
Total consideration received	75,243

Within the calendar year net technical result, the effect of the transaction on direct business was nil and profit of £2.2m on reinsurance accepted business.

14. Significant reinsurance arrangements

An outwards reinsurance contract mitigates the risk of losses for 2022 and subsequent accident years, but no recoveries are anticipated at this time.

15. Debtors

	2022 £000
Debtors due within one year	
Due from intermediaries	
Amounts arising out of direct insurance operations	-
Amounts arising out of reinsurance operations	21,522
	21,522

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

Notes to the annual financial statements (continued)
at 31 December 2022

16. Other debtors
There are no other debtors at the balance sheet date.

17. Overseas deposits

	2022
	£000
Amounts advanced in other countries as a condition of carrying on business there, in particular Australia	264

18. Creditors

	2022
	£000
Creditors due within one year	
Amounts arising out of:	
Reinsurance operations	10
Other creditors including taxation	683
Amounts falling due within one year	693

19. Cash and cash equivalents

	2022
	£000
Cash at bank and in hand	2,030
Short-term deposits with financial institutions	4,135
	6,165

20. Regulatory capital requirements

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

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

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

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

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

Notes to the annual financial statements (continued)

at 31 December 2022

20. Regulatory capital requirements (continued)

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1254 is not disclosed in these financial statements.

Lloyd's capital setting process

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

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

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

The Syndicate's objective and policy is to comply with the Lloyd's capital setting process. The Syndicate manages its member's balances, while FAL is managed by the corporate member. Member's balances are held in USD and invested in accordance with the approved investment guidelines. Member's balances consist of retained surpluses and there are no other types of capital, such as subordinated loans. There are no inadmissible assets. 2022 was the first year of account for the Syndicate, so there are no changes from the previous period to report. The Syndicate and its corporate member complied with all Lloyd's requirements throughout the year.

21. Related parties

(i) During the year Polo Managing Agency Limited recharged £1,797k in respect of time and materials costs. This amount has been charged on an arm's-length basis.

(ii) During the year Marco Group recharged £647k in respect of time and materials costs. This amount has been charged on an arm's-length basis.

22. Derivatives

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

23. Off-balance sheet items

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

24. Post Balance Sheet Events

There are no post balance sheet events.