Accounts disclaimer

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Report and Accounts 2023

Ki Syndicate 1618

Contents

Report of the Directors of the Managing Agent

The Managing Agent of Ki Syndicate 1618 (Ki or the Syndicate) is Brit Syndicates Limited (BSL), a company registered in England and Wales. The Directors of the Managing Agent present the report and annual accounts of the Syndicate for the year ended 31 December 2023.

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

Amounts are reported in millions of US dollars ($m) unless otherwise stated.

Principal activities and review of the business

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London and through the Lloyd's Brussels platform (collectively known as Lloyd's).

Utilising Ki's platform and algorithm, Syndicate 1618 is the first fully-digital, algorithmically-driven syndicate at Lloyd's. The Syndicate trades through the Lloyd's worldwide licences and rating. It also benefits from the Lloyd's brand.

Lloyd's has an A (Excellent) rating from AM Best, A+ (Strong) from S&P and AA- (Very Strong) rating from Fitch.

The Syndicate has written a balanced portfolio of business, in line with its business plan.

Premiums Written	**Gross**	**Net**
2023	**$m**	**$m**
United States	509.1	345.4
United Kingdom	49.3	43.1
Europe (excluding UK)	14.5	9.5
Canada	19.4	13.6
Other (including worldwide)	284.7	238.0
Total	**877.0**	**649.6**

Premiums Written	**Gross**	**Net**
2022	**$m**	**$m**
United States	433.9	334.4
United Kingdom	69.0	42.2
Europe (excluding UK)	23.2	17.2
Canada	31.2	22.8
Other (including worldwide)	276.8	227.0
Total	**834.1**	**643.6**

Premium by portfolio		2023 $m	%
London Market Direct	FinPro	149.0	17
	Programs & Facilities	119.6	13
	Property	384.8	44
	Specialty	104.8	12
		758.2	86
London Market Reinsurance	Casualty Treaty	112.6	12
Other	Other	6.2	2
Total		**877.0**	**100**

Premium by portfolio		2022 $m	%
London Market Direct	FinPro	231.3	27
	Programs & Facilities	172.4	21
	Property	225.3	27
	Specialty	107.4	13
		736.4	88
London Market Reinsurance	Casualty Treaty	89.7	11
Other	Other	8.0	1
Total		**834.1**	**100**

Settlement currency split of Gross and Net written premiums 2023	Gross $m	Net $m
USD	728.1	531.3
GBP	65.7	51.6
CAD	50.1	40.4
EUR	33.1	26.3
Total	**877.0**	**649.6**

Settlement currency split of Gross and Net written premiums 2022	Gross $m	Net $m
USD	680.1	516.0
GBP	87.9	72.8
CAD	38.6	32.2
EUR	27.5	22.6
Total	**834.1**	**643.6**

Report of the Directors of the Managing Agent (continued)

Our mission – disrupt using technology and data

"Ki's vision is to be the market leading digital and data-led specialty insurance business"

Ki's vision is to be a pioneer in the future of digital insurance which revolutionises the commercial P&C market, and Lloyd's in particular. Our diverse team combines insurance expertise, technology, and algorithmic science to offer insurance coverage to its clients in an efficient and scalable manner. It is our belief that the wider Lloyd's market can benefit significantly from our digital proposition.

In 2023, technology development at Ki focused on the readiness of the platform to launch Ki Digital (set out below) and bind risks on behalf of three syndicates for risks incepting on 1 January 2024. Other initiatives included an increased focus on property, energy, and cyber class capabilities within the algorithm as well as building back-office supporting technology as the business has scaled. Our team of leading data scientists and engineers continues to prioritise developing new capabilities at pace with a spirit of continuous improvement that defines our business model. An example of this was the launch of ''point-of-quote'' ingestion process to assess the underlying assets that clients are looking to obtain insurance for, to enhance the broker experience, starting with property.

Our technology is partnered with a strong underwriting culture, with a focus on sustainable profitability and discipline embedded in the business. The Portfolio Underwriting function at Ki is focused on managing our portfolio as well as servicing our brokers and clients to ensure we remain focused on the fundamentals of specialty insurance.

The Syndicate is backed by its capital partners, Blackstone Tactical Opportunities (Blackstone) and Fairfax Financial Holdings Limited (Fairfax).

Outlook

We look forward to 2024, building on the successes and profitability achieved in 2023, along with the launch of our unique new business model and agreement of multi-year partnerships with 3rd party syndicates under Ki Digital Services (KiDS), which is described in further detail below. Going forward, all the Syndicate business will be placed through KiDS under a delegated underwriting authority agreement. We will continue to take advantage of the significant opportunities presented by the Syndicate's efficient operating model and look forward to releasing the further technological developments on our road-map, pushing forward the market's digital future.

Further information can be found at www.ki-insurance.com.

Launch of Ki Digital Services

KiDS is an evolution of Ki's business model and is a transformational change for the Lloyd's market. From 1 January 2024, the Syndicate and partner syndicates are underwriting on a delegated basis through KiDS meaning that brokers are now able to access third-party digital capacity, directly through the Ki platform.

As a result, Ki has become the first algorithmic underwriting business in the market to offer capacity from multiple Lloyd's syndicates across property, specialty, and casualty. This demonstrates a major step towards a fully digital follow market in Lloyd's and provides a compelling proposition to Lloyd's brokers and clients, courageously driving the market forward.

2023 results

The Syndicate's key performance indicators (KPI's) during the year were as follows:

	2023 $m	2022 $m
Gross premiums written	877.0	834.1
Net premiums written	649.6	643.6
Earned premiums, net of reinsurance	648.1	506.2
Underwriting result	66.7	17.7
Investment return	35.9	(7.9)
Technical result for the financial year	**102.6**	**9.8**
Non-technical account for the financial year	(1.8)	1.0
Result for the financial year	**100.8**	**10.8**
Claims ratio[1]	58.9%	64.7%
Expense ratio[2]	30.8%	31.8%
Combined ratio[3]	**89.7%**	**96.5%**

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

2023 saw another successful year for the Syndicate with a full year CoR of 89.7% (2022: 96.5%) and full year profit before tax of $100.8m (2022: $10.8m). 2023 had steady topline growth, with GWP increasing 5.1% to $877.0m (2022: $834.1m), and NEP increasing 28.0% to $648.1m (2022: $506.2m), despite challenging market conditions in certain long tail classes. This reflects continued support from the Lloyd's broking community for the Syndicate's unique offering and the favourable trading conditions.

Underwriting profitability has improved year on year with reductions in both the attritional and catastrophe loss ratios. The Syndicate benefitted from the relatively benign catastrophe year and recognised major losses in relation to the Hawaiian wildfires and Hurricane Idalia with a combined net impact of $20.0m (2022 events: $48.9m). The net impact of these events was managed through the successful renewal of a catastrophe reinsurance programme and a whole account quota share, meaning the net impact of these tragic events (3.1% impact on combined ratio) was managed to lower than expectation (2022: 9.7%). The combination of continued growth and profitability is an endorsement of Ki's digital, data-driven model.

An increase in loss estimates for Winter Storm Elliott and Hurricane Ida, partly offset by reductions for Hurricane Ian and the 2022 Australian floods, alongside strengthening on the 2021 attritional YOA reserves resulted in a $17.2m net increase in prior year reserves (2.7% impact on combined ratio).

The Syndicate's core proposition and focus on expense efficiency continues, with a total expense ratio of 30.8% (2022: 31.8%) a reduction on prior year, while increasing headcount across all functions as the business grows.

The net attritional loss ratio is 53.2% (2022: 54.3%). This reflects a rebalance of the portfolio to short-tail classes and the latest reserving position on the 2021, 2022 and 2023 years of account. It also includes an additional risk margin of $5.0m. The risk margin is applied to allow for inherent uncertainty within the reserve position.

Outwards Reinsurance

The Syndicate's outwards reinsurance strategy aims to protect against both individual losses and aggregations of risk. Individual per risk programmes are purchased with comprehensive vertical cover and significant sideways frequency protection. Per-occurrence and aggregate catastrophe protections are purchased to manage aggregations in relevant classes, providing comprehensive balance sheet protection. Quota share protection is purchased at a class level for cyber risk and at a whole account level to optimise the capital structure, cessions are carefully managed as we balance the need for tail protection against ceded profit. Looking forward into 2024, we have significantly reduced our reinsurance spend across all programmes, but particularly in the whole account quota share.

Operating Expenses

The Syndicate's core premise is that a digital operating model will deliver operational efficiency and a market leading expense base. In 2023, the Syndicate's operating expense ratio reduced from prior year (30.8%; 2022: 31.8%) meaning that the operating expense ratio continues to trend below the historical Lloyd's market average. Commissions decreased by 1.1pts, with expenses marginally increasing by 0.1pts.

Investment Return

The Syndicate recorded a net investment return of $35.9m (2022: loss of $7.9m). This included income from investments of $26.4m (2022: $5.8m) given sustained higher market yields in 2023 compared to the increases in yields during 2022. The yield on the portfolio at the end of 2023 was 4.7% (2022: 4.5%); whilst yields were materially unchanged over the year, there was volatility during the period. The portfolio remains well positioned to take advantage of investment income in 2024.

Financial position

Member's Balance

The Syndicate's Member's Balance comprise the cumulative results of the Syndicate for the open years of account, plus any cash calls that the Syndicate has made on its Member.

The member's balance at 31 December 2023 is $95.7m (2022: deficit of $5.1m). The increase was due to a profit in the year of $100.8m (2022: $10.8m).

Net Technical Reserves

Preserving a strong financial position is critical to the long-term success of an insurance business. The Syndicate's net technical reserves have increased by $219.4m, or 32.8%, to $888.8m (2022: $669.4m). The Syndicate maintains appropriate loss reserves to cover its estimated future liabilities. Reserves are estimates that involve actuarial and statistical projections of the expected cost of the ultimate settlement and administration of claims.

