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IQUW

Syndicate 1856

Annual Accounts

31 December 2022

Contents

Directors and administration

IQUW Syndicate Management Limited

Directors
Francois-Xavier B Boisseau (Chairman)
Peter A Bilsby
Catherine M E Farnworth
Michele J Faull
Daniel P Flueckiger
Martin Hall
David J Harris
Richard A Hextall (appointed 29 July 2022)
David E Morris (appointed 26 May 2022)
Nathan R Ott
Heather I Thomas
Ryan R Warren (resigned 30 June 2022)

Company Secretary
Renuka S Fernando

Managing Agent's Registered Office
30 Fenchurch Street
England EC3M 3BD

Managing Agent's Registered Number
00426475

Syndicate Active Underwriter
Steven Tebbutt

Bankers
Lloyds Bank plc
Citibank NA
RBC Investor and Treasury Services

Investment Managers
New England Asset Management Limited

Independent Auditors
PricewaterhouseCoopers LLP

Report of the managing agent

IQUW Syndicate Management Limited ("IQUW SML" or "the Managing Agent"), a company registered in England and Wales, the managing agent of Syndicate 1856 (the "Syndicate" or "IQUW"), presents its report for the Syndicate for the year ended 31 December 2022.

This Annual Report has been prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" or "FRS 102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103") where applicable. The Syndicate continues to adopt the going concern basis in preparing the syndicate annual accounts.

The managing agent has an agreed exemption from preparing separate underwriting year accounts for the closed 2020 year of account.

Managing Agent

IQUW SML is registered as a Lloyd's managing agency and is, through intermediate holdings companies, a wholly owned subsidiary of IQUW Holdings Bermuda Limited ("IQUW Holdings").

Principal activity

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business in the Lloyd's market. During 2022 the Syndicate has continued to expand, after its transformation in 2021 under new management, executing on it's strategy to build a multi-line, diversified and data centric insurer/reinsurer.

The Syndicate continues to underwrite a mixture of reinsurance, property, aviation, marine, energy and professional lines business, as well as a range of specialty lines including cyber, crisis management, terrorism, and political risks. During 2022 the Syndicate expanded into new classes of business including Aviation, Motor and Crisis Management. The Syndicate trades through the Lloyd's worldwide licenses and rating. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) from Standard & Poor's, and AA- (Very strong) rating from Fitch Ratings. The Syndicate's functional currency is US Dollars.

Review of the business

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

Financial Year £'000	2022 2022 & 2021 YOAs	2022 2020 & Prior YOAs	2022 Total	2021 Total
Gross premium written	**540,550**	**3,463**	**544,013**	189,991
Net premiums written	**437,791**	**2,667**	**440,459**	166,130
Net earned premium	**326,808**	**5,582**	**332,390**	123,476
Net incurred claims	**(235,217)**	**(4,855)**	**(240,072)**	(85,085)
Investment income	**977**	**(391)**	**586**	55
Operating expenses	**(103,909)**	**2,550**	**(101,359)**	(49,036)
Movements on foreign exchange	**(826)**	**(4,401)**	**(5,227)**	864
Loss for the financial year	**(12,167)**	**(1,515)**	**(13,682)**	(9,726)
Claims ratio*	**72.0%**	**87.0%)**	**72.2%**	68.9%
Expense ratio	**31.8%**	**(45.7%)**	**30.5%**	39.7%
Combined operating ratio	**103.8%**	**41.3%**	**102.7%**	108.6%

** The claims ratios are inclusive of claims handling expenses, risk margin and ULAE*

The result for the Syndicate in calendar year 2022 was a loss of £13.7 million (2021: loss of £9.7million). The 2022 result was materially impacted by the Russia-Ukraine Conflict (£19.7million) and catastrophe events in the year, including claims arising from Hurricane Ian (£56.9 million). Total catastrophe claims incurred by the Syndicate in 2022 amounted to £93.7 million, £44.8 million above expectations.

Gross premium written grew by 186% (2021: 141%) during 2022. The calendar year benefited from a full year of established trading following the change in capacity support to IQUW Corporate Member Limited ("CML"). In addition, growth of £86.6 million was achieved as a result of the renewal of syndicate 3268 business into the syndicate during the year. This renewal book accounted for 46% of the growth in premium. Net earned income grew by 169% driven by the increase in the business at a gross level, as growth was achieved through the year.

IQUW Holdings, through a subsidiary, participated on the 2022 and 2021 years of account. The result for the 2022 and 2021 years of account is a loss of £12.2 million. Capacity for the 2020 & prior years of account is backed by Credit Suisse and Humboldt Re Limited. The result for the 2020 and prior underwriting years in calendar year 2022 was a loss of £1.5 million. The 2020 and prior result included an additional £5.6 million risk premium above the core best estimate reserve in order to close the year into the 2021 year of account.

The following table sets out the notable major catastrophe losses occurring during 2022.

£ millions	Gross losses	Net losses
Malaysia floods	**1.8**	**1.8**
Hurricane Fiona	**2.5**	**2.5**
Hurricane Ian	**86.8**	**51.2**
MidWest Storms	**15.2**	**15.2**
Winterstorm Elliott	**2.4**	**2.4**
Total	**108.7**	**73.1**

**All Catastrophes with gross loss over £3m*

Absolute levels of expense have grown to £101.4 million in 2022 (2021: £49.0 million) as the build out of the underwriting team, management and operational functions continued at pace. The expense ratio was 30.5%, a 9.2% improvement on 2021, as growth in earned income naturally improved efficiency.

The Syndicate's business is written in a divisional structure reflecting the markets covered. The major lines and the 2022 gross written premium are summarised by division below.

Reinsurance Division

The division writes both Property (£95.0m) and Specialty (£37.0m) reinsurance. The reshaping of the Property Reinsurance account continued into 2022, to create a well-balanced portfolio split of 65% USA and 35% international. The risk appetite within the portfolio continues to be for regional and super-regional writers rather than the nationwide accounts. The specialty reinsurance account has developed well over the last 12 months and has achieved the planned diversification at class of business level. The account covers Marine & Energy, Aviation, Terror, Cyber and Aviation War. The uncertainty in the market post Russia-Ukraine has seen material rate rises in all the sub-classes mentioned, as well as creating an opportunity within Aviation War.

Property Division

The property insurance account (£166.6m) experienced a period of rapid growth, mainly driven by the acquisition of Agora Syndicate 3268. The objective for Direct and Faculative ("D&F") was to reshape the s3268 portfolio in order to align with the syndicate 1856 strategy. In the Delegated Authority ("DA") portfolio the business was streamlined, amalgamating the s1856 and s3268 portfolios. The rating environment for both D&F and DA remained strong with double digit increases observed across the whole portfolio.

Professional Lines Division

This account (£65.8m) comprises of directors' and officers' ("D&O"), financial institutions ("FI") liability and Warranty & Indemnity (W&I). The D&O book, which focusses on primary and low excess layers, continues to grow well, and while rating trends have been negative in 2022, after 4 years of positive movement, rates are still considered adequate. The 2021 and 2022 years have seen new carriers enter the market and existing carriers regaining confidence resulting in a significant increase in the availability of capacity which has driven increased competition.

Marine and Aviation Division

The division writes Energy (£36.7m), Marine & Energy Liability (£22.6m), Cargo (£23.7m) and Aviation (£14.2m).

The energy account provides cover for downstream, midstream, power and upstream energy risks. The upstream account consists of clients across all stages of the hydrocarbon extraction process written mostly on an open market or facultative direct basis. The marine liability book focuses on offshore and brown water sectors and the associated industries supporting their operations. The Cargo account provides cover for transit and stock throughput risks. Improved conditions have allowed the cargo team to significantly develop the portfolio in its first full year of operation in this class. IQUW entered the Aviation class in January 2022. Growth has been moderate but changing market conditions mean there is potentially a significant opportunity in this class in 2023.

Specialty Division

The Division writes Cyber (£30.8m), Political Violence & Terrorism and War (£29.6m), Political Risk (£9.6m) and Crisis Management (£4.4m.) The Cyber portfolio was strategically altered in 2022, employing an expert team and writing a primarily Open Market portfolio. The political violence, terrorism, war account is global in scope and provides cover to clients across occupancy types and business interests. This account includes Aviation and Marine war in addition to the physical damage Terrorism and Political Violence offering. The political risk book provides cover for expropriation perils and contract frustration risks, focused mainly on emerging markets. Crisis Management launched in Q2 focusing primarily on Product Recall. The offering has a focus on Product Contamination in the Food and Beverage industry and Auto Recall and has a primary demand from North America. This line is expected to grow in 2023 in its first full year of trading.

2023 and the Future

IQUW SML sees opportunity for good growth in 2023, particularly in classes where rating is robust following material changes in market rates and terms, and conditions. The Syndicate agreed business plan is to write £563.3 million of gross written premium

Outwards reinsurance

To reduce gross exposures to within net risk appetite the Syndicate purchases reinsurance contracts to reduce the impact of individual large losses as well as the accumulation of claims that may arise from the same event.

In 2022, the Syndicate purchased per occurrence and aggregate reinsurance cover to protect the Direct Property and Property Treaty lines of business from large catastrophe loss. Separate reinsurance was purchased to protect against the potential systemic occurrence of losses across the marine, energy, political violence, and terrorism lines. Proportional reinsurance was purchased to protect the cyber insurance portfolio. Further reinsurance was purchased for other classes as appropriate.

Investment report

Investment income for the Syndicate was £2.0 million (2021: £0.1 million) equating to a return of 1.1% (2021: 0.1%). The Syndicate's invested assets totalled £177.6 million at 31 December 2022 (2021: £66.9 million).

2022 was a challenging year for financial markets, with the S&P 500 seeing its worst performance since 2008 and global bonds falling into the first bear market this century, with the biggest driver being inflation.

