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Syndicate 1225

Annual Report and Financial Statements

For the Year Ended 31 December 2023

Contents

Financial **highlights**

Total comprehensive income £206.0m (2022: £97.0m) A cumulative profit of £481.6m generated in the last five years. The syndicate continues to be a top quartile Lloyd's performer.	**Gross written premium £1039.8m (2022: £907.9m)** Focus on a quality and diversified underwriting portfolio has increased gross written premium by £386.6m in the last five years.
Combined ratio 79.4% (2022: 83.8%) Positive result reflecting harder rating conditions, and low attritional and catastrophe loss experience. The average combined ratio for the last five years is 87.1%.	**Investment return £62.5m (2022: £-28.4m)** A favourable investment market has generated higher than planned investment returns. Total return of 5.74**%** (2022: -3.10%).

Five year financial performance

£ million	**2023**	**2022**	**2021**	**2020**	**2019**
Gross written premium	**1,039.8**	907.9	773.7	707.9	653.2
Underwriting profit [1]	**162.3**	111.3	91.1	44.9	15.2
Investment return	**62.5**	(28.4)	(2.4)	18.6	20.9
Foreign exchange gains/(losses)	**(18.8)**	14.1	(1.4)	(3.1)	(5.0)
Total comprehensive income	**206.0**	97.0	87.3	60.3	31.1
Combined ratio [2]	**79.4%**	83.8%	83.9%	91.6%	96.8%

Lloyd's Ratings

A (Excellent) from A.M. Best[3]

AA- (Very Strong) from Fitch[3]

A+ (Strong) from Standard & Poor's[3]

[1] Underwriting profit is the balance on the technical account less investment return
[2] The combined ratio is derived as follows:

$$\frac{\textit{(Claims incurred, net of reinsurance + Acquisition costs + Administrative expenses [excl profit/loss on exchange])}}{\textit{Earned premiums, net of reinsurance}}$$

[3] Current insurer financial strength ratings of Lloyd's of London

Report of the directors of the Managing Agent

The directors of the Managing Agent, AEGIS Managing Agency Limited (the "Managing Agent"), present their annual report and audited financial statements for Syndicate 1225 (the "syndicate") for the year ended 31 December 2023.

The syndicate is, through intermediate holding companies, a wholly aligned syndicate of Associated Electric & Gas Insurance Services Limited ("AEGIS") incorporated in Bermuda.

1. Directors' Report

Executive Directors		Non-Executive Directors	
A J P Powell	*Chief Executive Officer*	T G S Busher	*(Non-Executive Chairman)*
G S G Tennyson	*Chief Risk & Compliance Officer*	C M Crane	
K A Wade	*Chief Financial Officer*	C D Forbes	
M C Yeldham	*Chief Underwriting Officer*	J G Gray	
		M L Onslow	
		W W von Schack	
		C Lau*	

The directors of the Managing Agent who have served in the period and up to the date of signing are shown above.

Gregory Abel served as a Non-Executive Director from 1 January 2023 up until his resignation on 21 September 2023. *Constance Lau was appointed as a Non-Executive Director on 9 March 2023.

Going concern

After making enquiries, the directors have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis for preparing the annual report and financial statements.

Future developments

Our strategy is the pursuit of underwriting excellence whilst achieving a sustainable profit. We will aim to deliver strong returns on capital, providing diversification and low volatility for our capital provider. We will continue to trade independently in the Lloyd's market as part of AEGIS, maintaining our market leading claims service and enhancing our relevance to customers through increased digital product development and distribution.

Use of financial instruments

In relation to the use of financial instruments, the financial risk management objectives, and policies of the syndicate, as well as the exposure of the syndicate to risk, are discussed in note 2 to these financial statements.

Events after reporting period

Details regarding events after the reporting period have been set out in note 15 to these financial statements. No such events were identified.

Report of the directors of the Managing Agent *continued*

Disclosure of information to auditor

Each director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the syndicate's auditor is unaware; and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Independent auditor

The auditor for the year ended 31 December 2023 was Deloitte LLP. They have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be re-appointed.

2. Managing Agent's responsibilities statement

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 Regulations") require the Managing Agent to prepare syndicate annual report and financial statements as at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"), FRS 103 - Insurance Contracts ("FRS 103") and applicable law). The annual report and financial statements are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit and loss for that year.

In preparing the syndicate annual report and financial statements, the Managing Agent is required to:

- select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the syndicate will continue in business.

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

Approved by the Board of Directors of AEGIS Managing Agency Limited and signed on its behalf by:

A J P Powell
Chief Executive Officer
22nd February 2024

Strategic report of the directors of the Managing Agent

Principal activity and review of the business

The principal activity of syndicate 1225 remains the transaction of specialist insurance and reinsurance business across more than 20 classes underwritten within the Lloyd's of London insurance market. The total premium written for the year ended 31 December 2023 was £1039.8m which saw an increase of £131.9m from 2022. A significant proportion of the syndicate's underwriting is sourced from North America.

Total comprehensive income: £206m (2022: £97.0m) with a combined ratio of 79.4% (2022: 83.8%)

The syndicate recorded its eighteenth successive year of underwriting profit. Total comprehensive income of £206m (2022: £97.0m) is driven by underwriting profit of £162.3m (2022: £111.3m). It continues to maintain underwriting discipline, prudent management of risk and careful control over expenses. The historic performance of the syndicate reflects the fact that the Managing Agent has managed its risk selection wisely, has refused to write business in areas that are under-priced relative to their volatility and has maintained strong relationships with both its clients and brokers.

Investment income

A favourable investment market contributed to a positive investment result due to solid performance in income investments, short term fund investments and equity holdings bolstered by the unwind of historic unrealised losses and high bond prices. The investment income gross of investment management fees and before foreign exchange effects, as a percentage of the average investable assets, is 5.74% for 2023 (2022: -3.10%).

The total cash, overseas deposits and financial investments of the syndicate at 31 December 2023 were £1,226.0m (2022: £1,029.9m), comprised of:

	2023 **£m**	2022 £m	**2023** **% of Total**	2022 % of Total
Fixed income	**1,136.0**	917.2	**93%**	89%
Overseas deposits	**70.9**	74.1	**6%**	7%
Cash	**19.1**	38.6	**1%**	4%
TOTAL	**1,226.0**	1,029.9		

Principal risks and uncertainties

The syndicate has sufficient financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors of the Managing Agent believe that the syndicate is well positioned to manage its business risks.