The reserving process is robust and managed by the Chief Risk Officer and Chief Actuary of Brit Syndicates Limited and under the oversight of the BSL Reserving Committee. Reserving estimates are prepared quarterly and are based on facts and circumstances then known, predictions of future developments, estimates of future trends in claims frequency and severity and other variable factors such as inflation. Movement in these reserves forms an integral element of our operating result.

The Syndicate's reserving policy is to reserve to a best estimate and carry an explicit risk margin above that best estimate. Maintaining reserves is critical to safeguard future obligations to policyholders and the Syndicate's approach provides a secure foundation. It also provides a sound basis for the pricing of new business which is particularly critical in a soft rating environment. The increase in current year reserves primarily reflects the short history of the syndicate relative to the long-term nature of claims payment patterns of the underlying classes of business in which we are engaged in.

Financial Investments

The investment portfolio consists of cash and cash equivalents ($85.9m; 11.7% of assets under management) and fixed income securities ($649.1m; 88.3%); (2022: $94.7m cash, 22.4%, fixed income securities $327.7m, 77.6%). Fixed income securities in the portfolio comprise government debt ($414.2m; 63.8%), corporate debt ($155.4m; 23.9%) and securitised debt ($79.4m; 12.2%).

Environmental, social and governance (ESG)

Climate change will have a major impact on Ki and the Brit Group, and all of their stakeholders. Ki and the Brit Group are committed to responsible business practices and recognise that it is most effective when acting alongside others in the industry.

From December 2022, we engaged an external data provider to provide 3rd party ESG data, supporting the monitoring of our underwriting portfolio. Through Brit, we are members of ClimateWise and take part in ESG initiatives within the Lloyd’s market. Our staff undergo ESG training. Since 2022 Ki has partnered with Ecologi to fund the planting of trees, funding over 184,000 trees globally to date.

We recognise that to fully integrate ESG into the investment strategy, it is important to understand the portfolio exposures. We have incorporated ESG into our regular monitoring and annual due diligence reviews of the investment managers and hold regular discussions on the managers’ ESG capabilities, and their engagement with companies.

Employee matters and Talent management

BSL staff costs are recharged as part of an outsourcing fee, and Ki staff costs are recharged directly to the Syndicate. More information can be found in the Syndicate’s accounting policies in note 1.

We are building a new model in our market and at the centre of this model is a differentiated talent pool. The business has deliberately brought together leaders in the disciplines of Underwriting, Data and Technology, from a diverse range of backgrounds. We have built a culture where these talented experts can collaborate and thrive as equal partners, rather than the traditional underwriter-led Lloyd’s culture.

Ki has also continued to invest in its team, and the quality of talent attracted from both the tech and insurance industries is testament to Ki’s exciting vision. We hired 94 people during 2023, including 5 interns in the summer under the Code First Girls initiative. We also supported three masters students from University College London over the course of the year.

Going Concern

Following a review of the financial performance and position of the Syndicate, the Directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the report and accounts.

The information on principal risks and uncertainties is disclosed in note 3 to the accounts.

Directors

The names of the current directors of the Managing Agent, and those who have served during the year are shown on page 57.

The Managing Agent appointed PricewaterhouseCoopers LLP as the Syndicate’s Auditors.

Statement of disclosure of information to the Auditors

Each person who is a Director of the Managing Agent at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate’s auditors in connection with its report, of which the Syndicate’s auditors are unaware; and
- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate’s auditors are aware of that information.

On behalf of the Board,

Martin Thompson

Director, Brit Syndicates Limited
CEO, Ki Financial Limited
27 February 2024

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

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

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

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 comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

Independent auditors' report to the member of Syndicate 1618

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1618's syndicate annual accounts:

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

We have audited the syndicate annual accounts included within the Report and Accounts 2023 (the 'Annual Report'), which comprise: the Statement of Financial Position as at 31 December 2023; the Income Statement, the Statement of Changes in Member's Balances, and the Statement of Cash Flows for the year then ended; and the notes to the syndicate annual accounts, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

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

Other than those disclosed in note 5, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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

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

Independent auditors' report to the member of Syndicate 1618 (continued)

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

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

Reporting on other information

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

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

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

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

Managing Agent's Report

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

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Independent auditors' report to the member of Syndicate 1618 (continued)

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and those regulations set by the Council of Lloyd's, and we considered the extent to which non-compliance might have a material effect on the syndicate annual accounts. We also considered those laws and regulations that have a direct impact on the syndicate annual accounts such as The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. We evaluated management's incentives and opportunities for fraudulent manipulation of the syndicate annual accounts (including the risk of override of controls), and determined that the principal risks were related to the risk of fraud in revenue recognition and management override of controls, including the potential for management bias in significant accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit and the compliance function of the Managing Agent, including consideration of known or suspected instances of non-compliance with laws and regulations, and fraud;
- Assessment of matters reported on the Managing Agent's whistleblowing helpline and the results of the investigation of such matters;
- Reviewing relevant meeting minutes, including those of the Board, the Risk Oversight Committee, the Reserving Committee, and the Audit Committee of the Managing Agent, and correspondence with regulatory authorities, including the Council of Lloyd's, the Prudential Regulatory Authority, and the Financial Conduct Authority;
- Testing and challenging where appropriate the assumptions and judgements made in establishing significant accounting estimates, particularly in relation to estimated premium income and incurred but not reported provisions (gross and net of reinsurance) included in claims outstanding;
- Identifying and testing journal entries identified as potential indicators of fraud, in particular, those with unexpected account combinations, those posted by unexpected users or with unusual words, and post close or backdated journal entries; and
- Designing audit procedures to incorporate unpredictability around the nature, timing and extent of testing.

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

Independent auditors' report to the member of Syndicate 1618 (continued)

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

Income Statement
Technical Account – General Business
for the year ended 31 December 2023

	Note	2023 $m	2022 $m
Gross premiums written	4	877.0	834.1
Outward reinsurance premiums		(227.4)	(190.5)
Net premiums written		**649.6**	**643.6**
Change in the gross provision for unearned premiums	12	(31.4)	(190.9)
Change in the provision for unearned premiums, reinsurers' share	12	29.9	53.5
Net change in the provision for unearned premiums		**(1.5)**	**(137.4)**
Earned premiums, net of reinsurance		**648.1**	**506.2**
Allocated investment return transferred from the non-technical account		35.9	(7.9)
Total technical income		**684.0**	**498.3**
Claims paid:			
Gross amount	13	(187.8)	(72.3)
Reinsurers' share	13	16.3	2.4
Net claims paid		**(171.5)**	**(69.9)**
Change in the provision for claims:			
Gross amount		(274.5)	(343.9)
Reinsurers' share		64.2	86.2
Net change in the provision for claims		**(210.3)**	**(257.7)**
Claims incurred, net of reinsurance	13	**(381.8)**	**(327.6)**
Net operating expenses	5	(199.6)	(160.9)
Total technical charges		**(581.4)**	**(488.5)**
Balance on the technical account for general business		**102.6**	**9.8**

The accompanying notes are an integral part of these accounts.

Income Statement
Non-Technical Account
for the year ended 31 December 2023

	Note	2023 $m	2022 $m
Balance on the technical account for general business		**102.6**	**9.8**
Investment income	8(a)*	32.0	14.5
Unrealised gains on investments		13.8	0.3
Investment expenses and charges	8(b)*	(9.7)	(14.2)
Unrealised losses on investments		(0.2)	(8.5)
Net investment return		**35.9**	**(7.9)**
Allocated investment return transferred to general business technical account		(35.9)	7.9
(Loss) / profit on exchange		(1.8)	1.0
Result for the financial year		**100.8**	**10.8**

**Investment income, expenses and charges have been re-presented from the prior year. In the prior year, gains and losses on the realisation of investments and unrealised gains and losses of investments were presented in single lines in the profit and loss: non-technical account. In the current year realised gains have been reclassified to investment income and realised losses have been reclassified to investment expenses and charges. Furthermore, unrealised gains on investments and unrealised losses on investments are now re-presented into their own financial statement lines. Refer to note 8.*

There were no amounts recognised in other comprehensive income in the current year other than those included in the Income Statement. Therefore, no Statement of Other Comprehensive Income has been presented.

The accompanying notes are an integral part of these accounts.

Statement of Financial Position
Assets
as at 31 December 2023

	Note	2023 $m	2022 $m
Assets			
Investments:			
Financial investments	10	706.4	406.0
		706.4	**406.0**
Reinsurers' share of technical provisions:			
Provision for unearned premium	12	100.0	69.4
Claims outstanding	13	160.3	95.3
		260.3	**164.7**
Debtors:			
Debtors due within one year:			
Debtors arising out of direct insurance operations	17	208.6	187.4
Debtors arising out of reinsurance operations		68.1	70.6
Other debtors		0.1	1.0
		276.8	**259.0**
Other assets:			
Cash at bank and in hand	14	29.9	16.5
Other	15	39.5	23.2
		69.4	**39.7**
Prepayments and accrued income:			
Deferred acquisition costs	16	87.6	85.8
Other prepayments and accrued income		4.9	1.9
		92.5	**87.7**
Total assets		**1,405.4**	**957.1**

The accompanying notes are an integral part of these accounts.

Statement of Financial Position
Liabilities
as at 31 December 2023

	Note	2023 $m	2022 $m
Member's balance and liabilities			
Member's balance		95.7	(5.1)
		95.7	**(5.1)**
Technical provisions:			
Provision for unearned premium	12	416.5	381.4
Claims outstanding	13	732.6	452.7
		1,149.1	**834.1**
Creditors:			
Creditors arising out of direct insurance operations	18	0.6	0.5
Creditors arising out of reinsurance operations		97.7	77.9
Other creditors		0.3	1.0
		98.6	**79.4**
Accruals and deferred income		62.0	48.7
Total liabilities		**1,309.7**	**962.2**
Total member's balance and liabilities		**1,405.4**	**957.1**

The accompanying notes are an integral part of these accounts.