Bond markets were impacted by the rapid rise in yields throughout the year as central banks aggressively raised interest rates in an attempt to control persistently high inflation. Despite a positive Q4 2022 market environment, resulting from improved US GDP figures during the second half of the year, and signs of tempering inflation, this failed to offset the impact of the first nine months of 2022.

The Syndicate held conservative investment portfolios in 2022 with durations at around 0.9 years. This helped to limit the impact of negative market development on the Syndicate.

Capital

For the 2022 year of account, capital to support the Syndicate's underwriting is provided fully by IQUW Corporate Member Limited. For the 2023 year of account, £17.5m (c. 3%) of the Syndicate's capacity has been ceded to Alpha Insurance Analysts ("Alpha") Limited based on a 2-year limited tenancy agreement. Under the terms of this agreement, Alpha are to be offered at least the same nominal capacity for the 2024 year of account.

The capital to support the runoff of the 2020 and prior years of account was provided by Low Volatility Plus Corporate Member Limited, Iris Balanced Corporate Member Limited, and Humboldt Corporate Member Limited.

Each member is required to provide capital sufficient to meet its Economic Capital Assessment ("ECA"). Lloyd's rules require each member to hold sufficient capital across the member's interests at Lloyd's in aggregate, rather than at a syndicate level. A member's capital can be held through a combination of three options. First, to be held in trust by Lloyd's, called Funds at Lloyd's ("FAL"). Second, it may be held within and managed as syndicate funds, called Funds in Syndicate ("FIS"). Third, it may be held as a member's share of the members' balances on each syndicate in which the member participates. As a result, because the capital requirement applies at an overall member level, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

Syndicate capital is determined through the submission and agreement by Lloyd's of an ultimate Solvency Capital Requirement ("SCR"), which is subject to an uplift determined by the Franchise Board to arrive at the capital required by Lloyd's. The Syndicate's SCR is currently determined by an internal capital model appropriate for the repurposed Syndicate. The model was approved by Lloyd's in Q2 2022 and was used to set capital for 2023 Year of Account.

Lloyd's unique capital structure provides excellent financial security to policyholders.

Climate change and environment matters

IQUW Holdings is committed to considering sustainability in its business decisions and to intelligently use data and automation to enhance the management of risks from climate change, and to support its customers in the move towards a low carbon economy.

The Syndicate's (re)insurance products support climate change resilience; protecting society from the physical risks from climate change through underwriting classes of business that help rebuild buildings and wider communities after natural disasters. In addition, IQUW is committed to reduce and eliminate by 2030, its exposure to thermal coal-fired power plants, thermal coal mines, oil sands and new arctic energy exploration activities across its insurance offerings and investment holdings.

The company is putting in place a 3-year ESG plan to progress further towards being a sustainable insurer that will cover the transition of the underwriting portfolio, tracking of carbon footprint across operational activity, investment management strategy, scenario modelling and integration into the Risk Management Framework.

Employee matters

All staff in the UK are employed by IQUW Administrative Services Limited ("IQ ASL") and the full staff cost disclosures are included in the notes to the accounts. Amounts are recharged to the Syndicate depending on the work performed and resources used.

Principal Risks and Uncertainties

The following summarises some of the risks to which the Syndicate is exposed and which are discussed in note 5.

Principal risk	Impact	Management and mitigation
Insurance risk, including underwriting risk and reserving risk	The predominant risk to which the Syndicate is exposed is insurance risk, which is assumed through the underwriting process, namely: fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. Risks are categorised into (a) underwriting risk including the risk of catastrophe and systemic insurance losses, and (b) reserving risk being the risk that provisions held to cover insurance claim losses turn out to be insufficient. On underwriting risk, the Syndicate is especially exposed to the impact of losses from individual events or catastrophes and from the potential aggregation of risks exposed to the same event. On reserving risk, the 2021 and 2022 YOA have material exposure to Russia-Ukraine. On the 2020 and prior underwriting years of Syndicate 1856 have material exposure to losses arising from the COVID pandemic.	The Board sets the Syndicate's underwriting strategy and risk appetite, seeking to benefit from identified opportunities considering other relevant anticipated market conditions. Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures, and line of business diversification parameters are prepared and reviewed by management. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite. Estimates of losses arising from realistic disaster events using statistical models are used to manage exposures within risk appetite thresholds. The Syndicate purchases reinsurance to manage underwriting risk. The Syndicate undertakes both an internal and external, independent actuarial review of the claim provisions. The provision estimates are subject to regular and rigorous review by management and the final provision approved by the Board. Booked reserves include a net margin of £9.8 million above the best estimate to mitigate the uncertainty within the estimates.
Financial risk, including credit risk, market risk and liquidity risk	The Syndicate is exposed to financial risk arising from its financial assets, namely that investment income may be insufficient to fund its obligations. This risk is categorised into: (a) credit risk; (b) market risk: and (c) liquidity risk.	The Syndicate's core business is to accept insurance risk, while its appetite for other risks is low. Acceptable levels of credit risk are achieved by placing limits on exposure to singular and group counterparties, and to geographical and industry segments. Within investments, counterparty credit risk is mitigated by concentrating debt and fixed income investments in high quality instruments. The Syndicate engages external investment managers to actively manage the market risk associated with financial investments. Adequate liquidity is continually assessed by the Syndicate to ensure at least a threshold of liquid assets is always readily available.

Operational Risk including regulatory risk	The Syndicate is exposed to the risk of loss from people, processes or systems, or external events with origins outside the scope of other risk categories. IQUW SML actively monitors and controls its operational risks.	The Syndicate's core business is to accept insurance risk, while its appetite for other risks is low. IQUW SML actively monitors and controls its operational risks and has an ongoing focus on safeguarding the well-being of its employees, serving its brokers and policyholders, and preserving operational continuity.

The most significant risks that have or are emerging that have an impact on the Syndicate are set out below.

Catastrophes and large losses

The predominant risk to which the Syndicate is exposed is insurance risk, which is assumed through the underwriting process. The types of policies written by the Syndicate means that it is especially exposed to the impact of losses from individual events or catastrophes and from the potential aggregation of risks exposed to the same event. The Syndicate manages its exposure through a number of techniques depending on the nature of the perils, including setting tolerances against realistic disaster scenarios, probabilistic aggregate exposure modelling and limits for geographical regions / industries.

Ukraine-Russia Conflict

The 2021 and 2022 underwriting years of Syndicate 1856 are exposed to claims relating to the Ukraine-Russia Conflict. Through its insurance and reinsurance portfolios, the Syndicate has exposure to war on land and contingent aviation war and hull coverage for lessors. Scenarios have been modelled based on splits between contingent Hull War and War on Land, including consideration of cancellation clause impacts. The nature of any losses arising from the conflict is an uncertainty for the Syndicate's total reserves but does not increase that uncertainty significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. Gross reserves are currently within the reinsurance programme so adverse development is unlikely to materially impact the net position.

The booked reserves for these losses as at 31 December 2022 are £43.5 million gross of reinsurance and £19.7 million net of reinsurance.

Economic Uncertainty Risk including Inflation Risk

The risk of economic disruption impacting financial markets has heightened due to the impact of post-Covid-19, the Ukraine invasion and the actions taken by the Governments. Central banks around the globe have reacted to the significant rises in inflation by increasing interest rates that have seen record highs since the beginning of the Ukraine-Russia conflict. These factors have resulted in volatility in the capital markets leading to the downgrading of corporate bonds and subsequent investment losses.

This has the potential to impact the underwriting performance through economic inflation, which has been relatively benign for some time and could see inflation increases held at a higher rate in future years.

The 2023 business plans account for higher inflation that will be closely monitored for portfolio mix change, impact to claim costs to ensure price adequacy.

We have explicitly considered economic and excess inflation in the reserving process when setting the best estimate reserves as historical data is not likely to be representative of the current environment and traditional reserving techniques do not address this. We have allowed for both increases to outstanding claims and IBNR claims using the following approach:

- Uplifting outstanding claims reserves by a set factor (at class of business underwriting year level). This factor was derived by weighting calendar year inflation assumptions with the expected proportion of future claims to be paid in each calendar year. The expected pattern of claims payments was derived using relevant market risk code triangles at a class of business level.
- For IBNR claims the Managing Agent has uplifted the initial expected loss ratios ("IELRs") used in the reserving model. This uplift was estimated by projecting relevant market risk code triangles to ultimate, pre an allowance for the estimated inflation shock. This projection was used to derive relevant IELRs at a class of business level. The exercise was then repeated with the inflation shock applied (on a calendar year basis), to estimate an uplift to the IELRs used in the reserving model.

Climate change risk

The Syndicate's underwriting performance is exposed to the physical risk of climate change from a potential increased frequency or severity of physical hazards because of global temperature increases. This impacts the property and marine classes especially. Further, there are elements of the portfolio that may be exposed to transition risk from the resulting economic transition following potential regulator or government intervention, and liability risk from potential increased litigation considering climate change in investment management practices or increases in other liability claims.

Directors' interests and interests in other Group Companies

The directors of IQUW SML who were in office during the year and up to the date of signing the financial statements were:

Francois-Xavier B Boisseau – Independent Non-Executive Chairman
Peter A Bilsby – Chief Executive Officer
Catherine M E Farnworth – Chief Risk Officer
Michele J Faull – Independent Non-Executive Director
Daniel P Flueckiger – Non-Executive Director
Martin Hall – Active Underwriter Syndicate 218
David J Harris – Independent Non-Executive Director
Richard A Hextall – Group Chief Financial Officer (appointed 29 July 2022)
David E Morris – Group Director of Underwriting (appointed 26 May 2022)
Nathan R Ott – Non-Executive Director
Heather I Thomas – Independent Non-Executive Director
Ryan R Warren – Chief Financial Officer (resigned 30 June 2022)

Disclosure of information to the auditors

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

Syndicate auditors

The Syndicate's auditors, PricewaterhouseCoopers LLP, are deemed reappointed under the provisions of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Annual general meeting ("AGM")

Notice is hereby given that the managing agent does not propose holding a Syndicate AGM this year unless objections to this proposal or the intention to reappoint the auditors are received from Syndicate members by 30 April 2023.