Climate change

The directors are aware of climate change and its potential to impact the principal risks affecting the business. As part of its risk management framework, and through the existing ERM infrastructure, the directors of the Managing Agent monitor the potential impact of climate change through the analysis of various scenarios, predominantly through the Own Risk and Solvency Assessment processes; refer to note 2 of these financial statements.

Key performance indicators

The Managing Agent's strategy is the pursuit of underwriting excellence whilst achieving a sustainable profit. Profitability is noted as a key performance indicator, as shown on page 1 of these financial statements.

Strategic report of the directors of the Managing Agent *continued*

Use of financial instruments

In relation to the use of financial instruments, see note 2 of these financial statements.

Approved by the Board of Directors of AEGIS Managing Agency Limited and signed on its behalf by:

A J P Powell
Chief Executive Officer
22nd February 2024

Independent auditor's report to the members of syndicate 1225

Report on the audit of the syndicate annual financial statements

Opinion

In our opinion the syndicate annual financial statements of syndicate 1225 (the 'syndicate'):

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

We have audited the syndicate annual financial statements which comprise:

- the statement of total comprehensive income;
- the balance sheet;
- the statement of changes in members' balances;
- the statement of cash flows; and
- the related notes 1 to 15.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

Independent auditor's report to the members of syndicate 1225

continued

Responsibilities of Managing Agent

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

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

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

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

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

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

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

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

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

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

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

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

- Estimation of pipeline premiums requires significant management judgement and therefore there is potential for management bias through manipulation of core assumptions. In response our testing included, on a sample basis, comparing management's estimates on prior year policies against actual premiums received as well as to historical experience on similar policies.

- Valuation of technical provisions includes assumptions and methodology requiring significant management judgement and involves complex calculations, and therefore there is potential for management bias. There is also a risk of overriding controls by making late adjustments to the technical provisions. In response to these risks we involved our actuarial specialists to develop independent estimates of the technical provisions.

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

Independent auditor's report to the members of syndicate 1225
continued

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

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

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

Report on other legal and regulatory requirements

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

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Use of our report

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

Adam Ely FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
22nd February 2024

Statement of total comprehensive income

(For the year ended 31 December 2023)

	Notes	2023 £m	2022 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	3, 4	**1,039.8**	907.9
Outward reinsurance premium		**(214.0)**	(178.7)
Net premiums written		**825.8**	729.2
Change in provision for unearned premiums:	10		
Gross amount		**(63.0)**	(42.2)
Reinsurers share		**24.0**	(0.7)
Change in the net provision for unearned premiums		**(39.0)**	(42.9)
Earned premiums, net of reinsurance		**786.8**	686.3
Allocated investment return transferred from the non-technical account		**62.5**	(28.4)
Other technical income, net of reinsurance	5	**14.3**	13.7
Total technical income		**863.6**	671.6
Claims incurred, net of reinsurance			
Gross claims paid		**(363.0)**	(314.8)
Reinsurers share		**117.1**	91.9
Net claims paid		**(245.9)**	(222.9)
Change in the provision for claims:	10		
Gross amount		**(80.1)**	(211.5)
Reinsurers share		**(14.4)**	113.9
Change in the net provision for claims		**(94.5)**	(97.6)
Claims incurred, net of reinsurance		**(340.4)**	(320.5)
Net operating expenses	5	**(298.4)**	(268.2)
Total technical charges		**(638.8)**	(588.7)
Balance on technical account – general business		**224.8**	82.9

The notes on pages 15 to 32 form an integral part of these financial statements.

Statement of total comprehensive income *continued*

(For the year ended 31 December 2023)

	Notes	2023 £m	2022 £m
Non-technical account			
Balance on the general business technical account		**224.8**	82.9
Interest income from investments		**29.3**	15.3
Realised investment gains		**14.8**	0.1
Realised investment losses		**(5.7)**	(12.0)
Unrealised gains on investments		**55.9**	0.0
Unrealised losses on investments		**(29.5)**	(30.9)
Investment expenses and investment management charges		**(2.3)**	(0.9)
Foreign exchange (loss)/gain		**(12.0)**	11.9
		50.5	(16.5)
Allocated investment return transferred to the general business technical account		**(62.5)**	28.4
Profit for the financial year		**212.8**	94.8
Other comprehensive income – foreign exchange (loss) / gain on conversion to presentational currency		**(6.8)**	2.2
Total comprehensive income		**206.0**	97.0

All operations of the syndicate are continuing.

The notes on pages 15 to 32 form an integral part of these financial statements.

Balance sheet
(As at 31 December 2023)

	Notes	2023 £m	2022 £m
ASSETS			
Investments	9		
Financial investments		**1,136.0**	917.2
Other investments - deposits with ceding undertakings		**1.6**	1.2
		1,137.6	918.4
Reinsurers share of technical provisions	10		
Provision for unearned premiums		**108.5**	90.5
Claims outstanding		**430.0**	465.0
		538.5	555.5
Debtors	9		
Debtors arising out of direct insurance operations		**307.6**	284.9
Debtors arising out of reinsurance operations		**63.6**	50.4
Other debtors		**4.0**	1.8
		375.2	337.1
Other assets			
Cash at bank and in hand		**19.1**	38.6
Overseas deposits		**70.9**	74.1
		90.0	112.7
Prepayments and accrued income			
Deferred acquisition costs	10	**125.4**	116.7
Other prepayments and accrued income		**10.4**	6.3
		135.8	123.0
TOTAL ASSETS		**2,277.1**	2,046.7

The notes on pages 15 to 32 form an integral part of these financial statements.

Balance sheet *continued*
(As at 31 December 2023)

	Notes	2023 £m	2022 £m
LIABILITIES			
Capital and reserves			
Members' balances		**259.2**	129.7
Technical provisions	10		
Provision for unearned premium		**563.7**	525.8
Claims outstanding		**1,266.8**	1,228.9
		1,830.5	1,754.7
Creditors	9		
Creditors arising out of direct insurance operations		**3.8**	3.8
Creditors arising out of reinsurance operations		**154.4**	140.1
Other creditors		**15.2**	6.4
		173.4	150.3
Accruals and deferred income		**14.0**	12.0
TOTAL LIABILITIES		**2,277.1**	2,046.7

The syndicate financial statements were approved by the Board of Directors of AEGIS Managing Agency Limited (registered number: 03413859) and signed on its behalf by:

A J P Powell
Chief Executive Officer
22nd February 2024

The notes on pages 15 to 32 form an integral part of these financial statements.