The annual accounts on pages 14 to 57 were approved by the Board of Brit Syndicates Limited on 27 Feb 2024 and signed on its behalf by:

Martin Thompson

Director

Gavin Wilkinson

Chief Financial Officer

Statement of Changes in Member's Balance
for the year ended 31 December 2023

	Note	2023 $m	2022 $m
Member's balance brought forward at 1 January		(5.1)	(15.9)
Total comprehensive income for the financial year		100.8	10.8
Member's balance carried forward at 31 December		**95.7**	**(5.1)**

The Member's balance relates entirely to Underwriting participation.

The accompanying notes are an integral part of these accounts.

Statement of Cash Flows
for the year ended 31 December 2023

	Note	2023 $m	2022 $m
Cash flows from operating activities			
Result for the financial year		100.8	10.8
Movement in gross unearned premiums and outstanding claims		306.0	534.8
Movement in reinsurers' share of unearned premiums and outstanding claims		(94.1)	(139.7)
Increase in debtors		(11.5)	(145.8)
Increase in creditors		19.0	55.6
Movement in other assets/liabilities		(7.9)	(35.6)
Foreign exchange on operating activities		(10.8)	0.2
Net investment (return) / loss		(35.9)	7.9
Net cash flows from operating activities		**265.6**	**288.2**
Cash flows from investing activities			
Purchase of equity and debt instruments		(1,016.5)	(529.3)
Sale of equity and debt instruments		718.4	286.1
Investment income received		22.4	0.3
Net cash flows used in investing activities		**(275.7)**	**(242.9)**
Net cash flows from financing activities		**-**	**-**
Net (decrease) / increase in cash and cash equivalents		(10.1)	45.3
Cash and cash equivalents at 1 January		94.7	52.2
Foreign exchange on cash and cash equivalents		1.4	(2.8)
Cash and cash equivalents at 31 December	14	**86.0**	**94.7**

The accompanying notes are an integral part of these accounts.

Notes to the Accounts
for the year ended 31 December 2023

1 Accounting policies, statement of compliance and basis of preparation

1.1 Statement of compliance and basis of preparation

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by the Syndicate.

The Directors of the Managing Agent have prepared the annual accounts on the going concern basis, that the Syndicate will continue to write future business.

The financial statements are reported in US dollars ($m), which is the functional and presentational currency of the Syndicate, and rounded to the nearest $0.1m, unless otherwise stated.

1.2 Product classification

Insurance contracts are those contracts that transfer significant insurance risk. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

1.3 Significant accounting policies

1.3.1 Insurance contracts

a. Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified, less an allowance for cancellations. Premiums are accreted to the technical account (i.e. earned) on a pro rata basis over the term of the related policy, except for those contracts where the period of risk differs significantly over the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are recognised where, under an insurance policy that contains a contractual right to reinstatement, a loss event occurs that triggers reinstatement. Premiums are shown net of premium taxes and other levies on premiums. Pipeline premium estimates (estimated premium income) are derived from ultimate premium estimates which are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

b. Profit commissions

Profit commission income arising from whole account quota share contracts is recognised when the economic benefits are highly probable. These are netted off against commission costs which are included within the 'acquisition costs' line in the technical account.

1 Accounting policies, statement of compliance and basis of preparation (continued)

c. Deferred acquisitions costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

d. Claims

Claims incurred comprise claims and claims handling costs paid in the year and changes in the outstanding claims provisions, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

Internal costs to negotiate, manage, and settle claims (unallocated loss adjustment expenses) are apportioned to paid claims. The apportionment utilises the annual ULAE assumption that is agreed by the Reserving Committee.

Outstanding claims represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including IBNR, less any amounts paid in respect of those claims. The Syndicate does not discount its liabilities for unpaid claims, the ultimate cost of which cannot be known with certainty at the date of the statement of financial position.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims IBNR.

While the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the technical account for the period in which the adjustments are made.

e. Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the technical account in order that revenue is recognised over the period of the risk.

f. Unexpired risks provision

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses. The expected claims are calculated having regard to events that are relevant to the provision at the date of the statement of financial position.

Unexpired risk surpluses and deficits are offset where business classes are managed together, and a provision is made if an aggregate deficit arises. At 31 December 2023, the Syndicate reported no unexpired risks provision (2022: nil).

1 Accounting policies, statement of compliance and basis of preparation (continued)

g. Reinsurance

The Syndicate assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the technical account along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the technical account on a pro rata basis over the term of the original policy to which they relate.

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised in accordance with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the technical account.

If a reinsurance asset is impaired, the Syndicate reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the technical account. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of that asset, that the Syndicate may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer.

Gains or losses on buying retroactive reinsurance are recognised immediately in the technical account and are not deferred and amortised. Premiums ceded and claims reimbursed are presented on a gross basis in the technical account and statement of financial position as appropriate.

h. Expenses and other income receivable

The Managing Agent has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting and all investment management charges. The Managing Agent has charged the Syndicate for services provided on the following basis:

- Ki staff costs are direct costs of employing the Ki team and are charged at cost to the Syndicate.
- The Managing Agent charges an outsourcing fee to cover the support and overhead costs for the Syndicate.
- A Managing Agency fee is charged for services rendered.

Investment management charges are netted off against investment return, as disclosed in note 8. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

1.3.2 Investments

a. Financial investments

The Syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of the Managing Agent and management personnel on a fair value basis.

1 Accounting policies, statement of compliance and basis of preparation (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) is based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Syndicate uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the technical account. Interest income from investments in bonds and short-term investments is recognised at the effective interest rate.

b. Investment return

Investment return comprises all investment income, interest receivable, dividend income, overseas deposit income, realised and unrealised investment gains and losses, and investment expenses and charges. Interest income is recognised using the effective interest rate method.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the date of the statement of financial position and their valuation at the previous statement of financial position, 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 expenses and charges relate to those cost incurred in relation to investment activities.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds except to the extent that investment income arises on Funds at Lloyd's retained at the Syndicate level, also known as 'Funds in Syndicate' (FIS), that income remains in the non-technical account.

1.3.3 Measurement of other financial assets and financial liabilities

Other financial assets and financial liabilities are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest rate method.

1.3.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Syndicate becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred, and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

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

1 Accounting policies, statement of compliance and basis of preparation (continued)

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the income statement. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.3.5 Derivatives

Derivative financial instruments include foreign exchange contracts, forward rate agreements, interest rate futures, currency and interest rate swaps and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates, credit indices, commodity values or equity instruments. All derivatives are initially recognised in the statement of financial position at their fair value, which represents their cost. They are subsequently remeasured at their fair value, with movements in this value recognised in the technical account. Fair values are obtained from quoted market prices or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models.

All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. Derivative contracts may be traded on an exchange or over-the-counter (OTC). Exchange-traded derivatives are standardised and include certain futures and option contracts. OTC derivative contracts are individually negotiated between contracting parties and include forwards and swaps.

Derivatives are subject to various risks including market, liquidity and credit risk, similar to those related to the underlying financial instruments. Many OTC transactions are contracted and documented under International Swaps and Derivatives Association (ISDA) master agreements or their equivalent, which are designed to provide legally enforceable set-off in the event of default, reducing the Syndicate's exposure to credit risk.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions.

1.3.6 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 member or their members agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the statement of financial position under the heading 'Member's balance'.

No provision has been made for any overseas tax payable by the member on underwriting results.

1.3.7 Pension costs

Brit Group Services Limited operates a defined contribution pension scheme on behalf of the Managing Agent. Contributions are recharged to the Syndicate as part of Ki's staff costs.

1.3.8 Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the Syndicate operates. The functional currency for Syndicate 1618 is the United States dollar ($). Items included in the annual accounts are measured using the functional currency which is also the Syndicate's presentational currency.

Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated into the functional currency at the average rates of exchange. Transactions in foreign currencies other than Sterling, US dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed.

1 Accounting policies, statement of compliance and basis of preparation (continued)

Monetary assets and liabilities in currencies other than the functional currency are translated at the rate of exchange ruling on 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within the non-technical account as prescribed by FRS 103.

1.3.9 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2 Critical accounting estimates and judgements in applying accounting policies

Introduction

The Syndicate makes various assumptions about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the reported amounts of assets and liabilities within the next financial year.

Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

Due to the lack of its own experience, Syndicate 1618 is also benchmarked directly against Syndicate 2987, allowing for any specific feature of Syndicate 1618 which support deviation. Syndicate 2987 is considered an appropriate benchmark as it is an established syndicate with a reliable data history. Syndicate 2987 is a key lead of the source of business on which Syndicate 1618 participates and 1618 shares several services with 2987, therefore the historic experience is relevant to the Syndicate.

2.1 Estimation and judgement in relation to determining the ultimate liability arising from claims made under insurance contracts.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Syndicate will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the internal actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). Given the early stage of development for the Syndicate, and the very nature of Ki's underwriting strategy, these methods have typically relied on benchmark information e.g. from similar business written by BSL into Syndicate 2987; this is considered a reliable source of historical performance given the high volume of policies which are a follow to Brit Syndicate 2987.
- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;

2 Critical accounting estimates and judgements in applying accounting policies (continued)

- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question;

- The initial ultimate selections derived by the actuarial department, along with the underlying key assumptions and methodology, are discussed with claim, underwriting and finance departments at a 'pre-committee' meeting. The actuarial department may make adjustments to the initial ultimates following this meeting;
- Following the completion of the 'pre-committee' meetings and peer review process within the actuarial department, the ultimate selections (actuarial estimate), assumptions, methodology and uncertainties are presented to the Ki Reserving Committee for discussion and debate; and
- Following review of the actuarial estimate, the Ki Reserving Committee recommends the committee estimate to be adopted in the financial statements to the BSL Board.