By order of the Board:

Peter Bilsby
Director
27 February 2023

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the managing agent's report and the 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 annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The 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 annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate Annual Accounts; and
- 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 managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the 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 auditor's report to the members of Syndicate 1856

Report on the audit of the syndicate annual accounts

Opinion

In our opinion, Syndicate 1856's Syndicate Annual Accounts:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2022 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Annual Accounts (the "Annual Report"), which comprise: the balance sheet - assets and the balance sheet – liabilities, both as at 31 December 2022; statement of comprehensive income – technical account for general business, statement of comprehensive income – non-technical account, the cash flow statement, and the statement of changes in members' balances 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 9, we have provided no non-audit services to the syndicate in the period under audit.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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 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 2022 is consistent with the syndicate annual accounts and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

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

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Based on our understanding of the syndicate and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of 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 posting of inappropriate journals and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, and the Syndicate's compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of any matters reported on the managing agent's whistleblowing helpline and management's investigation of such matters;
- Reviewing relevant meeting minutes including those of the Board, the Audit Committee, the Risk Management Committee, the Reserving Committee, and correspondence with regulatory authorities, including Lloyd's, the Financial Conduct Authority and the Prudential Regulatory Authority;
- Challenging assumptions and judgements made by management in their significant accounting estimates, for example, in relation to the valuation of the claims incurred but not reported included within claims outstanding and estimated premium income;

- Identifying and testing journal entries, in particular journals with specific risk characteristics including unusual account combinations, journals posted by senior management and backdated journals over specific periods; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing.

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body 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.

Sean Forster (Senior statutory auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2023

Statement of comprehensive income – technical account for general business

	Note	2022 £000	2021 £000
Earned premium, net of reinsurance			
Gross premium written	6	544,013	189,991
Outward reinsurance premium		(103,554)	(23,862)
Net premium written		440,459	166,129
Change in the provision for unearned premium			
Gross amount		(119,915)	(40,656)
Reinsurers' share		11,846	(1,997)
Change in the net provision for unearned premium	13	(108,069)	(42,653)
Earned premium, net of reinsurance		332,390	123,476
Allocated investment return transferred from non-technical account	7	586	55
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(129,204)	(89,794)
Reinsurers' share		16,346	9,509
Net claims paid	14	(112,858)	(80,285)
Change in the provision for claims:			
Gross amount		(191,624)	(23,575)
Reinsurers' share		64,410	18,775
Change in the net provision for claims	14	(127,214)	(4,800)
Claims incurred, net of reinsurance		(240,072)	(85,085)
Net operating expenses	8	(101,359)	(49,036)
Balance on the technical account for general business		(8,455)	(10,590)

All amounts relate to continuing operations.

The notes on pages 24 to 56 form an integral part of these annual accounts.

Statement of comprehensive income – non- technical

	Note	2022 £000	2021 £000
Balance on the technical account for general business		**(8,455)**	(10,590)
Investment return:			
Investment income	7	**2,024**	467
Unrealised losses on investments	7	**(1,407)**	(257)
Realised gains/(losses) on investments	7	**13**	(134)
Investment expenses and charges	7	**(44)**	(21)
Total investment return		**586**	55
Allocated investment return transferred to general business technical account		**(586)**	(55)
Foreign exchange (loss)/gain	12	**(2,812)**	1,841
Loss for the financial year		**(11,267)**	(8,749)
Foreign currency translation differences	12	**(2,415)**	(977)
Total recognised losses in the financial year		**(13,682)**	(9,726)

The notes on pages 24 to 56 form an integral part of these annual accounts.

Balance sheet - assets

	Note	2022 £000	2021 £000
Investments			
Financial investments	11	**177,580**	66,921
Deposits with ceding undertakings		**108**	276
		177,688	67,197
Reinsurers' share of technical provisions			
Provision for unearned premium	13	**23,193**	9,816
Claims outstanding	14	**139,468**	63,837
		162,661	73,653
Debtors			
Debtors arising out of direct insurance operations	16	**74,634**	37,019
Debtors arising out of reinsurance operations	17	**109,286**	32,408
Other debtors	18	**4,156**	30
		188,076	69,457
Other assets			
Cash at bank and in hand		**30,392**	14,619
Overseas deposits	11	**26,472**	5,328
		56,864	19,947
Prepayments and accrued income			
Accrued interest and rent		**23**	23
Deferred acquisition costs	15	**47,503**	21,536
Other prepayments and accrued income		**4,238**	1,749
		51,764	23,308
Total assets		**637,053**	253,562

The notes on pages 24 to 56 form an integral part of these annual accounts.

Balance sheet – liabilities

	Note	2022 £000	2021 £000
Capital and reserves			
Members' balances		**(37,460)**	(22,086)
Technical provisions			
Provision for unearned premium	13	**222,612**	89,149
Claims outstanding	14	**383,632**	166,393
		606,244	255,542
Creditors			
Creditors arising out of direct insurance operations	19	**2,076**	-
Creditors arising out of reinsurance operations	20	**59,893**	15,378
Other creditors	21	**6,299**	4,246
		68,268	19,624
Other creditors			
Accruals and deferred income	22	**1**	482
Total liabilities		**637,053**	253,562

The notes on pages 24 to 56 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 18 to 23 were approved by the Board on 27 February 2023 and signed on behalf of the Syndicate's managing agent by:

Richard Hextall
Finance Director

27 February 2023

Statement of changes in members' balances

	2022 £000	2021 £000
Members' balances brought forward at 1 January	**(22,086)**	(51,027)
Recognised loss for the financial year	**(13,682)**	(9,726)
(Refund)/ receipt of loss from members' personal reserve fund	**(4,248)**	4,093
Cash call	**-**	34,574
Exchange difference	**2,556**	-
Total liabilities	**(37,460)**	(22,086)

The refund to members of £4.3m in the calendar arises from an overcollection from the members.

Members participate in syndicates by reference to years of account and their ultimate result. Assets and liabilities are assessed with reference to policies incepting in that year of account.

The notes on pages 24 to 56 form an integral part of these annual accounts.

Cash flow statement

	Note	2022 £000	2021 £000
Net cash flows from operating activities			
Loss for the financial year		**(11,267)**	(9,726)
Adjustments for movement in general insurance unearned premium and outstanding claims	13	**350,702**	65,815
Movement in reinsurers' share of unearned premium and outstanding claims	13	**(89,007)**	(17,768)
Investment return	7	**(586)**	(55)
Movement in other assets/(liabilities)		**(100,401)**	(42,394)
Net cash inflows/(outflows) from operating activities		**149,441**	(4,128)
Net cash flows from investing activities			
Purchase of equity and debt instruments		**(110,659)**	(20,691)
Investment income received		**2,037**	339
Other	23	**(20,978)**	(5,602)
Net cash used in investing activities		**(129,600)**	(25,954)
Net cash flows from financing activities			
Distribution loss / open year cash calls made		**(4,248)**	38,667
Net cash (used in)/ generated from financing activities		**(4,248)**	38,667
Net increase in cash and cash equivalents		**15,593**	8,585
Cash and cash equivalents at the beginning of the year		**14,619**	5,700
Foreign exchange on cash and cash equivalents		**180**	334
Cash and cash equivalents at the end of the year		**30,392**	14,619

The notes on pages 24 to 56 form an integral part of these annual accounts.

Notes to the accounts

1. General information

IQUW Syndicate Management Limited ("IQUW SML" or the "Managing Agent") is the managing agent of Syndicate 1856 (the "Syndicate"). The principal activity of the Syndicate is the transaction of general insurance and reinsurance business at Lloyd's and through the Lloyd's Brussels platform.

2. Statement of compliance and basis of preparation

This Annual Report has been prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" or "FRS 102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103") where applicable. The Syndicate continues to adopt the going concern basis in preparing the syndicate annual accounts.

These annual accounts have been prepared on a going concern basis, under the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

These annual accounts are presented in UK pounds sterling. The Syndicate's functional currency is US Dollars as that is the currency of the primary economic environment in which the Syndicate operates. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

3. Summary of significant accounting policies

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

(i) Gross premium written

Gross premium written comprises premium on contracts incepted during the financial year as well as adjustments made in the year to premium written in prior accounting periods. Premium is shown gross of brokerage payable and exclude taxes and duties levied on them.

Premium written includes an estimate of gross premium written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, use is made of information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy, and prevailing market conditions. Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts, or other policy amendments. Such adjustments are recorded in the period in which they are determined, and impact gross premium written in the income statements and premium received from insureds and cedants recorded on the balance sheet.

(ii) Unearned premium

Written premium is recognised as earned according to the risk profile of the policy. The provision for unearned premium comprises the proportion of gross and outwards reinsurance premium written, which is estimated to be earned in the following or subsequent financial years, computed using the daily pro-rata method weighted by the risk profile of the underlying policies.

(iii) Reinsurance premium ceded

Outwards reinsurance premium comprises premium on contracts incepted during the financial year. Outwards reinsurance premium is also disclosed gross of commissions and profit participations recoverable from reinsurers. Written outwards reinsurance premium are recognised as earned according to the coverage period and in line with the risk profile to which the inwards business being protected relates.

(iv) Investment return

Investment return comprises interest, realised and unrealised gains and losses on assets held at fair value through profit or loss.

Fair value realised gains and losses are calculated as the difference between net sales proceeds and fair value at acquisition.

Fair value unrealised gains and losses are calculated as the difference between the current fair value at the balance sheet date and the fair value at acquisition or at previous remeasurement date, adjusted for by excluding previously recognised unrealised gains and losses of those financial assets disposed of in the accounting period.

The returns on pooled investments arising in each calendar year are apportioned to years of account open during the calendar year in proportion to average funds available for investment on each year of account.