Statement of changes in members' balances
(As at 31 December 2023)

	2023 £m	2022 £m
Members' balances brought forward at 1 January	**129.7**	79.1
Profit for the financial year	**212.8**	94.8
Other comprehensive income - foreign exchange (loss) / gain on conversion to presentational currency	**(6.8)**	2.2
Total comprehensive income	**206.0**	97.0
Profit distribution	**(72.6)**	(52.1)
Foreign exchange movement on profit distribution	**(3.9)**	5.7
Members' balances carried forward at 31 December	**259.2**	129.7

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

The notes on pages 15 to 32 form an integral part of these financial statements.

Statement of cash flows
(For the year ended 31 December 2023)

	2023 £m	2022 £m
Cash flows from operating activities		
Profit for the year	**212.8**	94.8
Adjusted for:		
Increase in gross technical provisions	**146.5**	258.2
Increase/(Decrease) in reinsurers' share of gross technical provisions	**(8.9)**	(116.1)
Decrease in debtors	**(68.7)**	(16.7)
Increase in creditors	**30.4**	58.4
Movement in other assets/liabilities	**1.5**	5.0
Investment return	**(62.5)**	28.4
Foreign exchange	**8.7**	3.0
Net cash inflow from operating activities	**259.8**	315.0
Cash flows from investing activities		
Purchase of equity and debt instruments	**(905.6)**	(610.8)
Sale of equity and debt instruments	**663.5**	361.4
Interest income from investments	**38.4**	3.4
Net cash flows from investing activities	**(203.7)**	(246.0)
Cash flows from financing activities		
Distributions of profits	**(76.4)**	(52.1)
Net cash flows used in financing activities	**(76.4)**	(52.1)
Net increase in cash and cash equivalents	**(20.3)**	16.9
Cash and cash equivalents at the beginning of the year	**38.6**	20.1
Effect of foreign exchange rate changes	**0.8**	1.6
Cash and cash equivalents at the end of the year	**19.1**	38.6

Reconciliation to cash at bank in hand:

Cash at bank and in hand at end of financial year	**19.1**	38.6
Cash equivalents	-	-
Cash and cash equivalents at the end of financial year	**19.1**	38.6

The notes on pages 15 to 32 form an integral part of these financial statements.

Notes to the financial statements

(Forming part of the financial statements)

1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's syndicate and Aggregate Accounts) Regulations 2008, FRS 102 and FRS 103. In accordance with FRS 102 the financial statements are prepared under the historical cost convention as modified by financial instruments recognised at fair value. Because the corporate members of the syndicate are all owned by the same corporate Group, the syndicate's financial statements are fully consolidated within the financial statements of the ultimate parent and controlling company, Associated Electric & Gas Insurance Services Limited ("AEGIS"), which are publicly available and may be obtained at 1 Meadowlands Plaza, East Rutherford, NJ 07073.

Critical accounting judgements and key sources of estimation uncertainties

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of the syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Key sources of estimation uncertainty

The most critical element within the syndicate's financial position is the provision for claims outstanding at the period end, which include the provision for claims that have been incurred but have not yet been reported ("IBNR") and the related reinsurers' share of those claims. This estimate outlines the current liability for future expenses expected to be incurred in relation to claims. In addition, there is significant uncertainty within the Estimated Premium Income ("EPI").

Outstanding Claims and IBNR

The ultimate cost of outstanding claims is estimated using standard claims projection techniques completed by our in-house actuaries. The main assumption for these techniques is that past claims development experience can be used to project future claims development. The provision for claims also includes amounts in respect of internal and external claims handling costs. Claims handling costs are based on a set percentage of IBNR and outstanding claims, this calculation is reviewed on an annual basis. Note 2 details the impact on profits of a 1% variation in these estimates. The directors consider that the provisions for gross claims (carrying amount £1,266.8m) and associated reinsurance recoveries (carrying amount £430.0m) are fairly stated based on the information currently available; see note 10 of these financial statements.

Premiums

For certain insurance contracts, written premium is initially recognised based on the estimate of ultimate premiums. The main assumption underlying these estimates is that past premium development has been used to project future premium development. The estimation of unearned premiums includes estimates made on the allocation of premiums between accounting periods based on judgements on the profile of the underlying risks associated with the written premium and accordingly how the premium is recognised as earned. A sensitivity analysis has been run on the future premium receivable balance, noting a 5% variation in this estimate would result in a £15.4m (2022: £13.7m) increase or decrease on profits. The directors consider that the gross provision for unearned premiums (carrying amount: £563.7m) and associated reinsurance recoverables (carrying amount: £108.5m) are fairly stated based on the information currently available; see note 10 of these financial statements.

Critical accounting judgements

In the course of preparing the financial statements, no critical accounting judgements have been made in the process of applying the syndicate's accounting policies, other than those involving estimations, that have had a significant effect on the amounts recognised in the financial statements.

Principal accounting policies

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

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

Insurance contracts premium

Gross premium written comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout a 12 month contract, the earned element is calculated separately for each contract on a 365ths basis. For premium written under facilities, such as binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of premium written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the Statement of Comprehensive Income in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet notified.

Reinsurance premium ceded

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

Insurance contracts liabilities: claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the Statement of Comprehensive Income.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision, the underwriting divisions within the syndicate have been regarded as groups of business that are managed together.

Claims incurred represent the cost of claims and claims handling expenses paid during the financial year, together with the movement in provisions for outstanding claims, IBNR and future claims handling provisions. Reinsurance recoveries are accounted for in the same way as gross incurred claims.

The provision for claims encompasses amounts set aside for claims outstanding and IBNR. The IBNR amount is an estimate of allowances for claims incurred but not reported, using past experience and trends adjusted for foreseeable events and calculated using widely accepted actuarial statistical techniques, such as the Chain Ladder and Bornhuetter-Ferguson methods. The provision for IBNR is reviewed biannually by both internal and external actuaries. Critical assumptions are used alongside historical data to form a basis for future claims development.