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin may also be applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

Various techniques have been considered in line with guidance from Lloyd's and regulators.

The ongoing Russia-Ukraine conflict arising from the Russian invasion of Ukraine and the conflict in the Middle East, is a cause for uncertainty. The Syndicate has analysed its potential exposures across its (re)insurance portfolio as well as the wider financial and operational challenges brought about by the conflicts. The Syndicate has direct exposures within the Terrorism, Casualty Treaty, Marine War, and Contingency classes, along with secondary impacts across the CyberUpdated class and potential recessionary impacts. The Syndicate does not write Aviation business. The Syndicate's exposures continue to be actively monitored and managed.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third-party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Syndicate is aware.

2.2 Estimated premium income

Premium income reported by the Syndicate includes estimates for ultimate premiums for certain contracts, in particular those written under delegated authority agreements. These ultimate premiums are written in line with expected attachments of the underlying policies. The Syndicate considers relevant information when determining estimates, including information provided by brokers and coverholders, past underwriting experience, market conditions, and the contractual terms of policies. As updated information relating to such variables becomes available, for example when bordereaux are received, adjustments to estimates are recorded in the period in which they are determined, and will impact gross premiums written and provisions for unearned premium in the technical account.

Syndicate 1618, due to the lack of its own experience, is also benchmarked directly against Syndicate 2987, allowing for any specific feature of Syndicate 1618 which supports deviation. Additionally, the actuarial team works closely with other business functions, such as finance and underwriting, to ensure that the ultimate premium estimates are appropriate given the actual premiums written and signed and the known pipeline of policies bound.

Estimation and judgements in respect of fair values of financial investments

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation.

2 Critical accounting estimates and judgements in applying accounting policies (continued)

The Syndicate values investments using designated methodologies, estimations and assumptions. The measurement basis for assets carried at fair value is categorised into a ‘fair value hierarchy’ in accordance with the valuation inputs and consistent with UK GAAP.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that the Syndicate considers market participants would normally use (level three). To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one.

As at 31 December 2023, the Syndicate does not hold any level three financial investments.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect the Syndicate results of operations and reported financial condition. For further information, refer to note 10.

3 Principal risks and uncertainties

3.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Syndicate is exposed to as its primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims.

The areas of insurance risk discussed below include underwriting (including aggregate exposure management), reinsurance and reserving.

a. Underwriting risk

Underwriting risk is the risk that insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Syndicate as a result of unpredictable events.

The Syndicate is also exposed to the risks resulting from accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. The underwriting and economic environment and the associated impact on premium rates, including trends due to the underwriting cycle and inflation, are factored into the Syndicate’s pricing models and risk management tools, and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

The Syndicate writes all of its business through Lloyd’s and therefore can take advantage of Lloyd’s centralised infrastructure and service support. Lloyd’s also has an established global distribution framework, with extensive licensing agreements providing the Syndicate access to over 200 territories. Exclusively using the Lloyd’s platform subjects the Syndicate to a number of resulting underwriting risks. The Syndicate relies on the efficient functioning of the Lloyd’s market. In particular any damage to the brand or reputation of Lloyd’s or deterioration in Lloyd’s asset base when compared with its liabilities may have a material adverse effect on the Syndicate’s ability to write new business.

Syndicate 1618 also benefits from the ability to write business based on the Lloyd’s financial rating, which allows the Syndicate to write more business as part of the Lloyd’s platform. A downgrade in Lloyd’s financial strength ratings may have an adverse effect on the Syndicate.

3 Principal risks and uncertainties (continued)

(i) Controls over underwriting strategy

The BSL Board sets the Syndicate's underwriting strategy for accepting and managing underwriting risk. The Ki Portfolio and Underwriting Committee meets regularly to drive the underwriting strategy and to monitor performance. The assessment of underwriting performance is all-encompassing applying underwriting key performance indicators (KPIs), technical pricing management information (MI), premium monitoring, and claims monitoring. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the Board. The underwriting risk policy also sets out a number of controls, which are summarised below.

The Managing Agent carries out a detailed annual business planning process the resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Ki Portfolio and Underwriting Committee as well as by the Board. A dedicated Risk Aggregation team also performs catastrophe modelling and Realistic Disaster Scenarios (RDS) on a regular basis to ensure that the Syndicate's net losses remain within its risk appetite.

The Managing Agent has developed underwriting guidelines, limits of authority and business plans for the Syndicate which are binding upon all underwriting. These are detailed and specific to classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Syndicate's insurance risks are written by third parties under delegated underwriting authorities, with the remainder being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and/or portfolio managers, with regular audits being carried out.

The technical pricing framework ensures that the pricing process in the Syndicate is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The portfolio management, underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Syndicate to maintain an effective rate monitoring process.

The vast majority of business offered to the Syndicate is rated by a proprietary algorithm before being underwritten. The algorithm assesses the attractiveness of the business based on factors such as technical pricing and offers larger lines for more attractive business. The Syndicate monitors its approved Nominated Syndicate panel to ensure that it is only following those that are market leaders in those areas.

A dedicated Portfolio Management function monitors the business written on a daily basis to ensure the portfolio is balanced and aggregations are controlled. The Ki Portfolio and Underwriting Committee is responsible for governance and oversight of the portfolio and the underwriting process.

Compliance is checked through both a peer review process and, periodically, by the Managing Agent's Internal Audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

(ii) Underwriting risk profile

The core insurance portfolio of property, marine, energy and casualty covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The mix of business is continually adjusted based on the current environment

3 Principal risks and uncertainties (continued)

(including the current pricing strength of each class). This assessment is conducted as part of the business planning process, which operates annually, and ongoing strategy and uses inputs from the technical pricing framework. The business plan is approved by the BSL Board and is monitored monthly.

(iii) Geographical concentration of premium

The Syndicate enters policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicate to benefit from a wide geographic diversification of risk. The principal location of the Syndicate's policyholders is the United States. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

Premiums Written	Gross	Net
2023	**$m**	**$m**
United States	509.1	345.4
United Kingdom	49.3	43.1
Europe (excluding UK)	14.5	9.5
Canada	19.4	13.6
Other (including worldwide)	284.7	238.0
Total	**877.0**	**649.6**

Premiums Written	Gross	Net
2022	**$m**	**$m**
United States	433.9	334.4
United Kingdom	69.0	42.2
Europe (excluding UK)	23.2	17.2
Canada	31.2	22.8
Other (including worldwide)	276.8	227.0
Total	**834.1**	**643.6**

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

3 Principal risks and uncertainties (continued)

(iv) Portfolio mix

The Syndicate's breakdown of gross premium written by principal categories is summarised below:

Premium by portfolio		**2023 $m**	**%**
London Market Direct	FinPro	149.0	17
	Programs & Facilities	119.6	13
	Property	384.8	44
	Specialty	104.8	12
		758.2	86
London Market Reinsurance	Casualty Treaty	112.6	12
Other	Other	6.2	2
Total		**877.0**	**100**

Premium by portfolio		**2022 $m**	**%**
London Market Direct	FinPro	231.3	27
	Programs & Facilities	172.4	21
	Property	225.3	27
	Specialty	107.4	13
		736.4	88
London Market Reinsurance	Casualty Treaty	89.7	11
Other	Other	8.0	1
Total		**834.1**	**100**

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The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicate's portfolio. The business mix is monitored on an ongoing basis and measured against plan.

3 Principal risks and uncertainties (continued)

(v) Aggregate exposure management

The Syndicate closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Climate change impacts natural catastrophe events. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Risk appetites are set by the Board on an annual basis.

Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDSs). Below are the key RDS losses to the Syndicate for all classes combined as at 1st October 2023 (in US$ millions, unaudited):

	Estimated Industry Loss (note 1)	Modelled Syndicate loss at 01-Oct-23		Modelled Syndicate loss at 01-Oct-22	
		Gross	Net	Gross	Net
Lloyd's Prescribed RDS Event	**$m**	**$m**	**$m**	**$m**	**$m**
Gulf of Mexico Windstorm	111,000	173	85	152	66
Florida Miami Windstorm	131,000	164	59	194	61
US North East Windstorm	81,000	90	42	71	30
San Francisco Earthquake	80,000	243	99	185	70
Japan Earthquake	56,746	17	15	9	8
Japan Windstorm	12,058	2	2	2	1
European Windstorm	26,512	16	6	3	3

Note 1: At 31 December 2023 foreign exchange rates

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be non-modelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

3 Principal risks and uncertainties (continued)

(vi) Sensitivity to changes in net claims ratio

The Syndicate result for the financial year is sensitive to an independent 1% change in the net claims ratio by class of business as follows:

Change in reported result	Movement in the year ending 2023		Movement in the year ending 2022	
by category of business	**$m**	**%**	**$m**	**%**
London - Direct	5.6	86	**4.5**	**88**
London - RI	0.8	12	**0.5**	**10**
Other	0.1	2	**0.1**	**2**
Total	**6.5**	**100**	**5.1**	**100**

The impact on the member's balance would be the same as that on the result following a change in the net claims ratio.

b. Reinsurance risk

The Syndicate purchases reinsurance to manage exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicate to mitigate exposure to insurance losses against the risk appetite, reduce volatility of reported results and protect capital.

Proportional quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregation of losses. Quota share reinsurance is also used to manage the Syndicate's net exposure to classes of business where the Syndicate's risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

The Syndicate also has in place a comprehensive programme of excess of loss reinsurances to protect itself from severe size or frequency of losses:

(i) Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.
(ii) Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate's risk appetite during the business planning exercise.
(iii) Catastrophe excess of loss cover is in place to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps, catastrophe bonds and industry loss warranties where they are a cost-efficient means to ensure that S1618 remains within its catastrophe risk appetite.