Investment return is initially recorded in the statement of comprehensive income – non technical account. A transfer is made from the statement of comprehensive income non-technical account to the statement of comprehensive income-technical account for general business. Investment return has been wholly allocated to the technical account as all investments relate to underwriting activities.

(v) Operating expenses

Where expenses are incurred by, or on behalf of, the managing agent for the administration of the Syndicate, these expenses are apportioned appropriately based on type of expense. Expenses that are incurred jointly are apportioned between IQUW SML and the Syndicate on bases depending on the amount of work performed, resources used, and the volume of business transacted. While Syndicate operating expenses are normally allocated to the year of account for which they are incurred, an agreement made in December 2020 between the corporate members which requires syndicate operating expenses for the 2020 and prior underwriting years to be allocated to the ongoing underwriting years except for some defined expenses which include employees' bonus costs, bona fide redundancy costs, claims handling costs, and managing agency fees and profit commission.

(vi) Taxation

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members 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 balance sheet under the heading 'Members' balances'. No provision has been made for any overseas tax payable by members on underwriting results.

(vii) Foreign currency

The functional currency of the Syndicate is US Dollars which is the currency of the primary economic environment in which the Syndicate operates.

Transactions denominated in foreign currencies are translated into US Dollars at the rates of exchange ruling at the date of the transaction. At the balance sheet date, monetary assets and liabilities are translated at the year-end rates of exchange. For foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

These annual accounts are presented in UK pounds sterling for which US Dollar amounts are converted at the closing rate at 31 December 2022.

Differences arising on translation of foreign currency amounts relating to insurance operations of the Syndicate are recognised in the profit/(loss) on financial exchange in the statement of comprehensive income - non-technical account. The translation of foreign currency transactions are included in the "foreign exchange (loss)/gain" and translation of presentational currency, where the translation of profits or losses at average rates are recognised in "currency translation differences".

(viii) Financial instruments

The managing agent has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial instruments are recognised in the balance sheet at such time as the Syndicate becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Syndicate's obligations specified in the contract expire, are discharged or cancelled.

Purchases and sales of financial assets are recognised on the trade date, which is the date the Syndicate commits to purchase or sell the assets.

Financial assets

The Syndicate has classified these assets into the following categories: financial assets at fair value through profit or loss, and loans and receivables.

Financial investments

Financial investment assets are designated at fair value through profit or loss on initial recognition where it is the Syndicate's strategy to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are also on a fair value basis. Note 11 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Investments carried at fair value through profit or loss are initially recognised at fair value with any associated transactions costs being expensed through the statement of comprehensive income – non-technical account.

If the market for an investment is not active, the valuation is based upon the net asset values of underlying holdings, which are independently sourced. The fair value of listed equity and debt securities is determined by reference to their quoted bid price at the balance sheet date.

Fair values for unlisted debt securities are estimated at the present value of their future cash flows, discounted at the market rate of interest at the reporting date.

Derivative financial instruments

Derivative financial instruments can be used to hedge the Syndicate's exposure to foreign exchange risk and the interest rate risk arising from investing activities. The investment managers use futures and option derivatives for investing activities. Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised in the statement of comprehensive income – non-technical account.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

Loans and receivables

Loans and receivables are recognised at amortised cost, being the fair value of consideration paid plus incremental direct transaction costs less any provision for impairments.

(ix) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(x) Deferred acquisition costs

The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred, and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. All other costs are expensed when they are incurred.

In respect of insurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts. Deferred acquisition costs are amortised over the life of the policy in line with the recognition of earned premium.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged through the profit and loss account.

(xi) Claims provision and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims incurred from previous years.

The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with a provision for related claims handling costs. The provision also includes an estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from premium rating and other pricing models of business accepted, together with assessments of underwriting conditions.

The reinsurers' share of provision for claims is based on the amount of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current rating of the reinsurance companies involved. Several statistical methods are used to assist in making these estimates.

The Directors consider that the provision for gross claims and related reinsurance recoveries are fairly stated based on the information currently available to them. However, the ultimate liability will vary because of subsequent information and future events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(xii) Unexpired risks provision

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

The provision for unexpired risks is calculated by reference to classes of business that are managed together. No account is taken of the relevant investment return arising from investments supporting the unexpired premiums and unexpired risk provisions.

(xiii) Reinsurance assets and liabilities

Amounts due to and from reinsurers are accounted for in a manner consistent with the insured policies and in accordance with the relevant reinsurance contract. Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, because of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. Objective factors that are considered when determining whether a reinsurance asset or group of reinsurance assets may be impaired include, but are not limited to the following:

- Negative rating agency announcements of reinsurers;
- Significant reported financial difficulties of reinsurers;
- Actual breaches of credit terms such as persistent late payment or actual default; and
- Adverse economic or regulatory conditions that may restrict future cash flows and asset recoverability.

Impairment losses on reinsurance assets are recognised in the profit and loss account.

(xiv) Bad debt

Management implemented a voluntary change in bad debt policy from a case-by-case basis to a general provision in addition to a specific provision reflects a more prudent approach to debt management.

A full bad debt general provision is made for doubtful debts when a debtor balance is more than 1 year outside credit terms; beginning with a 75% provision at 9 months overdue. In addition to the general provision, a top-up is made by way of a specific provision where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Syndicate. The provision is calculated on a case-by-case basis. This year the bad debt provision is £0.6 million, and this methodology applied in 2021 would have resulted in an additional bad debt provision of £0.9 million.

Further, a reinsurance bad debt provision which is 1.59% of RI Outstanding is held.

Bad debt provisions are recognised in the profit and loss account.

(xv) Pension costs

IQUW Administration Services Limited ("IQUW ASL") operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and are included within net operating expenses.

(xvi) Profit commission

No profit commission is charged by the managing agent. However, the previous managing agent, Arch Managing Agency Limited is entitled to a profit commission at a rate of 5% of the profit on the 2021 year of account.

(xvii) Deposit components of reinsurance contracts

Where a deposit component exists in a reinsurance contract it is not unbundled and is recorded as part of the reinsurance assets. Any interest payable on the deposit component is accrued annually at the effective interest rate.

4. Judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

The following judgements, estimations and assumptions have had the most significant effect on amounts recognised in the financial statements.

(i) Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. The carrying amount of the liability is disclosed in note 14. For general insurance contracts, estimates are made for the expected ultimate cost of claims notified at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided. The estimation of these claims is based on historical experience projected forward, and where the syndicate does not have sufficient historical experience this is supplemented with other data sources such as relevant market loss data. The Syndicate's estimate of claims and related claims handling costs is mainly assessed through the application of several commonly accepted actuarial projection methodologies based on the following:

- paid claims development, where payments to date are extrapolated based upon market data and observed development of earlier years;
- the development of claims based on seasonally adjusted exposure curves;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected ultimate loss ratios;
- Quarterly underwriter updates on expected premium and associated rating assumptions.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from all the Syndicate's reinsurance arrangements, having due regard to collectability. Claims provisions are subject to regular review, both within the Syndicate and externally.

The Syndicate's management discusses and challenges the actuarial best estimate and selected booked claims provisions at the quarterly Reserve Committee ("RC") and at the Audit Committee ("AC"), whose membership includes non-executive directors with significant insurance experience. External actuaries are also engaged to calculate an independent best estimate of the ultimate cost of claims as at each 31 December and present a Statement of Actuarial Opinion ("SAO") against which the Syndicate's best estimate is assessed.

The total gross estimate for incurred but not reported losses as at December 2022 is £262.9 m (2021: £104.9m). The total net estimate for incurred but not reported losses as at December 2022 is £178.6m (2021: £73.8m).

Major catastrophe's, both man-made and natural, and specific large losses are reviewed separately, and specific reserves are set. These reserves are set with input from the actuarial, claims and underwriting teams using market knowledge and historical experience.

A management margin is set, over and above the actuarial best estimate net reserves, non-cat only, to allow for inherent uncertainty within the reserves. The management margin is set at an uplift above actuarial best estimate claims reserve and is based on analysis of the reserve risk distributions and quantified uncertainties.

We have explicitly considered economic and excess inflation in the reserving process when setting the best estimate reserves as historical data is not likely to be representative of the current environment and traditional reserving techniques do not address this. The US CPI twelve month inflation to December 2022 was 6.5%. We have allowed for both increases to outstanding claims and IBNR claims using the following approach:

1. Uplifting outstanding claims reserves by a set factor (at class of business underwriting year level). This factor was derived by weighting calendar year inflation assumptions with the expected proportion of future claims to be paid in each calendar year. The expected pattern of claims payments was derived using relevant market risk code triangles at a class of business level.

2. For IBNR claims we have uplifted the Initial expected loss ratios (IELRs) used in our reserving model. This uplift was estimated by projecting relevant market risk code triangles to ultimate, pre an allowance for the estimated inflation shock. This projection was used to derive relevant IELRs at a class of business level. The exercise was then repeated with the inflation shock applied (on a calendar year basis), to estimate an uplift to the IELRs used in our reserving model.

(ii) Premium estimates

Gross premium written is initially based on estimated premium income ("EPI") of each contract. EPI is based on information provided by the brokers, policyholders, coverholders, past underwriting experience, and the contractual terms of the policy. Uncertainty arises because EPI could be different to the signed premium ultimately received. This risk is mitigated by detailed reviews of EPI and signed premium and regular reviews that coverholder income is coming through as expected.

Premium in respect of insurance contracts underwritten under binding authorities is booked as the underlying contracts incept. Premium is earned on a pro-rata basis that is seasonally adjusted for the risk exposure of the policy. The carrying value amount of the unearned premium is disclosed in note 13.

Gross premium written includes an estimation for reinstatement premium which is determined based on incurred losses held in the technical provisions.