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

The reinsurers' share of provisions for claims is based on calculated amounts for outstanding claims notified and projections for IBNR, net of estimated irrecoverable debt and bad debt, and also taking into consideration the reinsurance programme in place for each class of business and the claims experience for the year.

The Managing Agent takes all reasonable steps to ensure that the syndicate has taken into account all appropriate information regarding its gross and net claims exposures, however given the uncertainty in establishing such claims provisions it is likely that the final outcome will prove to be dissimilar from the original estimated liability. Should the provisions prove to be different from the original estimate, adjustments are made to the claims provisions in respect of prior years and are included in the Technical account within the financial statements of the period when such adjustments are made.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events.

These adjustments are reflected in the financial statements for the period in which the related adjustments are made. There have been no changes in assumptions used to measure insurance assets and insurance liabilities during the year.

Investments

Equity investments in non-convertible preference shares and non-puttable ordinary or preference shares are measured at fair value through profit or loss. All debt instruments are designated as fair value through profit or loss and are therefore also measured as such. 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 lapse of 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 fair value is estimated by using a valuation technique. The cost of the syndicate’s investments held at the balance sheet date is deemed to be the aggregate of the value of investments held at the balance sheet date, and the cost of any new investments acquired during the year.

Overseas deposits

Overseas deposits are stated at fair value at the balance sheet date. Overseas deposits are invested by Lloyd’s Treasury and are held to satisfy conditions associated with conducting underwriting business in certain countries.

Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges. Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the Non-technical account. A transfer is then made from the Non-technical account to the Technical account.

Taxation

No provision has been made in respect of UK income tax on trading income. It is the responsibility of members to settle their tax liabilities.

Overseas taxation comprises US Federal Income tax and Canadian Federal Income tax. The amounts charged to members are collected centrally through Lloyd’s Members’ Services Unit as part of the members’ distribution process. The ultimate tax liability is the responsibility of each individual underwriting member.

Foreign currencies

In accordance with FRS 102, the functional currency of the syndicate is US dollars as this is the currency of the primary economic environment in which the entity operates and is the one in which it primarily generates and expends cash. The presentational currency of the syndicate is Sterling, which is common for syndicates at Lloyd’s.

Notes to the financial statements *continued*

(Forming part of the financial statements)

1. Basis of preparation *continued*

Insurance debtors and creditors

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the syndicate are included in the Non-technical account. Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded as Other Comprehensive Income as per FRS 103.

In the normal course of business, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, comprise respectively the totals of all the syndicate's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

Syndicate operating expenses

Costs incurred by the Managing Agent exclusively for the syndicate are charged to the syndicate on an accruals basis.

Expenses incurred jointly by the Managing Agent and the syndicate are charged through an annual management charge. The charge reflects the expected costs of services to be provided to the syndicate and does not include any profit element.

Retirement benefit costs

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

Going concern

The syndicate's business activities, together with the factors likely to affect its future development, performance and position are set out in the Report of the directors of the Managing Agent (page 2). Its forecasts and projections show that the directors have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future. In addition, the directors have a reasonable expectation that capital will be available to support future underwriting activities. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

2. Principal risks and uncertainties

This note presents information about the nature and extent of insurance and financial risks to which the syndicate is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the syndicate's capital.

Underwriting risk

The syndicate accepts underwriting risk in a range of classes of business. The bias of the portfolio is towards short-tail property and accident risk but liability coverage is also underwritten.

In underwriting insurance or reinsurance policies the syndicate's underwriters use their skill, knowledge and data on past claims experience to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Underwriting risk *continued*

A number of controls are deployed by the Managing Agent to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. The business plan is subject to Lloyd's scrutiny and monitoring. Progress against this plan is monitored during the year. The syndicate also operates under an underwriting control framework that determines the maximum liability per policy which can be written for each class and for each underwriter. The framework is subject to an internal escalation process that ensures all material exceptions must be approved by senior management. The syndicate is also exposed to catastrophe losses which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the reinsurance arrangements section below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, who use their judgement to write risks on behalf of the syndicate under clear authority levels. The Managing Agent has a regular process of coverholder audits performed during the year.

The insurance liabilities underwritten by the syndicate are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for IBNR claims being made. Whilst a disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise that in aggregate exceed the reserve provision established.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

Reinsurance arrangements

The syndicate purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. The syndicate also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover. For information on credit risk in respect of reinsurance debtors see the Credit risk section in this note.

Risk appetite

The Managing Agent defines the syndicate's risk appetite which seeks to limit its maximum net loss at a number of confidence levels.

These maximum losses are expected only to be incurred in extreme events. The Managing Agent on behalf of the syndicate also adopts risk tolerances for a number of other pre-defined scenarios including, for example, a marine collision and an offshore rig loss.

The enterprise risk management framework recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter by the Managing Agent and measured against defined tolerances. The following assumptions and procedures are used in the process:

- the data used reflects the information supplied to the syndicate by insured and ceding companies. This may prove to be inaccurate or could develop during the policy period;
- the exposures are modelled using a mixture of stochastic models and underwriter input to arrive at 'damage factors' - these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate;
- the reinsurance programme as purchased is applied - a provision for reinsurer counterparty failure is included but may prove to be inadequate; and
- reinstatement premiums both payable and receivable are included.

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Risk appetite *continued*

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be an un-modelled loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

Claims reserves

Claims reserves established by the Managing Agent can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% variation in the total net claims reserves would be £8.4m (2022: £7.6m).

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of legal advisers.

Property catastrophe claims such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the syndicate. There is uncertainty over the adequacy of information and modelling of major losses for a period of several months after a catastrophe loss. Consideration should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes, for which a large IBNR has to be established, represent the most difficult classes to reserve because claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for US liability written on a losses occurring basis.

The use of historical development data, adjusted for known changes to wordings or the claims environment, is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

Credit risk

Credit risk is the risk that the syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. A credit risk could therefore have an impact upon the syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. Syndicate 1225 is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

As well as an actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's ability to perform these duties in a timely manner. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The syndicate's investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security and exposure limits prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on rating agency review and the syndicate's own ratings for each reinsurer. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer.