Given the fundamental importance of reinsurance protection to the Syndicate's risk management, the Managing Agent has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain the Syndicate's ability to meet policyholder obligations. The Ki Portfolio and Underwriting Committee makes recommendations on the purchase of reinsurance.

The Syndicate remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicate.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

3 Principal risks and uncertainties (continued)

These risks are managed through a combination of techniques and controls including risk aggregation management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the BSL Credit Committee. This is further discussed in the Credit risk section below.

c. Reserving risk

Reserving risk arises where the actual cost of losses for policyholder obligations incurred before the reporting date may differ from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicate as the reserves for unpaid losses represent a large component of the Syndicate's liabilities and are inherently uncertain. The S1618 Reserving Committee is responsible for the management of the Syndicate's reserving risk.

The Syndicate has a rigorous process for establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Case reserves are set for notified claims through following those set by the policy's lead syndicate.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Syndicate's experienced actuaries to establish the IBNR reserves.

These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, triangulation techniques are supplemented by additional methods to ensure the established reserves are appropriate. The actuarial team work closely with other business functions such as portfolio management and risk aggregation to ensure that they have a full understanding of the emerging claims experience. Inflation is considered as part of reserve setting process.

The Syndicate's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to Reserving Committee sign-off as part of the formal governance arrangements. The estimate agreed by the committees is used as a basis for the financial statements. A management risk margin may be applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off.

Reserve estimates may be more or less than is ultimately required to meet the claims arising from earned business. The level of uncertainty varies significantly between classes but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Syndicate's reserves are considered to be claims from the long-tailed direct and long-tailed reinsurance classes. The issues contributing to this heightened uncertainty are common to all entities which write such business

3.2 Liquidity risk

This is the risk the Syndicate may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Syndicate faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Managing Agent monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Syndicate also limits the amount of investment in illiquid securities in line with the investment policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled RDS.

3 Principal risks and uncertainties (continued)

The tables below present the fair value of monetary liabilities of the Syndicate into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

As at 31 December 2023	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	**$m**	**$m**	**$m**	**$m**	**$m**
Claims outstanding	223.0	222.0	105.7	181.9	732.6
Creditors	98.6	-	-	-	98.6
Total	**321.6**	**222.0**	**105.7**	**181.9**	**831.2**

As at 31 December 2022	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Liabilities (undiscounted values)	**$m**	**$m**	**$m**	**$m**	**$m**
Claims outstanding	135.4	153.1	63.7	100.5	452.7
Creditors	78.7	-	-	-	78.7
Derivatives	0.7	-	-	-	0.7
Total	**214.8**	**153.1**	**63.7**	**100.5**	**532.1**

*Note: the tables above exclude provisions for unearned premiums as, although monetary assets and monetary liabilities under FRS103, these are not considered to be sensitive to liquidity risk. Creditors include other creditors including taxation of $0.3m (2022: $0.3m), creditors arising out of direct insurance operations of $0.6m (2022: $0.5m) and creditors arising out of reinsurance operations of $97.7m (2022: $77.9m).

3.3 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation in a timely manner. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Syndicate;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate;
- Investments: through the issuer default of all or part of the value of a financial instrument or derivative financial instrument; and
- Cash and cash equivalents: through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Syndicate.

a. Investments credit risk

(i) Investment credit risk management process

The BSL Investment Committee is responsible for the management of investment credit risk. The Investment Guidelines and Investment Policy set out clear limits and controls around the level of investment credit risk. The Syndicate has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicate's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

3 Principal risks and uncertainties (continued)

(ii) Investment credit risk profile

The summary of the investment credit risk exposures for the Syndicate is set out in the table below:

$m	AAA	AA	A	BBB and below	Total
As at 31 December 2023					
Financial Investments	474.9	31.4	94.5	105.6	**706.4**
Cash at bank	-	-	29.9	-	**29.9**
Other	27.8	2.4	2.7	6.6	**39.5**
Total	**502.7**	**33.8**	**127.1**	**112.2**	**775.8**

$m	AAA	AA	A	BBB and below	Total
As at 31 December 2022					
Financial Investments	308.0	31.4	47.3	19.3	**406.0**
Cash at bank	-	-	16.5	-	**16.5**
Other	14.7	2.6	2.1	3.8	**23.2**
Total	**322.7**	**34.0**	**65.9**	**23.1**	**445.7**

b. Insurance credit risk

(i) Insurance credit risk management process

The BSL Credit Committee, chaired by the Brit Group Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral and have been approved for use by the BSL Credit Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current statement of financial position exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the BSL Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the BSL Risk Oversight Committee and the BSL Board on at least a quarterly basis.

3 Principal risks and uncertainties (continued)

(ii) Insurance credit risk profile

The summary of the insurance credit risk exposures for the Syndicate is set out in the tables below:

$m	AA	A	Not rated	Total
As at 31 December 2023				
Reinsurers' share of claims outstanding	100.4	37.7	22.2	**160.3**
Insurance and reinsurance receivables	-	-	276.7	**276.7**
Total	**100.4**	**37.7**	**298.9**	**437.0**

$m	AA	A	Not rated	Total
As at 31 December 2022				
Reinsurers' share of claims outstanding	-	74.0	21.3	**95.3**
Insurance and reinsurance receivables	-	1.6	256.4	**258.0**
Total	**-**	**75.6**	**277.7**	**353.3**

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Syndicate in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Syndicate in a timely manner).

Collateral of $51.8m (2022: $43.8m) is held in third party trust accounts or as a letter of credit (‘LOC’) to guarantee the Syndicate against reinsurance counterparties and is available for immediate drawdown in the event of a default. As at 31 December 2023, $18.7m (2022: $13.6m) of reinsurers claims were protected by cash and cash equivalents held in third party trust accounts or by LOC’s.

Notes to the Accounts
for the year ended 31 December 2023

3 Principal risks and uncertainties (continued)

The table below shows the maximum exposure to credit risk for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

$m	Neither past due nor impaired	Past Due	Impaired	Total
At 31 December 2023				
Shares and other variable yield securities	56.1	-	-	56.1
Debt securities	649.1	-	-	649.1
Overseas deposits	39.5	-	-	39.5
Derivative assets investments	1.2	-	-	1.2
Reinsurers' share of claims outstanding	160.3	-	-	160.3
Debtors arising out of direct insurance operations	208.6	-	-	208.6
Other assets	260.6	-	-	260.6
Cash at bank and in hand	29.9	-	-	29.9
Reinsurance debtors	-	0.1	-	0.1
Total	**1,405.3**	**0.1**	**-**	**1,405.4**

$m	Neither past due nor impaired	Past Due	Impaired	Total
At 31 December 2022				
Shares and other variable yield securities	78.3	-	-	78.3
Debt securities	327.7	-	-	327.7
Overseas deposits	23.2	-	-	23.2
Reinsurers' share of claims outstanding	95.3	-	-	95.3
Debtors arising out of direct insurance operations	187.4	-	-	187.4
Other assets	227.1	-	-	227.1
Cash at bank and in hand	16.5	-	-	16.5
Reinsurance debtors	1.6	-	-	1.6
Total	**957.1**	**-**	**-**	**957.1**

No financial assets have been impaired for either year.

3 Principal risks and uncertainties (continued)

3.4 Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

a. Currency risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Syndicate. The split of assets and liabilities for each of the Syndicate's main currencies is set out in the tables below:

Converted $m **As at 31 December 2023**	**UK £**	**US $**	**CAD $**	**EUR €**	**Total**
Total assets	146.7	1,078.3	120.2	60.2	**1,405.4**
Total liabilities	(164.8)	(1,036.2)	(60.5)	(48.2)	**(1,309.7)**
Net assets / (liabilities) excluding the effect of currency derivatives	**(18.1)**	**42.1**	**59.7**	**12.0**	**95.7**
Adjustment for foreign exchange derivatives	76.7	(107.2)	-	30.5	**-**
Adjusted net assets / (liabilities)	**58.6**	**(65.1)**	**59.7**	**42.5**	**95.7**

Converted $m **As at 31 December 2022**	**UK £**	**US $**	**CAD $**	**EUR €**	**Total**
Total assets	115.9	743.4	63.3	34.5	**957.1**
Total liabilities	(121.5)	(770.9)	(41.3)	(28.5)	**(962.2)**
Net assets / (liabilities) excluding the effect of currency derivatives	**(5.6)**	**(27.5)**	**22.0**	**6.0**	**(5.1)**
Adjustment for foreign exchange derivatives	65.3	(75.3)	-	10.0	**-**
Adjusted net assets / (liabilities)	**59.7**	**(102.8)**	**22.0**	**16.0**	**(5.1)**

The non-US dollar denominated net assets of the Syndicate may lead to profit or losses (depending on the mix relative to the liabilities), should the US dollar vary relative to these currencies.

The Syndicate manages its exposure in each of the main currencies and the net asset position is rebalanced periodically. Where mismatches occur, these may lead to foreign exchange gains and losses reported through the income statement.

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Syndicate may also choose to utilise foreign currency derivatives to manage the risk of reported losses due to changes in foreign exchange rates. The degree to which derivatives are used is dependent on the prevailing cost versus the perceived benefit to the Syndicate from reducing the chance of a reported loss due to changes in foreign exchange rates. The details of all foreign currency derivatives contracts entered into are given in Note 11.