(iii) Outward reinsurance contracts from related parties

The Syndicate purchased several outwards quota share reinsurance contracts with Humboldt Re Limited across the 2016 to 2020 underwriting years. Humboldt Re is a related counterparty as Humboldt Corporate Member Limited is a member of the Syndicate. The following table summarises the balances owed to and from these related counterparties.

Outwards reinsurance balances held at 31 December for Humboldt Re Limited and Kelvin Re Limited

£ millions	**2022**	2021
Ceded premium unpaid	(1.5)	(8.4)
Outstanding on gross paid claims	6.3	8.1
Outstanding on gross outstanding claims	3.4	3.2
Outstanding on gross IBNR claims	1.2	3.1
Total	**9.4**	6.0

**following the RITC of 2020&P into the 2021 YOA, Humboldt Re will cease to be a member of s1856*

5. Risk Management

The Syndicate's overall appetite for accepting and managing varying classes of risk is defined by the IQUW SML Board. The Board has developed a governance framework and has set risk management policies and procedures which include risk identification, risk measurement, risk management and mitigation, and risk reporting. The objective of these policies and procedures is to protect the Syndicate's members, policyholders and other stakeholders from negative events that could hinder the Syndicate's delivery of its contractual obligations and its achievement of sustainable profitable performance.

The Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Risk and Compliance Committee ("RCC"). Ongoing compliance is monitored through the Internal Audit function, which is shared with other IQUW entities, and which has operational independence, a charter and clear upwards reporting structures back into the Audit Committee ("AC") and Board. The Risk Management Function ("RMF") coordinates the risk management policies and procedures and supports the Board and the RCC.

The risk appetites and tolerances are set considering risk capacity, prevailing regulatory and legislative requirements, risks associated with target markets, and the fair treatment and protection of customer and stakeholder interests. Risk metrics and measures of the business are monitored against the risk appetites and tolerances and reported to the RCC and Board quarterly.

The risk management and control framework reflects the three lines of defence approach, summarised as follows:

- Line 1: Business units operating within a framework of internal controls underpinned by policies, procedures, and senior management oversight with direct responsibility for risk management and controls;
- Line 2: Risk Management, Governance and Compliance functions, ensure that the risk management framework is effective and that the Syndicate operates within its legal and regulatory boundaries. Employees in the second line coordinate, facilitate and oversee the effectiveness and integrity of the risk management framework. As a key input to decision making, the risk management framework focusses on assuring the Board where the risk profile is in line with expectations, escalating all material risk issues to the Board, and providing input to, challenge and oversight of first line decision making; and
- Line 3: Internal Audit provides independent assurance to the Board via the AC as to the effectiveness of the internal control environment. Employees in the third line provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the framework.

The principal sources of risk relevant to the Syndicate fall into three broad categories: insurance risk, financial risk and operational risk.

Insurance risk

The predominant risk to which the Syndicate is exposed is insurance risk, which is assumed through the underwriting process. Insurance risk is defined as the risk of fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. Insurance risk can be subcategorised into: (a) underwriting risk including the risk of catastrophe and systemic insurance losses, and the insurance cycle and competition; and (b) reserving risk.

(a) Underwriting risk

Underwriting risk is defined as the risk that insurance premium will not be sufficient to cover future insurance claims and associated expenses. Underwriting risk also encompasses people, process and system risks directly related to underwriting.

The Board sets the Syndicate's underwriting strategy and risk appetite, seeking to benefit from identified opportunities considering other relevant anticipated market conditions.

The Syndicate aims to manage underwriting risk:

- to achieve acceptable profits and return on equity by ensuring that insurance risks are carefully selected in accordance with the underwriting strategy and risk appetite tolerances, underwritten in accordance with risk strategy and priced to reflect the underlying risk; and
- to mitigate insurance risk using optimal reinsurance arrangements.

(a)(i) Underwriting strategy

Specific underwriting objectives such as aggregation limits, reinsurance protection thresholds, geographical disaster event risk exposures, and line of business diversification parameters are prepared and reviewed by the IQUW SML management team to translate the Board's underwriting strategy into specific measurable actions and targets. These actions and targets are reviewed and approved in advance of the underwriting year. The Board continually reviews its underwriting strategy throughout the course of each underwriting year considering evolving market pricing and loss conditions, and as opportunities present themselves.

The Syndicate's underwriters and IQUW SML management consider underwriting risk at an individual contract level and from a portfolio perspective where the risks assumed in similar classes of policies are aggregated and the exposure evaluated considering historical portfolio experience and prospective factors.

The delegation of underwriting authority to specific individuals, both internally and externally, is subject to regular review. All underwriting staff and binding agencies are set strict parameters in relation to the levels and types of business they can underwrite, based on individual levels of experience and competence. These parameters cover areas such as maximum sums insured per insurance contract, maximum gross premium written, and maximum aggregated exposures per geographical zone and risk class. All delegations are strictly controlled through these underwriting guidelines and limits, and extensive monitoring, review, and auditing of the agencies.

The Syndicate compiles estimates of losses arising from realistic disaster events using statistical and/or meteorological models alongside input from the underwriters. They also reflect the areas that represent significant exposures for the Syndicate. The events are extreme and therefore mostly untested, which increases the risk that estimates may prove inadequate because of incorrect assumptions, model deficiencies, or losses from unmodelled risks.

Property reinsurance

The property reinsurance inwards acceptances are primarily focussed on large property risk portfolios held by other insurance companies in the USA, Japan, Europe, Australasia, and Canada. This business is characterised by large claims arising from individual events or catastrophes, rather than the high-frequency, low-severity attritional losses associated with other business lines. Multiple insured losses can periodically arise out of a single natural or man-made occurrence. The main circumstances that result in claims against the property reinsurance inwards book are natural catastrophes, such as earthquakes or windstorms, and other events including fires and explosions. The performance of the portfolio is materially dependent on the frequency and severity of such events, which can be a material driver of the overall underwriting performance of any given year.

During 2022, the maximum gross line size was US Dollar 75 million.

Property insurance

The property insurance portfolio is made up of both Direct and Facultative (D&F) and Delegated Authority (DA) business. The DA portfolio comprises both commercial and residential property exposures, almost exclusively throughout North America and Canada, whilst D&F targets business from a variety of occupancies and geographies. The portfolio is exposed to natural and man-made catastrophes, large loss events or attritional claims arising from conventional hazards such as fire and flooding.

During 2022, the maximum gross line size was US Dollar 10 million.

Professional lines

This division includes Directors and Officers ("D&O"), Financial Institutions liability and Warranty and Indemnity Cover. The D&O account focusses on primary and low excess layers for publicly traded companies, predominantly those listed in the USA. The Financial Institutions account provides cover including bond and crime, professional indemnity, directors' and officers', and investment managers' insurance for financial institutions. Claims typically arise from incidents such as errors and omissions attributed to the insured, professional negligence, improper management, and actual or alleged wrongful acts. Given its nature, some parts of the portfolio are potentially exposed to heightened claims activity in the event of a recession or other adverse macroeconomic conditions.

During 2022, the maximum gross line size was US Dollar 6 million.

Energy

The energy class provides cover for downstream energy and upstream energy risks. The products cover fixed and moveable assets such as energy platforms and installations, refineries and plants, pipelines, and other infrastructure. These assets are typically exposed to natural catastrophes, large loss events, or attritional claims arising from conventional hazards such as collision, flooding, and fire.

During 2022, the maximum gross line size was US Dollar 60 million.

Cyber

The Cyber product provides cover for losses suffered due to data breaches and other cyber events such as ransomware and malware. It covers third party liability from a security event including class actions, and first party costs including IT forensics, PR, notification & credit monitoring for data subjects impacted by an event, cyber extortion, regulatory actions & business interruption from both a security or system failure incident.

During 2022 the maximum gross line was US Dollar 7.5 million

Political violence, terrorism, war

This division focusses on political violence, terrorism, and war risks across a broad range of occupancies and diversified globally. Claims may arise from losses suffered from the seizure of ships, aircraft, and other vessels and stock in transit, hijacking, piracy, physical damage during war, and liability to passengers and third parties. Political violence insurance covers the loss or damage to fixed and moveable property from terrorist acts, acts of sabotage, riots, strikes, civil commotion, malicious damage, insurrection, revolution, civil war, or counterinsurgency.

During 2022, the maximum gross line size was US Dollar 50 million.

Political risk and contract frustration

The political risks and contract frustration products provide cover for the financial losses arising because of adverse political events affecting the insured's interests. This business is exposed to changes of government or other adverse political events that could mean the insured is deprived of the use or benefit of their assets or investments, including because of confiscation, expropriation, nationalisation and deprivation, and contract cancellation. The period of risk exposure on such contracts could be up to 15 years, but the portfolio average is expected to be in the region of 5 years.

During 2022, the maximum gross line size was US Dollar 25 million.

Crisis Management

The Crisis Management offering focuses primarily on Product Recall. Product recall insurance protects businesses from the first-party and third-party losses associated with products which have been contaminated. The main perils covered include direct recall costs, replacement costs, loss of revenue or contract, consultancy costs, and third-party financial loss.

During 2022, the maximum gross line size was US Dollar 15 million.

Marine liability

The Syndicate's marine liability and energy liability offerings provide cover to protect shipping-related and energy-related businesses against physical loss or damage to third parties or injury to crew. These risks are typically exposed to natural catastrophe, large loss events or attritional claims arising from conventional hazards such as collision, fire, and flooding.

During 2022, the maximum gross line size was US Dollar 35 million.

Marine cargo

The Syndicate provides cover for marine cargo and specie risks. The specie account focusses on fine art with elements of cash in transit, jewellers block and general specie. The cargo account consists of transit, storage/stock and excess stock. These risks are typically exposed to natural catastrophe, large loss events or attritional claims arising from conventional hazards such as collision, fire, and flooding.

During 2022, the maximum gross line size was US Dollar 25 million.

Specialty reinsurance

This division includes excess of loss covers for aerospace, terror, marine, energy, and composite reinsurance business. The business is characterised more by large claims arising out of individual events than high-frequency, low-severity attritional losses.