Credit risk in respect of premium debt is overseen by the Managing Agent's Counterparty Security Group reporting to the Executive Management Committee. The key controls include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Credit risk *continued*

The following table analyses the credit rating by investment grade of financial investments, overseas deposits, reinsurers share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

2023

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Shares and other variable yield securities and unit trusts	**178.2**	**63.2**	**89.2**	**-**	**-**	**40.4**	**371.0**
Debt securities	**144.8**	**308.6**	**204.9**	**77.1**	**29.6**	**-**	**765.0**
Overseas deposits as other assets	**42.7**	**5.9**	**6.8**	**5.8**	**1.8**	**7.9**	**70.9**
Deposits with ceding undertakings	**-**	**-**	**-**	**-**	**-**	**1.6**	**1.6**
Reinsurers share of claims outstanding	**6.0**	**34.0**	**390.0**	**-**	**-**	**-**	**430.0**
Reinsurers debtors	**1.9**	**5.4**	**52.0**	**-**	**-**	**4.3**	**63.6**
Cash at bank and in hand	**-**	**-**	**19.1**	**-**	**-**	**-**	**19.1**
Total credit risk	**373.6**	**417.1**	**762.0**	**82.9**	**31.4**	**54.2**	**1,721.2**

2022 - restated

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Shares and other variable yield securities and unit trusts	-	129.4	222.7	32.1	-	36.9	**421.1**
Debt securities	117.7	156.5	115.6	59.5	46.8	-	**496.1**
Overseas deposits as other assets	41.5	10.6	7.3	6.1	2.3	6.3	**74.1**
Deposits with ceding undertakings	-	-	-	-	-	1.2	**1.2**
Reinsurers share of claims outstanding	29.1	35.6	400.3	-	-	-	**465.0**
Reinsurers debtors	1.6	5.5	39.8	-	-	3.5	**50.4**
Cash at bank and in hand	-	-	38.6	-	-	-	**38.6**
Total credit risk	**189.9**	**337.6**	**824.3**	**97.7**	**49.1**	**47.9**	**1,546.5**

Loans with credit institutions have been reclassified as debt securities (2022 valuation: AAA £7.7m, AA £44.4m), to better reflect the nature of the underlying investments.

At 31 December 2023, total cash, overseas deposits and financial investments amounted to £1,226m, of which 93% relates to debt and other fixed income securities and loans with credit institutions. The residual element of the portfolio relates to cash and overseas deposits. The portfolio remains of high quality, as illustrated by the asset allocation table shown above. The credit ratings on debt securities are composite ratings based on Standard & Poor's, Moody's and Fitch. Collateral in the form of short term investments and cash in trust of £176.6m (2022: £160.9m) is held as security in support of reinsurers' share of claims outstanding. The collateral mitigates the entity's credit risk in the event that a reinsurer defaults.

The following table analyses the age of reinsurance and insurance debtors, that are past due but not impaired:

2023

	Neither due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Total £m
Insurance debtors	**287.8**	**14.3**	**4.0**	**1.5**	**-**	**307.6**
Reinsurance debtors	**63.6**	**-**	**-**	**-**	**-**	**63.6**
Total insurance and reinsurance debtors	**351.4**	**14.3**	**4.0**	**1.5**	**-**	**371.2**

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Credit risk *continued*

2022

	Neither due nor impaired £m	Up to three months £m	Three to six months £m	Six months to one year £m	Greater than one year £m	Total £m
Insurance debtors	261.3	17.4	3.0	2.4	0.8	**284.9**
Reinsurance debtors	50.4	-	-	-	-	**50.4**
Total insurance and reinsurance debtors	**311.7**	**17.4**	**3.0**	**2.4**	**0.8**	**335.3**

There have been no material changes to the syndicate's policies and processes for managing credit risk, or its exposure to credit risk, from the prior financial period.

Valuation risk

The syndicate's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits, and SSAE 16 reports are obtained. The investment managers operate within guidelines which are set and regularly reviewed by the management of the Managing Agent for investment duration, credit quality and appropriate benchmarks. There have been no material changes to syndicate's policies or processes for managing exposure to valuation risk from the prior financial period.

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the syndicate's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security; the greater its price volatility. This risk is mitigated by continual review of our investment strategies. Overall, the syndicate seeks to balance the potential for adverse results arising from interest rate movements against investment return. There have been no material changes to the syndicate's policies or processes for managing interest rate risk, or exposure to interest rate risk, from the prior financial period.

An analysis of the syndicate's sensitivity to interest rate risk is presented in the table below:

	2023 **£m**	2022 £m
Impact of 50 basis point increase on the syndicate's result	**(10.9)**	(6.0)
Impact of 50 basis point decrease on the syndicate's result	**10.9**	6.0
Impact of 50 basis point increase on the syndicate's net assets	**(10.9)**	(6.0)
Impact of 50 basis point decrease on the syndicate's net assets	**10.9**	6.0

The methods and assumptions used in preparing the sensitivity analysis are a reasonable approximation of possible changes in interest rates. This analysis shows the impact, in converted Sterling, on the syndicate's result and net assets, if interest rates had been 50 basis points higher or lower in the year. The impact is in relation to investments only.

Notes **to the financial statements** *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Foreign exchange risk

Policyholders' assets are held in the base currencies of Sterling, US dollars, Canadian dollars, Euros, Australian Dollar, and Japanese Yen, which represent the majority of the syndicate's liabilities by currency. This limits underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-base currencies. These transactions are converted into sterling at the prevailing spot rate once the premium is received. Consequently, there is exposure to currency movements between the exposure being written and the premium being converted. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the syndicate is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk is mitigated by internal monitoring by the Managing Agent which includes asset and liability matching. It is not management's intention to take speculative currency positions in order to make currency gains. Overall, the foreign exchange risk appetite seeks to minimise the potential for adverse results arising from foreign exchange rate movements. There have been no material changes to the syndicate's policies or processes for managing foreign exchange risk, or exposure to foreign exchange risk, from the prior financial period.

A 10% strengthening of Sterling against the following currencies at 31 December 2023 would have decreased the syndicate's pre-tax profits by the amounts shown below. This analysis assumes no hedging currency and that all other variables remain constant, and provide a reasonable approximation of possible changes to the exchange rates.