3 Principal risks and uncertainties (continued)

b. Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on the result of a percentage movement in the relative strength of the US dollar against the value of the Sterling, Canadian dollar and Euro simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December of each year end:

$m	Impact on result for the financial year and net assets 2023	Impact on result for the financial year and net assets 2022
US dollar weakens		
10% against other currencies	5.6	9.8
20% against other currencies	11.3	19.6
US dollar strengthens		
10% against other currencies	(5.6)	(9.8)
20% against other currencies	(11.3)	(19.6)

c. Interest rate risk and price risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Syndicate is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

Insurance liabilities are measured on an undiscounted basis and therefore the reported liabilities are not sensitive to changes in interest rates.

The banded durations of the Syndicate's financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

$m As at 31 December 2023	1 year or less	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial investments	218.9	260.8	102.3	124.4	**706.4**
Cash at bank and in hand	29.9	-	-	-	**29.9**
Other assets	17.1	18.2	3.9	0.3	**39.5**
Total	**265.9**	**279.0**	**106.2**	**124.7**	**775.8**

$m As at 31 December 2022	1 year or less	1 to 3 years	3 to 5 years	Over 5 years	Total
Financial investments	139.0	157.4	33.7	75.9	**406.0**
Cash at bank and in hand	16.5	-	-	-	**16.5**
Other assets	8.6	11.7	2.7	0.2	**23.2**
Total	**164.1**	**169.1**	**36.4**	**76.1**	**445.7**

3 Principal risks and uncertainties (continued)

d. Sensitivity to changes in investment yields

The sensitivity of the result and net assets to changes in the investment yields is set out in the table below:

$m	Impact on result for financial year 2023	Impact on result for financial year 2022
Increase		
25 basis points	(4.3)	(2.1)
50 basis points	(8.5)	(4.1)
100 basis points	(17.0)	(8.1)
Decrease		
25 basis points	4.3	2.1
50 basis points	8.5	4.1
100 basis points	17.0	8.1

Analysis of larger movements in yield is not shown above as the relationship between profit and investment yields is linear in respect of the portfolio. Subject to taxation, the effect on shareholders' equity would be the same as the effect on profit.

3.5 Operational Risk

Operational risk is the potential for loss arising from the failure of people, process or technology or the impact of external events. The nature of operational risk means that it is dispersed across all functional areas of BSL. Operational risk exposures are managed through a consistent set of management processes that drive risk identification, assessment, control and monitoring.

The BSL Operations Committee, chaired by the Group Head of Claims and Operations, is a key governance committee reporting to the Executive Committee. The BSL Operations Committee is responsible for managing operational risk in line with the operational risk policy and the risk tolerance and management appetite limits set by the BSL Board and management respectively. Each individual risk committee is provided with relevant operational risk updates and these committees include operational risk owners within executive management who actively manage operational risk within their respective areas (such as Underwriting, Claims, Investments and Finance).

An operational risk management framework is in place to ensure an appropriate standard approach is taken to managing operational risk across the Brit Group. The key elements of this framework are:

- Allocation of responsibility for the identification and assessment of operational risk. Standard tools are used to facilitate these assessments;
- Definition of standard elements of sound operating controls that are expected to be in place to address all identified operational risks;
- A process that integrates with S1618's internal model to support the setting and monitoring of operational risk appetite and tolerances;
- Governance, reporting and escalation for operational risk;
- Infrastructure supporting the operational risk management framework; and
- Operational risk management training and awareness.

3 Principal risks and uncertainties (continued)

A conduct risk framework is in place across the Brit Group to ensure S1618's products and services continue to meet the needs of our customers.

The Syndicate operates with a new method of distribution (a broker-facing platform) and a new method of selecting risks (the algorithm). The operational risks associated with the platform and algorithm have been addressed as follows:

- The platform has been comprehensively tested. Monitoring software detects any failure, and IT support is in place to rectify any issues together with a clear disaster recovery plan. Policies can be manually underwritten for short periods if required; and
- The algorithm has been subject to detailed review by the Actuarial and Risk functions, which concluded it is suitable for use. The risks underwritten are monitored daily by the Portfolio Management team with detailed MI available. Ongoing refinement of the algorithm is planned which will include further development of risk monitoring capabilities.

3.6 Emerging risks

Brit undertakes a formal emerging risk review annually with the results reported to the Risk Oversight Committee and included in the Own Risk & Solvency Assessment (ORSA) report and Commercial Insurer's Solvency Self-Assessment (CISSA) reports of the underwriting entities. The review is an important part of the risk identification aspect of the Risk Management Framework (RMF) and includes horizon scanning of the internal and external risk environment to identify potential new or developing risks to Brit. These risks can then be included in the risk register and managed appropriately as required.

The emerging risk review has previously identified risks such as climate change and cyber risk. These risks have been managed throughout their development and are now monitored as part of the business-as-usual risk management process.

3.6.1 Climate Change Risk

Risk Management Framework

Climate change is recognised as an emerging risk and has been identified as a high priority by emerging risks analysis. Its potential impact on the insurance industry is also an area of focus for the wider insurance market and its regulators.

The Brit Group (the Brit Group)'s Risk Management Framework (RMF) sets out the methodology by which the Group identifies, measures, and manages risks associated with climate change. The Brit Group considers natural catastrophe risk, liability risk and investment risks to be the most material risks. Using Board tolerances and management metrics, exposure to the above risk types is managed and monitored on an ongoing basis.

The RMF is reviewed annually, and regulatory developments are monitored on an ongoing basis. All Brit syndicates have been compliant with PRA Supervisory Statement SS3/19 since 2021 which sets expectations for firms regarding their consideration of climate risk.

Climate risk management

<u>Natural catastrophe risk</u>

Natural catastrophe risk relates to the physical risks of increased frequency and severity of weather-related natural catastrophes. This could result in additional claims. Climate change to date may already be affecting present-day weather events and therefore claims.

Natural catastrophe modelling is leveraged in pricing and outwards reinsurance purchasing decisions. The Brit Group seeks to ensure a balanced and well diversified portfolio (including exposure to weather perils), The Brit Group has reviewed its property underwriting strategy in recent years and has sought to reduce exposure in peak catastrophe regions.

3 Principal risks and uncertainties (continued)

Natural Catastrophe risk is assessed using software provided by Verisk (developed by scientists and specialists) for the most material and established perils. The modelling is supplemented using the 'Brit View of Risk' which is a set of in-house adjustments used to apply the Brit Group's view of risk to vendor model output. We continuously monitor scientific studies, and regularly review both the completeness of existing models and the application of the Brit view of risk.

The Brit Group's exposure to natural catastrophe risks at an overall and peril-region level at key return periods is monitored on an ongoing basis by the Risk Management Function. Board limits are in place to ensure the Brit Group is not over-exposed to natural catastrophe risk, and reinsurance is purchased to manage tail risk.

Liability risk

Climate change could result in liability claims arising from litigation against the Brit Group's clients. For example, claims could arise from firms being held responsible for directly contributing to climate change, not taking climate change into account in business decisions or inadequate disclosures.

The Syndicate exposure is managed by use of limits on gross underwriting exposure, contract wording and through the purchase of reinsurance. There is uncertainty over whether courts rule against insurers and if so, over what time horizon. The number of climate change litigation related claims notifications is monitored to enable early identification of any material increase.

Market risk

Investment losses have the potential to arise from exposure to industries contributing to climate change whose market value could reduce as the economy transitions away from fossil fuels. This transition risk could occur over the short or long-term depending on government policies and financial market movements.

The Syndicate has a diversified investment portfolio, with limits on exposure to individual issuers. Additionally, the Brit Group has developed metrics to monitor investment exposure to potentially 'at-risk' industries such as oil and gas or transport. An annual review of equity holdings is conducted which includes a review of the ESG strategy of the underlying companies.

Other risks

There may be reputational risk to firms if customers deem they are insufficiently responsive to concerns about climate change. The Brit Group has developed an ESG strategy, as discussed above, which seeks to address this.

Climate scenario analysis and understanding climate risk

Climate scenario analysis is key to understanding the potential impact of climate-related risks. Analysis performed to date has identified physical risks arising from natural catastrophes as having the highest potential for insured losses therefore this is an area of greater focus.

PRA stress tests

Syndicate 2987, which is a part of the Brit Group, participated in the PRA Climate Change Biennial Exploratory Stress Test (CBES) in 2021. The exercise was designed to assess the impact of climate change on physical and asset risks over a 30-year time horizon in three policy action scenarios. It also required general insurance participants to consider the impact of seven PRA-designed litigation scenarios on liability classes as well as articulation of Brit's current and future risk management actions.

Internal scenario analysis

In addition to the above, the Brit Group, which the syndicate is managed, performs climate change related scenario analysis in each syndicate's ORSA which encompasses natural catastrophe, market and lability risk.

3 Principal risks and uncertainties (continued)

Building on CBES, a more detailed climate change related litigation risk scenario analysis was also performed in 2022. This considered the potential gross and net impact of climate change related litigation under three hypothetical scenarios.

The findings from the tests above have been integrated into:

- The internally developed 'Brit View of Risk' which is used to supplement natural catastrophe modelling software (relevant to natural catastrophe risk);
- The Brit Group's Property Catastrophe underwriting strategy, identifying the regions and perils most sensitive to climate change (relevant to natural catastrophe risk);
- Industry level exposure monitoring for the Brit Group's asset portfolio for 'high risk' sectors (relevant to natural catastrophe risk);
- Clarity on potential losses to be accounted for in underwriting and business planning decisions (relevant to natural catastrophe risk); and
- The ORSA process, to ensure climate change related risks are considered across relevant areas of the business (relevant to all risks).

3.6.2 Geopolitics

Geopolitical events, such the ongoing wars in Ukraine and the Middle East, have the potential to cause insurance losses and disruption to financial markets. Insurance losses could arise either as a result of direct damage from the conflicts or from second order impacts such as supply chain disruptions and economic instability. There may also be a potential impact on the operational costs of the Group attributable to the downstream effects of high inflation. The Group continues to monitor developments closely.