During 2022, the maximum gross line size was US Dollar 35 million (Aviation) & US Dollar 15 million (Marine energy composite).

(a)(ii) Outwards reinsurance

The Syndicate also manages underwriting risk by purchasing reinsurance. The classes of business expose the Syndicate to claims not only at individual risk level, but also at event level. The Syndicate therefore reinsures a portion of the risks that it underwrites to control its exposure to claims and to protect its capital resources. Reinsurance protections, such as excess of loss and quota share covers, are purchased to mitigate the effect of individual large losses, catastrophes and concentrations of risk beyond the risk appetite approved by the Board. The scope and type of reinsurance protection purchased may change depending on the extent and competitiveness of cover available in the market.

(b) Reserving risk

Reserving risk is defined as the risk that reserves set in respect of insurance claim losses are ultimately insufficient to fully settle these claims and associated expenses. The Syndicate's procedures for estimating the outstanding costs of settling insured losses at the balance sheet date, including claims incurred but not yet reported, are detailed in note 4(i).

The Syndicate aims to manage reserving risk:

- to minimise reserve volatility through robust reserving and application of actuarial modelling approaches; and
- to monitor reserve adequacy and performance on an ongoing basis

The Syndicate undertakes both an internal and external actuarial review of the claims' provisions, independent of the underwriting teams. The Statement of Actuarial Opinion ("SAO") on claims reserve adequacy, required by Lloyd's, is provided by an independent external actuarial firm.

The Syndicate's provision estimates are subject to regular and rigorous review by senior management from all areas of the business. The final provision is approved by the IQUW SML Board.

Booked reserves include a net margin of £9.8 million, within this there is £5.6m risk premium in order to close the 2020 year of account into the 2021 year of account. This is the margin above the best estimate to further mitigate the uncertainty within the reserve estimates.

(b)(i) Sources of uncertainty in the estimation of future claim payments

For the inwards reinsurance lines, there is often a time lag between the establishment and re-estimation of case reserves and reporting to the Syndicate. The Syndicate works closely with the reinsured to ensure timely reporting and analyses industry loss data to verify the reported reserves. Additional reserves are provided for, particularly for claims incurred not reported (IBNR), especially for the longest-tailed lines such as Professional Lines where the final settlement may not occur until several years after the claim occurred. Actuarial projection methodologies are used to estimate ultimate claims based on the historical development patterns for paid and incurred claims. For the most uncertain claims, standard actuarial techniques are augmented with bespoke analysis, views of other business functions such as claims, underwriting and exposure management, and alternative data sources.

The recent heightened inflationary environment presents additional uncertainty, as settlement delays and increasing inflation may result in inadequate reserves being projected by actuarial techniques which do not explicitly take this environment into account. A number of techniques, including the development of a cash-flow model explicitly modelling inflation, and stress / sensitivity testing are employed by the internal actuarial team to quantify both the impact of the environment and the potential range of uncertainty.

(b)(ii) Development of claims provision

Historical claims development information is disclosed to illustrate the uncertainty inherent in the estimation of future claims payments. The tables below show the estimated ultimate cumulative claims, being incurred claims plus IBNR and claims handling costs, for each successive underwriting year at each balance sheet date.

The Syndicate seeks to set robust reserves and to minimise volatility in those reserves over time to mitigate the risk that reserves will be insufficient to meet future claims payments and related expenses. The tables below show the development of the estimated ultimate claims costs over an extended period to provide an illustration of the Syndicate's ability to accurately estimate the ultimate level of claims. It should be noted that the Syndicate's material change in strategy and management from the 2021 underwriting year means the development of prior years is less relevant to the 2021 and future underwriting years.

Analysis of claims development- gross of reinsurance

Underwriting year	2016	2017	2018	2019	2020	2021	2022	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
	Estimate of ultimate gross claims costs*:							
At end of reporting year	35,513	72,458	67,864	53,348	83,042	80,263	219,183	611,671
One year later	62,120	99,171	100,975	87,126	147,941	189,141	-	686,475
Two years later	68,359	103,643	107,765	90,331	153,391	-	-	523,489
Three years later	70,042	87,035	94,992	87,610	-	-	-	339,679
Four years later	50,097	81,068	93,471	-	-	-	-	224,636
Five years later	48,823	81,242	-	-	-	-	-	130,065
Six or more years later	48,966	-	-	-	-	-	-	48,966
Current estimate of cumulative claims	48,966	81,242	93,471	87,610	153,391	189,141	219,183	873,003
Cumulative payments to date	(48,158)	(77,670)	(86,838)	(73,457)	(100,805)	(61,015)	(41,429)	(489,371)
Total gross provision included in the balance sheet	808	3,572	6,633	14,153	52,586	128,126	177,754	383,632

Analysis of claims development- net of reinsurance

Underwriting year	2016	2017	2018	2019	2020	2021	2022	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
	Estimate of ultimate gross claims costs*:							
At end of reporting year	23,289	39,078	27,403	22,907	75,559	55,042	174,434	417,712
One year later	43,429	58,034	43,809	51,551	125,601	121,976	-	444,401
Two years later	47,764	62,051	50,298	57,773	126,907	-	-	344,792
Three years later	47,681	47,851	37,702	55,904	-	-	-	189,138
Four years later	37,717	46,596	40,172	-	-	-	-	124,485
Five years later	36,232	47,899	-	-	-	-	-	84,131
Six or more years later	36,463	-	-	-	-	-	-	36,463
Current estimate of cumulative claims	36,463	47,899	40,172	55,904	126,907	121,976	174,434	603,754
Cumulative payments to date	(35,416)	(43,507)	(36,853)	(51,099)	(95,770)	(55,517)	(41,429)	(359,590)
Total net provision included in the balance sheet	1,047	4,392	3,319	4,805	31,137	66,459	133,005	244,164

**the initial estimate of gross and net provision at the end of the reporting year is on an earned basis.*

(b)(iii) Sensitivity analysis of reserve estimates

Assumptions about future developments, outcomes or events underpin the setting of the Syndicate's booked reserves. The sources of estimation uncertainty are discussed in note 5(a)(ii). Sensitivity analysis of the key assumptions provides an illustration of the inherent uncertainty in the reserves as shown below.

The following illustrates the sensitivity of some of the key assumptions.

The Syndicate has material exposure to hurricane Ian. Hurricane Ian was the largest catastrophe loss in the syndicate in 2022 calendar year. This increases the uncertainty of the Syndicate's total reserves but not beyond the normal range of uncertainty for insurance liabilities at this stage of development. By performing a sensitivity analysis it was determined a 25% deterioration in the current selected gross ultimate loss would lead to a £1.1m increase to the net loss plus £5.5m increase to outwards RIPs.

The Syndicate also has material exposure to a series of MidWest storms. If a 25% deterioration on the current selected gross ultimate loss pick was assumed the net impact would be £3.9m on the 2021 year of account. This increases the uncertainty of the Syndicate's total reserves, but not beyond the normal range of uncertainty for insurance liabilities at this stage of development.

The Syndicate has exposure to the current heighted inflationary environment. As part of our reserving process we have explicitly considered inflation in the reserving process by applying an inflation shock on a calendar year basis to our reserving assumptions. If we assume the inflation shock is 2% worse for each future year the impact of net earned claims would be an increase £2.3m. Assuming the inflation shock is 2% less the impact of net earned claims would be a reduction of £1.8m.

The Syndicate, through its reinsurance and insurance portfolios, has exposure relating to Russia-Ukraine for to war on land and contingent war coverage for lessors. Various scenarios have been proposed based on splits between Hull and War as well as cancellation clause impacts. The gross exposures are fully in the reinsurance programme so future volatility will be borne by reinsurers with consequent increases to reinstatement premiums being borne by the syndicate.

The Syndicate has exposure on the 2019 and 2020 underwriting years to losses arising out of COVID and currently has reserved £21.6 million gross of reinsurance and £21.6 million net of reinsurance (2021: £19.1million gross and £19.1 million net). These losses primarily arose in property reinsurance. COVID is an unprecedented event for the insurance industry and the effects of it as a loss event remain ongoing and uncertain. The ultimate amounts of these claims are subject to a high degree of uncertainty. If the Covid estimates increased to include full exposure to reinstatements on a number of our UK and European Exposures the gross impact would be £18.5m, though this is seen as highly unlikely. However, an ADC cover of $20 million was put in place to close the 2020 YOA so uncertainty regarding the gross reserves are unlikely to lead to deterioration of the net position.

Financial risk

The Syndicate is exposed to financial risk through its ownership of financial instruments including financial liabilities. The Syndicate invests in financial assets to fund obligations arising from its insurance contracts and other liabilities.

The key financial risk for the Syndicate is that the proceeds from its financial assets and investment result generated therefrom are not sufficient to fund the obligations. The most important variables that could result in such an outcome relate to credit risk, market risk, and liquidity risk.

(c) Credit risk

Credit risk is the risk that a counterparty will suffer a deterioration in solvency or be unable to pay amounts in full when due. The primary sources of credit risk for the Syndicate are:

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

The Syndicate has a relatively low appetite for credit risk, as its principal business is to accept insurance risk. This approach is intended to protect the Syndicate's capital from erosion from credit risk so that it can meet its insurance liabilities. The Syndicate structures the acceptable levels of credit risk by placing limits on its exposure to singular and group counterparties, to geographical and industry segments and by reviewing the creditworthiness of reinsurers through credit ratings provided by rating agencies and other publicly available financial information detailing their financial strength and performance. Risk limits are subject to regular review. The Syndicate also mitigates credit risk through the requirement for certain counterparties to hold high-credit quality collateral in segregated accounts.

The IQUW SML credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties.

(c)(i) Investments

The Syndicate is exposed to counterparty risk with respect to cash and cash equivalents, and investments and other deposits.