	2023 **£m**	2022 £m
US Dollars	**(29.8)**	(17.1)
Canadian Dollars	**(4.7)**	(3.6)

A 10% weakening of Sterling against the above currencies at 31 December 2023 would have made an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis. Liquid assets are also held in excess of the immediate requirements to avoid the syndicate having to be a forced seller of any of its assets, which may result in prices below market value being realised, especially in periods of below normal investment market activity. This practice of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch. Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios.

The table below shows the maturity profiles of the syndicate's claims outstanding and creditor balances.

2023

	0-1 year **£m**	**1-3 years** **£m**	**3-5 years** **£m**	**>5 years** **£m**	**Total** **£m**
Claims outstanding	**195.5**	**617.4**	**311.8**	**142.1**	**1266.8**
Creditors	**173.4**		**-**	**-**	**173.4**
Total claims outstanding and creditors	**368.9**	**617.4**	**311.8**	**142.1**	**1,440.2**

2022

	0-1 year **£m**	**1-3 years** **£m**	**3-5 years** **£m**	**>5 years** **£m**	**Total** **£m**
Claims outstanding	408.2	444.4	264.3	112.0	**1,228.9**
Creditors	150.2	-	-	-	**150.2**
Total claims outstanding and creditors	**558.4**	**444.4**	**264.3**	**112.0**	**1,379.1**

Notes to the financial statements *continued*

(Forming part of the financial statements)

2. Principal risks and uncertainties *continued*

Regulatory risk

Regulatory risk is the risk that the syndicate fails to meet the regulatory requirements of the Prudential Regulation Authority, Financial Conduct Authority, or Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Managing Agent has a Compliance Function, responsible for monitoring regulatory developments and assessing the impact on our business.

Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the syndicate. The Managing Agent manages these risks through internal compliance monitoring and the use of detailed procedure manuals. In addition, the Managing Agent has an Internal Audit department which assists the business to meet the strategic and operational objectives of the syndicate through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

Climate change and transition risk

This is the risk of climate change and the transition to a low carbon economy on the syndicate's underwriting and investment portfolios. As a global insurer the potential impact of climate change on the business could be material. The syndicate has developed a range of tools and techniques to monitor risks arising from climate change including, inter alia, catastrophe management processes and controls, investment management limits, and a suite of risk appetites and tolerances.

3. Segmental analysis

The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

2023

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	**105.5**	**101.2**	**(39.0)**	**(30.9)**	**(13.7)**
Fire and other damage to property	**535.5**	**493.8**	**(152.5)**	**(153.4)**	**(68.8)**
Third party liability	**214.9**	**215.8**	**(170.3)**	**(65.7)**	**11.3**
Miscellaneous	**40.7**	**32.3**	**(21.5)**	**(12.1)**	**1.8**
	896.6	**843.1**	**(383.3)**	**(262.1)**	**(69.4)**
Reinsurance acceptances	**143.2**	**133.7**	**(59.8)**	**(36.3)**	**(17.9)**
	1,039.8	**976.8**	**(443.1)**	**(298.4)**	**(87.3)**

Notes to the financial statements *continued*

(Forming part of the financial statements)

3. Segmental analysis *continued*

2022

	Gross premium written £m	Gross premium earned £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	98.6	91.7	(47.8)	(26.9)	(6.0)
Fire and other damage to property	416.4	393.4	(159.4)	(127.5)	8.4
Third party liability	249.6	240.1	(196.9)	(76.5)	17.4
Miscellaneous	18.5	18.0	(20.0)	(5.7)	2.6
	783.1	**743.2**	**(424.1)**	**(236.6)**	**22.4**
Reinsurance acceptances	124.8	122.5	(102.2)	(31.6)	4.0
	907.9	**865.7**	**(526.3)**	**(268.2)**	**26.4**

The net assets of syndicate 1225 are managed as a whole and are not allocated to a separate business segment.

4. Brokerage and Commission

Gross premiums written are stated before the deduction of brokerage. Brokerage for the year was £231.7m (2022: £204.3m).

5. Profit for the year

Net operating expenses include:

	2023 £m	2022 £m
Acquisition expenses	**231.7**	204.3
Change in net deferred acquisition costs	**(14.2)**	(10.3)
Administrative expenses	**80.9**	74.2
	298.4	268.2

Administrative expenses include:

	2023 £	2022 £
Auditor's remuneration:		
- Audit of syndicate annual report and financial statements	**244,453**	161,748
- Audit-related assurance services:	**105,223**	99,267
	349,676	261,015

Fees payable to Deloitte LLP for the audit of the annual accounts of AEGIS Managing Agency Limited are £37,533 (2022: £35,409). Fees payable for audit-related assurance services provided to the Managing Agent are £13,479 (2022: £10,735). There were no other fees payable for the provision of other non-audit services.

Member's standard personal expenses are included within administrative expenses. Other technical income, net of reinsurance, includes reinsurance commissions and profit participation income of £14.3m (2022: £13.7m).

Notes to the financial statements *continued*

(Forming part of the financial statements)

6. Prior years' claims estimate

The estimate for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2023 **£m**	2022 £m
Marine, aviation and transport	**13.2**	27.0
Fire and other damage to property	**17.6**	50.3
Third party liability	**(8.6)**	(39.7)
Miscellaneous	**7.2**	7.1
Favourable movement in technical provisions	**29.4**	44.7

The movement in estimate of the prior year is driven mainly by favourable loss experience and incurred claims forms a 4% (2022: 7%) component of the 2023 loss ratio of 43% (2022: 47%). The earned loss ratio represents net incurred losses divided by net earned premium.

7. Staff numbers and costs

Employees

The monthly average number of employees, including executive directors, employed by AEGIS Managing Agency Limited during the year was as follows:

	2023	2022
Administration and finance	**116**	100
Underwriting and reinsurance	**82**	77
Claims	**16**	13
	214	190

Salary costs

The following amounts were recharged to the syndicate in respect of salary costs:

	2023 **£m**	2022 £m
Wages and salaries	**22.0**	20.6
Social security costs	**2.8**	2.5
Other pension costs	**1.8**	1.6
	26.6	24.7

8. Directors' remuneration

AEGIS Managing Agency Limited charged the syndicate the following amounts in respect of remuneration paid to its directors and the active underwriter of the syndicate:

	2023 **£m**	2022 £m
Emoluments	**2.3**	2.4
Pension contributions	**0.2**	0.2
	2.5	2.6

Notes to the financial statements *continued*

(Forming part of the financial statements)

8. Directors' remuneration *continued*

The following aggregate remuneration was charged to the syndicate in respect of the highest paid director:

	2023	2022
	£m	£m
Emoluments	**0.4**	0.4

The following aggregate remuneration was charged to the syndicate in respect of the person holding the position of Active Underwriter:

	2023	2022
	£m	£m
Emoluments	**0.3**	0.3

Three directors are accruing retirement benefits under a defined contribution pension scheme (2022: Two) for the annual value of £65,000 (2022: £50,000).