Geopolitical risk events may also impact the global economy, as discussed in section 3.6.3 below.

3.6.3 Global economic environment

Inflation in the USA and the UK remains above target levels and interest rates have risen relative to recent years. Recessionary risks remain, which may impact the frequency and cost of claims, investment results, the likelihood of counterparty defaults and the potential for operational risk events. Ki continues to actively monitor and respond to changes in the economic environment.

Brit Group, which the syndicate is managed by, has considered the impact of the increased level of inflation and the economic downturn. Increased focus has been placed on ensuring the Syndicate's pricing models adequately address current inflationary trends. Feeding into these models is an enhanced framework assessing the key drivers of claim settlement costs for each class of business. Inflationary impacts were also considered during the year end reserving process.

Brit Group remains cognisant of the impact of inflation on the underlying portfolio. Key drivers of claim settlement costs and claims frequency by class of business continue to be reviewed. This in turn will further inform any required recalibration of pricing models. Reserves continue to be set at a margin above the actuarial best estimate and incorporate our current view of social and economic inflation and include a risk adjustment to allow for uncertainty.

3.7 Capital risk management

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 Solvency II framework. 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.

3 Principal risks and uncertainties (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 respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1618 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 may 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 participates but no other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200-year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence, and ratings objectives. The capital uplift applied for 2023 was 35% of the member's SCR to ultimate (2022: 35%).

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.

Funds in syndicate are not applicable to Syndicate 1618, as participants' capital is held at member level. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the member's balances reported on the statement of financial position on page 18, represent resources available to meet member and Lloyd's capital requirements.

4 Analysis of underwriting result

The segmental of the underwriting result before investment return is set out below:

Year ended 31 December 2023	Gross premium written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	$m	$m	$m	$m	$m	$m
Direct Insurance:						
Accident and health	9.7	9.5	(5.1)	(4.1)	(1.2)	**(0.9)**
Marine, aviation and transport	70.6	63.9	(32.9)	(14.0)	(7.6)	**9.4**
Fire and other damage to property	374.1	345.1	(179.0)	(81.1)	(56.4)	**28.6**
Third party liability	137.4	156.5	(88.6)	(33.4)	(26.8)	**7.7**
Miscellaneous	16.1	17.1	(11.8)	(4.4)	(1.6)	**(0.7)**
Direct Insurance	**607.9**	**592.1**	**(317.4)**	**(137.0)**	**(93.6)**	**44.1**
Reinsurance	269.1	253.5	(144.9)	(93.7)	7.7	**22.6**
Total	**877.0**	**845.6**	**(462.3)**	**(230.7)**	**(85.9)**	**66.7**

Year ended 31 December 2022	Gross premium written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	$m	$m	$m	$m	$m	$m
Direct Insurance:						
Accident and health	4.7	4.1	(2.0)	(1.4)	(0.7)	**-**
Marine, aviation and transport	63.2	47.3	(33.9)	(12.3)	(1.7)	**(0.6)**
Fire and other damage to property	298.6	219.3	(147.2)	(58.9)	(10.2)	**3.0**
Third party liability	216.1	180.4	(108.8)	(40.7)	(21.3)	**9.6**
Miscellaneous	16.1	14.0	(7.2)	(3.4)	(1.9)	**1.5**
Direct Insurance	**598.7**	**465.1**	**(299.1)**	**(116.7)**	**(35.8)**	**13.5**
Reinsurance	235.4	178.1	(117.1)	(64.9)	8.1	**4.2**
Total	**834.1**	**643.2**	**(416.2)**	**(181.6)**	**(27.7)**	**17.7**

Commissions on direct insurance gross premiums written during 2023 were $118.1m (2022: $130.0m).

All premiums were concluded in the UK. The geographical analysis of premiums by the location of the underlying risk is as follows:

Premiums Written	Gross	Net
2023	**$m**	**$m**
United States	509.1	345.4
United Kingdom	49.3	43.1
Europe (excluding UK)	14.5	9.5
Canada	19.4	13.6
Other (including worldwide)	284.7	238.0
Total	**877.0**	**649.6**

4 Analysis of underwriting result (continued)

Premiums Written 2022	**Gross $m**	**Net $m**
United States	433.9	334.4
United Kingdom	69.0	42.2
Europe (excluding UK)	23.2	17.2
Canada	31.2	22.8
Other (including worldwide)	276.8	227.0
Total	**834.1**	**643.6**

5 Net operating expenses

	2023 $m	**2022 $m**
Acquisition costs	171.5	178.7
Change in deferred acquisition costs	(0.9)	(42.3)
Administrative expenses	60.1	45.2
	230.7	**181.6**
Reinsurance commissions income	(31.1)	(20.7)
Total	**199.6**	**160.9**

Member's standard personal expenses of $12.3m (2022: $9.3m) are included within administrative expenses.

The auditors' remuneration and audit services charged to the Syndicate by the Managing Agent and the auditors' remuneration borne by another group company are as follows:

	2023 $m	**2022 $m**
Audit of the Syndicate annual accounts	0.3	0.2
Other services pursuant to Regulations and Lloyd's Byelaws	0.1	0.1
Total	**0.4**	0.3

6 Staff numbers and costs

All Brit and Ki staff in the UK are employed by the Brit Group services company, Brit Group Services Limited (BGSL), and the full staff cost disclosures are included in the notes to those accounts. An outsourcing fee is charged by BGSL to BSL and then recharged to the Syndicate to reflect its share of the cost of various services provided by BGSL to the Syndicate, including non-Ki specific staff costs. In addition, BGSL incurs costs for Ki specific staff. These direct costs are also recharged by BGSL to BSL and then recharged to the Syndicate.

	2023 $m	**2022 $m**
Direct staff costs	24.8	11.7

7 Remuneration of the Directors of BSL, KFL and Active Underwriter

No remuneration of the Directors of BSL or KFL has been charged to the Syndicate for the 2023 calendar year (2022: nil). It is not practical to allocate these amounts to the underlying entities to which the Directors provide services. The following table therefore represents the total emoluments paid to Directors by the managing agent. There were no advances or credit granted by the Managing Agent to any of its Directors during the year.

	2023	2022
Director's Remuneration	**$m**	**$m**
Director's emoluments	4.8	6.3
Total	**4.8**	**6.3**

The active underwriter received the following remuneration charged by the Managing Agent to the Syndicate:	2023	2022
Underwriter's Remuneration	**$m**	**$m**
Aggregate remuneration	0.9	0.9
Total	**0.9**	**0.9**

The active underwriter also received $9,948 (2022: $4,943) of pension contributions.

8 Investment income, expenses and charges

(a) Investment income

	2023	2022
	$m	**$m**
Income from investments	26.4	5.8
Gains on the realisation of investments	5.6	8.7
	32.0	**14.5**

(b) Investment expenses and charges

	2023	2022
	$m	**$m**
Investment management expenses	(0.5)	(0.1)
Losses on the realisation of investments	(9.2)	(14.1)
	(9.7)	**(14.2)**

All investment return arose on underwriting activities and was transferred to the technical account.

9 Claims development tables

The following tables illustrate the development of the estimates of earned ultimate cumulative claims incurred, including claims notified and IBNR. Non-US dollar cumulative claims estimates and cumulative payments are translated into US dollars at the period end rate as at 31 December 2023.

As these tables are on an underwriting year basis, there is an apparent large increase from amounts reported for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Estimate of cumulative gross incurred claims

$m

Underwriting year	**2021**	**2022**	**2023**
At end of underwriting year	(123.0)	(274.1)	(254.9)
One year later	(266.9)	(479.5)	-
Two years later	(270.6)	-	-
Current estimate of cumulative claims incurred	**(270.6)**	**(479.5)**	**(254.9)**
Cumulative payments	128.0	126.4	18.0
Gross outstanding claims provision as at 31 December 2023	**(142.6)**	**(353.1)**	**(236.9)**

Estimate of cumulative net incurred claims

$m

Underwriting year	**2021**	**2022**	**2023**
At end of underwriting year	(113.6)	(205.4)	(194.9)
One year later	(237.3)	(381.7)	-
Two years later	(249.3)	-	-
Current estimate of cumulative claims incurred	**(249.3)**	**(381.7)**	**(194.9)**
Cumulative payments	123.2	113.2	17.2
Net outstanding claims provision as at 31 December 2023	**(126.1)**	**(268.5)**	**(177.7)**

10 Financial investments

	Market Value		Cost	
	2023 $m	2022 $m	2023 $m	2022 $m
Shares and other variable yield securities and units in unit trusts	56.1	78.3	55.0	78.0
Debt securities and other fixed income securities	649.1	327.7	640.2	335.8
Derivative contracts	1.2	-	-	-
Total	**706.4**	**406.0**	**695.2**	**413.8**

All financial investments have been designated as held at fair value through profit or loss.

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

Year ended 31 December 2023	**Level 1 $m**	**Level 2 $m**	**Total $m**
Shares and other variable yield securities and units in unit trusts	56.1	-	56.1
Debt securities and other fixed income securities	412.7	236.4	649.1
Overseas deposits	11.4	28.2	39.6
Derivatives	-	1.2	1.2
Total	**480.2**	**265.8**	**746.0**

Year ended 31 December 2022	**Level 1 $m**	**Level 2 $m**	**Total $m**
Shares and other variable yield securities and units in unit trusts	78.3	-	**78.3**
Debt securities and other fixed income securities	242.6	85.1	**327.7**
Overseas deposits	4.3	18.9	**23.2**
Total	**325.2**	**104.0**	**429.2**

Transfers between fair value levels

	Level 1 $m	**Level 2 $m**	**Total $m**
At 31 December 2022	**320.9**	**84.4**	**405.3**
Transfers between levels	-	-	-
(Losses)/gains recognised in the income statement	(9.7)	7.7	(2.0)
Purchases	1,012.9	200.5	1,213.4
Sales proceeds	(858.7)	(55.1)	(913.8)
Foreign exchange gains	3.4	0.1	3.5
At 31 December 2023	**468.8**	**237.6**	**706.4**

10 Financial investments (continued)

10.1 Basis for determining the fair value hierarchy of financial instruments

The Syndicate has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

(i) Level one – quoted prices (unadjusted) in active markets for identical assets
(ii) Level two – inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
(iii) Level three – inputs for the assets that are not based on observable market data (unobservable inputs).