The Syndicate mitigates counterparty credit risk by ensuring appropriate diversification of total invested assets across high-quality instruments. Investments are to be fully admissible for Lloyd's/PRA solvency purposes, primarily only in liquid securities and with counterparties that have a credit rating equal to investment grade or better.

The Syndicate imposes guidelines on its external investment managers in relation to the constituents of the investment portfolios. These guidelines specify the acceptable asset classes, duration, and credit ratings. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

(c)(ii) Analysis of counterparty credit risk

The following table summarises the Syndicate's significant credit risk for impacted assets:

2022	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	92,402	42,149	19,165	15	-	23,849	177,580
Cash at bank and in hand	-	-	30,392	-	-	-	30,392
Overseas deposits	6,839	1,610	1,039	965	2,356	13,663	26,472
Reinsurers' share of claims outstanding	-	75,865	62,217	-	-	-	138,082
Debtors arising out of reinsurance operations	354	549	28,586	-	1,237	78,560	109,286
Total	99,595	120,173	141,399	980	3,593	116,072	481,812

2021	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	34,894	-	32,027	-	-	-	66,921
Cash at bank and in hand	-	-	14,619	-	-	-	14,619
Overseas deposits	1,956	333	529	327	775	1,408	5,328
Reinsurers' share of claims outstanding	-	41,364	22,473	-	-	-	63,837
Debtors arising out of reinsurance operations	-	-	3,832	87	-	28,489	32,408
Total	36,850	41,697	73,480	414	775	29,897	183,113

The tables below provide information regarding the maximum credit risk exposure to these assets, together with the extent to which they are due, past due and impaired. Assets are classified as past due when the contractual payment is in arrears. An assessment is performed on all assets, based on the ageing of these assets, which may result in an impairment charge in the statement of comprehensive income if the Syndicate considers this to be appropriate.

2022	Neither due nor impaired £000	Past due up to 3 months £000	Past due 3 to 6 months £000	Past due 6 months to 1 year £000	Past due greater than 1 year £000	Past due and impaired £000	Total £000
Financial investments	177,580	-	-	-	-	-	**177,580**
Cash at bank and in hand	30,392	-	-	-	-	-	**30,392**
Overseas deposits	26,472	-	-	-	-	-	**26,472**
Insurance debtors	19,191	35,977	11,148	5,010	2,722	585	**74,633**
Reinsurers' share of claims outstanding	138,082	-	-	-	-	1,386	**139,468**
Debtors arising out of reinsurance operations	81,131	17,892	8,983	936	344	-	**109,286**
Other assets	79,222	-	-	-	-	-	**79,222**
Total	**552,070**	**53,869**	**20,131**	**5,946**	**3,066**	**1,971**	**637,153**

2021	Neither due nor impaired £000	Past due up to 3 months £000	Past due 3 to 6 months £000	Past due 6 months to 1 year £000	Past due greater than 1 year £000	Past due and impaired £000	Total £000
Financial investments	66,921	-	-	-	-	-	**66,921**
Overseas deposits	5,328	-	-	-	-	-	**5,328**
Cash at bank and in hand	14,619	-	-	-	-	-	**14,619**
Insurance debtors	31,983	1,457	1,487	1,147	-	945	**37,019**
Reinsurers' share of claims outstanding	55,039	-	-	-	8,064	734	**63,837**
Debtors arising out of reinsurance operations	31,680	107	326	295	-	-	**32,408**
Other assets	32,679	111	337	303	-	-	**33,430**
Total	**238,249**	**1,675**	**2,150**	**1,745**	**8,064**	**1,679**	**253,562**

(d) Market risk

Market risk is the risk of a variation in the value of financial institution deposits and financial investments, relative to the variation in the value of liabilities due to market movements. Market risk arises where the value of assets less liabilities changes because of movements in foreign exchange rates, interest rates, inflation rates and/or market prices.

The Syndicate engages external investment managers to actively manage the market risk associated with financial investments. Detailed guidelines imposed on the investment managers are in place and the IQUW SML Board and its investment committee regularly monitor performance and risk metrics.

(d)(i) Foreign currency risk

Most of the Syndicate's gross premium written is in US Dollars. Consequently, movements in the UK Pound Sterling against US Dollar exchange rate may have a material impact on its presented financial performance and position. The Syndicate's financial assets are denominated in the same currencies as its insurance liabilities to reduce currency exchange volatility. The profit/loss is distributed/collected in line with Lloyd's rules using a combination of UK Pound Sterling and US Dollars.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

2022	**GBP £000**	**USD £000**	**CAD £000**	**EUR £000**	**Other £000**	**Total £000**
Reinsurers' share of technical provisions	1,457	150,155	911	8,241	1,897	**162,661**
Insurance and reinsurance receivables	6,006	150,229	2,927	13,641	11,117	**183,920**
Financial investments	1,402	161,370	14,808	-	-	**177,580**
Cash in hand and at bank	5,384	1,607	-	6,784	16,618	**30,393**
Overseas deposits	15,821	1,851	2,667	-	6,133	**26,472**
Other assets	14,833	37,011	891	1,603	1,689	**56,027**
Total assets	44,903	502,222	22,204	30,269	37,454	**637,052**
Technical provisions	(33,479)	(516,664)	(8,944)	(20,625)	(26,532)	**(606,244)**
Insurance and reinsurance payables	(989)	(48,247)	(886)	(10,116)	(1,731)	**(61,969)**
Other creditors	(243)	(5,084)	(118)	(265)	(590)	**(6,300)**
Total liabilities	(34,711)	(569,995)	(9,948)	(31,006)	(28,853)	**(674,513)**
Currency Adjustments	-	-	-	-	-	**-**
Members' balances by currency	**10,192**	**(67,773)**	**12,256**	**(737)**	**8,601**	**(37,460)**

2021	GBP £000	USD £000	CAD £000	EUR £000	Other £000	Total £000
Reinsurers' share of technical provisions	96	70,525	108	2,802	122	**73,653**
Insurance and reinsurance receivables	756	64,147	718	498	3,308	**69,427**
Financial investments	1,566	53,914	11,441	-	-	**66,921**
Cash in hand and at bank	4,171	-	-	2,658	7,790	**14,619**
Overseas deposits	1,702	634	1,571	-	1,421	**5,328**
Other assets	(59,131)	62,191	(4,436)	8,953	16,037	**23,614**
Total assets	(50,840)	251,411	9,402	14,911	28,678	**253,562**
Technical provisions	(8,101)	(222,618)	(5,343)	(7,568)	(11,912)	**(255,542)**
Insurance and reinsurance payables	1,553	(12,952)	-	(3,986)	7	**(15,378)**
Other creditors	(4,728)	-	-	-	-	**(4,728)**
Total liabilities	(11,276)	(235,570)	(5,343)	(11,554)	(11,905)	**(275,648)**
Currency Adjustments	60,094	(17,813)	4,375	(7,853)	(38,803)	**-**
Members' balances by currency	**(2,022)**	**(1,972)**	**8,434**	**(4,496)**	**(22,030)**	**(22,086)**

At 31 December 2022, the Syndicate used closing rates of exchange of £1: $1.20 and £1: €1.13 (2021: £1: $1.35 and £1: €1.19).

The Syndicate performs sensitivity analysis on a 10% strengthening or weakening of the presentational currency, UK pounds sterling, against the Euro and US Dollar. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities. A 10% strengthening (weakening) of the following currencies at 31 December would have increased (decreased) members' balances for the financial year by the amounts shown below:

(Decrease)/increase on members' balances	**2022 £000**	2021 £000
10% strengthening of the UK Pound	**927**	(6,903)
10% weakening of the UK Pound	**(1,132)**	5,648
10% strengthening of the Euro	**67**	373
10% weakening of the Euro	**(82)**	(305)

(d)(ii) Interest rate risk

The Syndicate undertakes a sensitivity analysis for interest rate risk to illustrate how changes in the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. An increase or decrease of 50 basis points in interest yields would result in a charge or credit to members' balances as set out below.

£ 000	Impact on loss for the year		Increase/(decrease) on members' balances	
	2022	2021	**2022**	2021
Shift in yield (basis points):				
50 basis points decrease	**462**	177	**462**	177
50 basis points increase	**(459)**	(227)	**(459)**	(227)
100 basis points decrease	**924**	n/a	**924**	n/a
100 basis points increase	**(914)**	n/a	**(914)**	n/a
200 basis points decrease	**1,858**	n/a	**1,858**	n/a
200 basis points increase	**(1,817)**	n/a	**(1,817)**	n/a

**this year the sensitivity analysis has been extended to include 100 & 200 basis points*

This is applied to the position as at 31 December 2022 and considers the full effect of mark to market movements, but without recognising any running yield benefit.

Insurance contract liabilities are not directly sensitive to the level of market interest rates, as they are discounted and contractually non-interest-bearing.

(e) Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Syndicate is exposed to daily cash outflows on its available cash resources, mostly for the settlement of claims arising from insurance contracts. Limits on the minimum level of cash and maturing funds available to meet such outflows are set to cover unexpected levels of claims and other cash demands. A sizeable proportion of the Syndicate's investments is in highly liquid assets that can be converted to cash at short notice without any significant capital loss or material expense. These funds are monitored by management daily.

2022	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	> 5 years £000	Total £000
Gross claims outstanding	-	169,155	157,136	46,423	10,918	383,632
Reinsurance creditors	-	59,893	-	-	-	59,893
Other creditors	-	8,374	-	-	-	8,374
Accruals and deferred income	-	1	-	-	-	1
Total	-	237,423	157,136	46,423	10,918	451,900

2021	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	> 5 years £000	Total £000
Gross claims outstanding	-	92,185	61,127	11,182	1,899	**166,393**
Reinsurance creditors	-	15,378	-	-	-	**15,378**
Other creditors	-	4,246	-	-	-	**4,246**
Accruals and deferred income	-	482	-	-	-	**482**
Total	-	**112,291**	**61,127**	**11,182**	**1,899**	**186,499**

(f) Climate change risk

The Syndicate's underwriting performance is exposed to the physical risk of climate change from a potential increased frequency or severity of physical hazards because of global temperature increases of 1.5 degrees or more. Further, there are elements of the portfolio that may be exposed to transition risk from the resulting economic transition following potential regulatory or government intervention, and liability risk from potential increased litigation considering climate change in investment management practices or increases in other liability claims.