9. Financial assets and liabilities

Financial assets measured at fair value through profit or loss

	At valuation		At cost	
	2023	2022	**2023**	2022
	£m	£m	**£m**	£m
		restated		restated
Shares and other variable yield securities	**371.1**	421.1	**280.9**	424.3
Debt securities and other fixed income securities	**764.9**	496.1	**776.5**	532.3
Financial investments	**1,136.0**	917.2	**1,057.4**	956.6

Loans secured by mortgage have been reclassified as debt securities and other fixed income securities (2022 valuation £52.1m, cost £59.2m), to better reflect the nature of the underlying investments.

Financial assets measured at amortised cost

	2023	2022
	£m	£m
Debtors arising out of direct insurance and reinsurance operations	**371.2**	335.3
Other debtors	**4.0**	1.8

Financial liabilities measured at amortised cost

	2023	2022
	£m	£m
Creditors arising out of direct insurance and reinsurance operations	**158.2**	143.9
Other creditors	**15.2**	6.4

All overseas deposits £70.9m (2022: £74.1m) are held at fair value through profit or loss.

Other investments that are deposits with ceding undertakings totaling £1.6m (2022: £1.2m) are held at fair value and represent cash transferred to Lloyd's Insurance Company, SA ("LIC") following the transfer to LIC of all EEA risks from the syndicate on 30 December 2020. This amount is held by LIC in order to meet claims liabilities as they fall due.

Notes **to the financial statements** *continued*

(Forming part of the financial statements)

9. Financial assets and liabilities *continued*

Debt securities and other fixed income securities listed on recognised stock exchanges have a carrying value of £655.8.m (2022: £468.4m). All investments are held at fair value through profit or loss as per the accounting policy note. All income and expense and unrealised gains and losses as a change in the fair value on these investments are presented on the face of the Statement of Total Comprehensive Income £50.5m (2022: £(16.5)m).

The syndicate classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy, as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - Prices based on recent transactions in identical assets (either unadjusted or adjusted)
Level 3 - Prices determined using a valuation technique

Level 3 comprises syndicate Loans provided by the syndicate to the Central Fund at Lloyd's in respect of the 2019 and 2020 years of account. These instruments are not tradeable and are valued using discounted cash flow models, designed to appropriately reflect the credit and illiquidity risk of the instruments.

The table below analyses financial instruments and overseas deposits held at fair value in the syndicate's balance sheet at the reporting date by its level in the fair value hierarchy.

2023

	Level 1 £m	Level 2 £m	Level 3 £m	Balance sheet position £m
Shares and other variable yield securities and units in unit trusts	**-**	**362.2**	**8.9**	**371.1**
Debt securities and other fixed income securities	**261.9**	**503.0**	**-**	**764.9**
Total	**261.9**	**865.2**	**8.9**	**1,136.0**

2022

	Level 1 £m	Level 2 restated £m	Level 3 £m	Balance sheet position £m
Shares and other variable yield securities and units in unit trusts	-	412.7	8.4	**421.1**
Debt securities and other fixed income securities	195.9	300.2	-	**496.1**
Total	**195.9**	**712.9**	**8.4**	**917.2**

Loans and deposits with credit institutions have been reclassified as debt securities and other fixed income securities (2022 level 2 valuation £52.1m, cost £59.2m), to better reflect the nature of the underlying investments.

The movement in the fair value of level 3 assets of £0.5m is entirely due to the change in the internal valuation of the syndicate loans, with the movement being recognised through profit and loss. There were no purchases, sales, issues, settlements or transfers into or out of the syndicate loans during the year.

Notes to the financial statements *continued*

(Forming part of the financial statements)

10. Technical provisions

	Provision for unearned premium £m	Provision for claims outstanding £m	Deferred acquisition costs £m	Total £m
Gross				
At 1 January 2023	(525.8)	(1,228.9)	116.7	**(1,638.0)**
Movement in technical provision	(63.0)	(80.1)	14.2	**(128.9)**
Foreign exchange movement	25.1	42.2	(5.5)	**61.8**
At 31 December 2023	**(563.7)**	**(1,266.8)**	**125.4**	**(1,705.1)**
Reinsurance				
At 1 January 2023	90.5	465.0	-	**555.5**
Movement in technical provision	24.0	(14.4)	-	**9.6**
Foreign exchange movement	(6.0)	(20.6)	-	**(26.6)**
At 31 December 2023	**108.5**	**430.0**	**-**	**538.5**
Net				
At 31 December 2023	**(455.2)**	**(836.8)**	**125.4**	**(1,166.6)**
At 31 December 2022	(435.3)	(763.9)	116.7	(1,082.5)

The exchange rate movement reflects the opening provision at opening vs closing rates of exchange together with the difference between the technical account movement at average vs closing rates of exchange.

11. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2023 in all cases.

The below tables show the pure year earned claims reserves and cumulative payments, gross and net of reinsurance.