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Syndicate determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Syndicate by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

10.2 Valuation techniques

Level one

These represent assets traded in an active market whose quoted price is readily and regularly available and those prices represent actual and regular transactions on an arm's length basis.

Level two

Inputs include directly or indirectly observable inputs (other than level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non-US government agency securities are priced with Over The Counter (OTC) quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

11 Derivative contracts

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

As at 31 December 2023, the Syndicate does not hold any investments that are categorised as level 3 which would require further valuation and estimation techniques to be applied in order to determine their fair value.

The Syndicate purchases derivative financial instruments:

i) to hedge its foreign currency exposure on future commitments;
ii) as part of its investment management strategy.

	2023	2022
Assets	**$m**	**$m**
Foreign exchange forward contracts assets	1.2	-
Total assets of derivatives at 31 December	**1.2**	**-**

	2023	2022
Liabilities	**$m**	**$m**
Foreign exchange forward contracts liabilities	-	(0.7)
Total liabilities of derivatives at 31 December	**-**	**(0.7)**

12 Provision for unearned premium

	Gross	Reinsurers' share	Net
	$m	$m	$m
Balance at 1 January 2023	**381.4**	**(69.4)**	**312.0**
Premiums written in the year	877.0	(227.4)	**649.6**
Premiums earned in the year	(845.6)	197.5	**(648.1)**
Effect of movement in exchange rates	3.7	(0.7)	**3.0**
Balance at 31 December 2023	**416.5**	**(100.0)**	**316.5**

	Gross	Reinsurers' share	Net
	$m	$m	$m
Balance at 1 January 2022	**195.6**	**(16.4)**	**179.2**
Premiums written in the year	834.1	(190.5)	**643.6**
Premiums earned in the year	(643.2)	137.0	**(506.2)**
Effect of movement in exchange rates	(5.1)	0.5	**(4.6)**
Balance at 31 December 2022	**381.4**	**(69.4)**	**312.0**

13 Claims outstanding

	Gross	Reinsurers' share	Net
	$m	$m	$m
Balance at 1 January 2023	**452.7**	**(95.3)**	**357.4**
Claims incurred in relation to current underwriting year	253.8	(59.7)	**194.1**
Claims incurred in relation to prior underwriting year	208.5	(20.8)	**187.7**
Claims paid in the year	(187.8)	16.3	**(171.5)**
Effect of movement in exchange rates	5.4	(0.8)	**4.6**
Balance at 31 December 2023	**732.6**	**(160.3)**	**572.3**
Claims reported and loss adjustment expenses	174.2	(41.1)	133.1
Incurred but not reported provisions	558.4	(119.2)	439.2
Balance at 31 December 2023	**732.6**	**(160.3)**	**572.3**

13 Claims outstanding (continued)

	Gross $m	Reinsurers' share $m	Net $m
Balance at 1 January 2022	**112.6**	**(9.5)**	**103.1**
Claims incurred in relation to current underwriting year	272.9	(68.5)	**204.4**
Claims incurred in relation to prior underwriting year	143.3	(20.1)	**123.2**
Claims paid in the year	(72.3)	2.4	**(69.9)**
Effect of movement in exchange rates	(3.8)	0.4	**(3.4)**
Balance at 31 December 2022	**452.7**	**(95.3)**	**357.4**
Claims reported and loss adjustment expenses	109.5	(6.2)	103.3
Claims Incurred but not reported provisions	343.2	(89.1)	254.1
Balance at 31 December 2022	**452.7**	**(95.3)**	**357.4**

14 Cash and cash equivalents

	2023 $m	2022 $m
Cash at bank and in hand	29.9	16.5
Short-term deposits	56.1	78.2
Total	**86.0**	**94.7**

Cash and cash equivalents comprise cash at bank and in hand, short-term deposits and other highly liquid investments with a maturity of three months or less at the date of acquisition. Short-term deposits are presented within Financial Investments on the statement of financial position.

15 Other assets

Other assets comprise only overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

16 Deferred acquisition costs

	2023 $m	2022 $m
Balance at 1 January	85.8	44.7
Change in deferred acquisition costs	0.9	42.3
Effect of movement in exchange rates	0.9	(1.2)
Balance at 31 December	**87.6**	85.8

17 Debtors arising out of direct insurance operations

	2023 $m	2022 $m
Due from intermediaries within one year	208.6	187.4
Total	**208.6**	**187.4**

18 Creditors arising out of direct insurance operations

	2023 $m	2022 $m
Due to intermediaries within one year	0.6	0.5
Total	**0.6**	**0.5**

19 Related parties

Brit Syndicates Limited (BSL or the Managing Agent)

The Managing Agent is a wholly owned subsidiary of Brit Insurance Holdings Limited, which in turn is a subsidiary of Brit Limited. During the year, the Syndicate was charged $4.4m in managing agency fees (2022: $4.2m), $12.1m in outsourcing fees (2022: $16.6m) and $22.5m in respect of direct costs (2022: $11.3m). As at 31 December 2023, there were amounts outstanding of $0.3m (2022: $0.3m).

Ki Financial Limited (KFL)

There are no financial transactions between the Syndicate and Ki Financial Limited. For information relating to the remuneration of the directors of Ki Financial Limited, refer to note 7. There are no related party director disclosures to note for the year ended 31 December 2023.

Ambridge Partners LLC

Ambridge Partners LLC is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including entities within the Brit Limited group. On 10 May 2023, Ambridge was sold to Amynta Group, which included Ambridge Partners LLC.

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Ambridge Partners LLC for the year included commission for introducing insurance business of $4.1m (2022: $7.9m) for the calendar year. As at 31 December 2023, no amounts of commission were outstanding (2022: nil). As at 31 December 2023, Ambridge Partners LLC owed $4.0m (2022: $8.4m) of premiums to the Syndicate.

The underwriting relationship between Ambridge Partners LLC and the Syndicate continued post sale.

Directors of Brit Syndicates Limited

Information relating to the remuneration of the directors of Brit Syndicates Limited is set out in note 7.

While not a direct related party transaction, it is disclosed that at 31 December 2023, $0.2m (2022: $0.2m) was recorded in the statement of financial position of Ki Financial Limited in respect of unsecured loans to certain Directors of Brit Syndicates Limited, the Managing Agent of Syndicate 1618. These loans were recognised during 2020, are expected to be settled in cash, carry an annual interest charge of 2.25%, and have no fixed maturity date. These loans facilitated the purchase by those Directors of G class shares in Ki Financial Limited, the holding company of the Ki sub-group and indirect capital provider to Syndicate 1618.

19 Related parties (continued)

On the occurrence of a liquidity event, the G shareholders will receive an amount as determined in accordance with the Ki Financial Limited articles of association.

Sutton Specialty Risk Inc.

On 2 January 2019, Brit Insurance Holdings Limited, acquired 49% of the issued shares of Sutton Specialty Risk Inc. (Sutton) for a total purchase consideration of CAD$17.2m and entered into a forward contract to purchase the remaining 51% in 2024. Sutton is a Canadian MGU, specialising in Accident and Health business.

Trading with Sutton is undertaken on an arm's length basis and is settled in cash. The amounts in the income statement relating to trading with Sutton for the period from 1 January 2023 to 31 December 2023 included commission for introducing insurance business of $0.9m (2022: $0.8m).

Camargue Underwriting Managers Proprietary Limited

On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and also entered into a call and a put option to purchase the remaining 50% in 2021. On 4 October 2021, Camargue became a 100% subsidiary of the Group and ceased to be an associated undertaking. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit. Trading with Camargue is undertaken on an arm's length basis and is settled in cash.

The amounts in the income statement relating to trading with Camargue for the year ended 31 December 2023 included commission for introducing insurance business of $1.0m (2022: $0.8m).

Amounts recorded in the balance sheet in respect of premium net of commissions due from, and fees payable to, Camargue as at 31 December 2023 were not material.

Ki Member Limited

Ki Member Limited (KML), formerly known as RiverStone Corporate Capital 4 Limited, was acquired by Brit Limited on 1 January 2022. KML's main responsibly is to provide capacity for the Syndicate's underwriting activity. The current capacity for the 2023 year of account is £740.1m (2022: £508.0m).

20 Funds at Lloyd's

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

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

21 Ultimate holding company

The Managing Agent is a wholly owned subsidiary of Brit Insurance Holdings Limited, a company registered in England and Wales. The intermediate holding company, in which the Managing Agent's result is consolidated, is Brit Limited (Brit), a company registered in England and Wales. Copies of Brit's consolidated accounts can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB, or from the website www.britinsurance.com.

The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited (Fairfax), a company registered in Toronto. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website www.fairfax.ca.

Directors of the Managing Agent

Executive
Martin George Thompson
Gavin Leslie Wilkinson
Mark Andrew Allan (resigned 3 November 2023)
Christiern Robert James Dart (resigned 30 October 2023)
Jonathan Michael Howson Sullivan (appointed 31 October 2023)

Non-Executive
Simon Philip Guy Lee
Caroline Frances Ramsay
Andrea Caroline Natascha Welsch
Pinar Yetgin

Secretary
Tim James Harmer

Active Underwriter
Daniel Hearsum (resigned 21 November 2023)
Simon Bird (appointed 21 November 2023)

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