Gross reserves and payments	**2014 £m**	**2015 £m**	**2016 £m**	**2017 £m**	**2018 £m**	**2019 £m**	**2020 £m**	**2021 £m**	**2022 £m**	**2023 £m**	**Total £m**
At end of underwriting year	**113.8**	**102.7**	**100.8**	**140.8**	**137.2**	**170.1**	**192.9**	**217.3**	**232.7**	**224.2**	
One year later	**218.4**	**206.6**	**277.5**	**298.4**	**310.8**	**358.6**	**371.7**	**467.0**	**428.6**		
Two years later	**241.6**	**217.0**	**280.2**	**320.7**	**323.7**	**358.2**	**353.3**	**429.6**			
Three years later	**225.8**	**204.3**	**278.1**	**323.8**	**319.3**	**381.5**	**340.1**				
Four years later	**222.8**	**198.7**	**286.6**	**333.5**	**308.8**	**387.0**					
Five years later	**216.4**	**196.9**	**291.1**	**357.0**	**342.9**						
Six years later	**212.8**	**201.6**	**306.7**	**382.8**							
Seven years later	**213.0**	**205.1**	**304.7**								
Eight years later	**213.7**	**208.3**									
Nine years later	**217.4**										
Cumulative payments	**(207.4)**	**(176.0)**	**(268.4)**	**(293.9)**	**(257.7)**	**(283.1)**	**(215.2)**	**(199.1)**	**(137.9)**	**(14.7)**	
Estimated balance to pay	**10.0**	**32.3**	**36.3**	**88.9**	**85.2**	**103.9**	**124.9**	**230.5**	**290.7**	**209.5**	**1,212.2**
2013 & Prior											**54.6**
Gross reserves											**1,266.8**

Notes to the financial statements *continued*

(Forming part of the financial statements)

11. Claims development *continued*

Net reserves and payments	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	2020 £m	2021 £m	2022 £m	2023 £m	Total £m
At end of underwriting year	91.6	79.4	71.5	88.5	88.6	119.7	136.2	157.2	168.0	165.4	
One year later	177.6	164.2	191.3	210.8	228.4	253.7	262.3	306.0	333.3		
Two years later	191.2	169.7	204.1	231.6	236.7	240.1	247.3	289.1			
Three years later	180.7	162.3	199.9	234.8	231.1	245.6	236.9				
Four years later	180.6	157.0	201.8	238.4	224.6	248.2					
Five years later	177.7	156.6	202.6	244.7	241.5						
Six years later	175.0	157.6	207.1	256.5							
Seven years later	175.6	157.7	207.6								
Eight years later	175.4	156.1									
Nine years later	176.6										
Cumulative payments	(171.0)	(139.4)	(187.8)	(209.2)	(190.2)	(182.9)	(158.3)	(143.0)	(112.2)	(12.9)	
Estimated balance to pay	5.6	16.7	19.8	47.3	51.3	65.3	78.6	146.1	221.1	152.5	804.3
2013 & Prior											32.5
Net reserves											836.8

12. Related parties

The ultimate parent company of AEGIS Managing Agency Limited is Associated Electric & Gas Insurance Services Limited incorporated in Bermuda.

The Managing Agent recharges the syndicate expenses incurred by the Managing Agent in connection with the syndicate's underwriting business. These recharges include a proportion of the remuneration payable in respect of the executives of the Managing Agent. The total recharge for the year was £55.6m (2022: £43.5m). The balance owed to the Managing Agent at 31 December 2023 was £11.6m (2022: £2.5m).

In turn, AEGIS Insurance Services Inc. ("AEGIS Services"), a sister company of the Managing Agent, recharges the syndicate the cost of certain expenses paid by AEGIS Services on behalf of the syndicate. During the year, the net amount of these recharges was £3.1m (2022: £3.0m) expense to the syndicate.

The above related party transactions are settled on a regular basis and not bound by any other terms and conditions

Service Company

AEGIS London Holdings Limited, the company that owns the capital providers of the syndicate, has a 100% subsidiary, AEGIS London Services Limited, which introduces business to the syndicate (the "Service Company"). The Service Company premium income received by the syndicate is £9.9m (2022: £15.7m) largely relating to the Hull, Retail and Canadian Non-Marine Property classes of business.

The underwriting transactions of the Service Company are included in those of the syndicate. The Service Company receives agency fees to the value of 5% of gross written premiums placed with the syndicate. No fees are paid by the Service Company to any of the directors of the Managing Agent.

Transactions with Directors

Certain directors of the Managing Agent are also directors of other companies, which may, and in some instances do, conduct business with the syndicate. In all cases transactions between the syndicate are carried out on normal arm's length commercial terms without any involvement by the director concerned on either side of the transaction.

Notes to the financial statements *continued*

(Forming part of the financial statements)

13. Funds at Lloyd's

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with the (on-shored) Solvency II framework.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at the syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member and syndicate level respectively. The capital requirement in respect of the syndicate 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 the syndicate are subject to review and approval by Lloyd's.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(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 shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2023 was 35% (2022: 35%) of the member's SCR 'to ultimate', which is consistent with previous years.

Provision of capital by members

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

Accordingly, all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on pages 11 and 12, represent resources available to meet members' and Lloyd's capital requirements.

14. Ultimate parent

The Managing Agent of the syndicate is AEGIS Managing Agency Limited whose immediate parent and the smallest group into which the accounts are consolidated is AEGIS London Holdings Limited, registered office, 25 Fenchurch Avenue, London, England, EC3M 5AD. The ultimate parent and controlling party, and also the largest group into which the accounts are consolidated, is Associated Electric & Gas Insurance Services Limited, incorporated in Bermuda with its registered address at 6th Floor, 141 Front Street, Hamilton, HM19, Bermuda. A copy of AEGIS group accounts may be obtained from 1 Meadowlands Plaza, East Rutherford, NJ 07073.

Notes to the financial statements *continued*

(Forming part of the financial statements)

15. Event after reporting period

As at the date of these financial statements, no events were identified after the end of the reporting period as having an impact or potential exposure for syndicate 1225 or the Managing Agency.

Administration

Managing Agent:	AEGIS Managing Agency Limited
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Registered Number:	03413859
Telephone:	+44 (0)20 7856 7856
Website:	www.AEGISLondon.co.uk
E-mail:	enquiries@AEGISLondon.co.uk

AEGIS Syndicate 1225 at Lloyd's of London ("Syndicate 1225") commenced operations in 1999. Syndicate 1225 operations are supported by AEGIS Managing Agency Limited ("AMAL"), which provides professional employees and services for Syndicate 1225. AEGIS Electric & Gas International Services Limited ("AISL") is a corporate member of Lloyd's and the capital provider of Syndicate 1225. AISL, AMAL, AEGIS London Services Limited, AEGIS Electric & Gas International Services 2 Limited, AEGIS Electric & Gas International Services 3 Limited, AEGIS Electric & Gas International Services 4 Limited, and AEGIS Electric & Gas International Services 5 Limited are subsidiaries of AEGIS London Holdings Limited, and ultimately owned by Associated Electric & Gas Insurance Services Limited ("AEGIS").