(f)(i) Climate change risk profile of investments

The Syndicate monitors the financial risk of climate change on its investment portfolio. The Sustainalytics ESG ratings and carbon intensity are used where available to measure an assets resilience to long-term, industry material ESG risks. The Syndicate's portfolio is in a strong position in terms of both carbon intensity and preparedness for transition risk.

The Syndicate imposes guidelines on its external investment managers in relation to the constituents of the investment portfolios. These guidelines specify the acceptable asset classes, duration, and credit ratings. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

The table below shows the Syndicate portfolio's risk score. Where ratings are available, the Syndicate has assets with an overall ESG risk score of 18.5 (Low) vs 24.3 (Medium) for the benchmark.

2022	Portfolio market value £000	% of account measured	Environmental Risk Attribution	Social Risk Attribution	Governance Risk Attribution	**Total ESG risk score**
Syndicate 1856	**102,644**	**39.4%**	**17%**	**46%**	**37%**	**18.5**

2021	Portfolio market value £000	% of account measured	Environmental Risk Attribution	Social Risk Attribution	Governance Risk Attribution	**Total ESG risk score**
Syndicate 1856	66,886	44.5%	13%	46%	41%	17.4

The below table shows that the Syndicate's portfolio has a high proportion of assets categorised at the higher end of the Sustainalytics ESG Risk Ratings, with 92.9% categorised as Medium to Negligible.

Proportion of portfolio by Sustainability ESG risk rating	
ESG Risk Rating	**Syndicate 1856 %**
Negligible	**27.0**
Low	**30.6**
Medium	**35.3**
High	**6.6**
Severe	**0.5**
Total	**100.0**

The Syndicate's portfolio has 84.0% of assets where the rating is available that produce less than 100 tons CO2/$million.

Proportion of portfolio by carbon intensity		
Scope 1 & 2 (tCO2e/Mil USD)	**Syndicate 1856 %**	Benchmark %
0-100	**84.0%**	72.0%
100-500	**7.9%**	13.3%
500-1,000	**0%**	2.6%
1,000+	**8.1%**	7.8%
Data not disclosed	**0%**	4.3%
Total	**100.0**	100%
Carbon Intensity	**306**	315

(g) Operational risk

Operational risk is the risk of loss from people, processes or systems, or external events with origins outside the scope of other risk categories. IQUW SML actively monitors and controls its operational risks. The nature of the risk means that it can impact all areas of the business. Examples of key operational risks for the Syndicate include IT performance and stability, cyber security, and the delivery of major projects.

Key activities to manage operational risk across the Syndicate include:

- Quarterly assessment of the risk register across all areas of the business to identify instances where the risk profile has increased, and/or areas where additional mitigation may be necessary to control the risk within tolerance;
- The Operational Committee reviewing key activities across the business, with governance, reporting and escalation paths for operational risk;
- Independent second line and third line reviews of key controls designed to mitigate Operational risk; and
- Risk culture and management training to ensure continued awareness of operational risk for all employees.

6. Segmental Analysis

An analysis of the technical account balance before investment return is set out below:

2022	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Motor (Other Classes)	7,894	4,916	(3,380)	(60)	(1,536)	(60)
Marine	6,753	7,146	(5,865)	(1,862)	292	(289)
Aviation	4,721	3,984	(2,993)	(1,027)	(6)	(42)
Transport	17,292	11,904	(7,977)	(2,985)	(626)	316
Energy-Marine	8,086	6,306	(4,570)	(1,632)	(107)	(3)
Energy Non-Marine	9,328	7,198	(5,119)	(1,782)	(212)	86
Fire and Other damage to Property	174,356	131,441	(92,364)	(32,558)	(4,518)	2,002
Third party liability	102,010	81,311	(58,126)	(19,402)	(2,493)	1,291
Pecuniary Loss	4,796	3,313	(2,224)	(831)	(172)	86
Total Direct	335,235	257,518	(182,617)	(62,138)	(9,376)	3,386
Reinsurance	208,778	166,580	(138,210)	(39,220)	(1,576)	(12,427)
Total	544,013	424,098	(320,828)	(101,359)	(10,952)	(9,041)

2021	Gross premium written £'000	Gross premium earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Marine	1,719	963	(554)	(302)	-	107
Aviation	622	1,367	(1,659)	(366)	199	(459)
Transport	215	121	(69)	(38)	-	14
Energy-Marine	2,653	1,470	(264)	(659)	(317)	230
Energy Non-Marine	943	476	1,555	(773)	(997)	261
Fire and other damage to property	51,026	43,003	(34,854)	(13,361)	1,581	(3,631)
Third party liability	51,199	33,560	(21,101)	(11,039)	(368)	1,052
Pecuniary Loss	196	110	(63)	(34)	-	13
Total Direct	108,573	81,070	(57,009)	(26,572)	98	(2,413)
Reinsurance	81,418	68,265	(56,360)	(22,464)	2,327	(8,232)
Total	189,991	149,335	(113,369)	(49,036)	2,425	(10,645)

The reinsurance balance is the aggregate total of reinsurance outwards balances included in the technical account.

The geographical analysis of gross premiums by destination as a proxy for risk location is as follows:

	2022 £000	2021 £000
UK	**128,941**	1,295
European Union member states	**28,972**	537
United States of America	**291,555**	73,387
Rest of the world	**94,545**	114,772
Gross premium written	**544,013**	189,991

7. Investment Return

All the Syndicate's investments are recognised at fair value through the profit and loss.

Investment income	**2022 £000**	2021 £000
Income from investments, cash, and other deposits	**2,023**	467
Gain /(loss) on realisation of investments	**13**	(134)
Total Investment Income	**2,036**	333
Unrealised losses on investments at fair value through profit or loss	**(1,407)**	(257)
Investment management expenses, including interest	**(43)**	(21)
Net investment income	**586**	55

The tables below present the average amounts of funds in the year per currency and the average investment return yields in the year.

Average amount of Syndicate funds available for investment during the year:	2022 £000	2021 £000
Sterling	**15,023**	5,344
Euro	**4,791**	2,440
US Dollar	**113,097**	47,202
Canadian Dollar	**15,563**	9,785
Australian Dollar	**9,775**	2,590
Japanese Yen	**6,259**	3,452
Total Syndicate funds available for investment	**164,508**	70,813

Annual investment yield	2022 %	2021 %
Sterling	**(0.36)**	1.79
Euro	**(0.02)**	(0.97)
US Dollar	**0.34**	(0.04)
Canadian Dollar	**1.63**	0.07
Australian Dollar	**-**	(0.24)
Japanese Yen	**-**	(0.53)
Total annual investment yield percentage	**1.59**	0.08

Syndicate funds include investments and cash. Syndicate funds are held in trust fund and short-term deposit accounts. On 31 December 2022 these were £234.4 million (2021: £86.7 million).

8. Net Operating Expenses

	2022 £000	2021 £000
Brokerage, commissions & other acquisition costs	**105,324**	46,794
Change in deferred acquisition costs	**(20,172)**	(10,076)
Administrative expenses	**10,364**	10,192
Members' standard personal expenses	**5,843**	2,126
Total	**101,359**	49,036

Brokerage and commission on direct business written was £59.4 million (2021: £26.8 million).

No profit commission is charged by IQUW SML as the managing agent. As the 2020 and 2021 years of account are loss-making, no commission was charged by Arch Managing Agency Limited (2021: £0.3 million).

Included in administrative expenses are staff costs of £2.6 million (2020: £15.2 million), which is analysed in note 10.

Administrative expenses include fees payable to the auditors and its associates (note 9).

9. Auditors' Remuneration

During the year the syndicate, obtained the following services	**2022 £000**	2021 £000
Fees payable to the auditors and its associates for the audit of the syndicate annual accounts and Lloyd's returns	**441**	310
Fees payable to the auditors and its associates for other services pursuant to legislation	**90**	85
Total	**531**	395

The above represents the Syndicate's share of the total audit fee. Fees payable to the auditors and its associates are included in administrative expenses (note 8).

10. Staff Costs

The Syndicate and the managing agent have no employees. Staff are employed by IQUW ASL. The Syndicate did not directly incur staff costs during the year (2021: nil). The following salary and related costs were recharged to the syndicate during the year:

	2022 £000	2021 £000
Wages and salaries	**17,979**	14,101
Social security costs	**2,337**	903
Other pension costs	**962**	210
Other	**2,418**	-
Total	**23,696**	15,214

The average number of staff employed by IQUW ASL and recharged to the Syndicate during the year was as follows:

	2022 FTE	2021 FTE
Administration and finance	**84**	53
Underwriting	**77**	33
Total	**161**	86

The Directors of IQUW SML received the following aggregate remuneration recharged to the Syndicate and included in net operating expenses:

	2022 £000	2021 £000
Directors' emoluments	**668**	164
Pension contributions	**26**	3
Total	**694**	167

The active underwriter received the following remuneration charged as Syndicate expense:

	2022 £000	2021 £000
Underwriter's emoluments	**355**	262
Total	**355**	262

Key management includes directors and senior management. The following emoluments were charged to the Syndicate:

	2022 £000	2021 £000
Salaries and other short-term benefits	**1,687**	871
Pension contributions	**41**	24
Total	**1,728**	895

11. Financial Investments

	Fair Value 2022 £000	Fair Value 2021 £000	**Cost 2022 £000**	Cost 2021 £000
Debt securities and other fixed income securities	**92,238**	20,739	**93,008**	20,739
Shares and other variable yield securities	**85,342**	46,182	**85,385**	47,396
Total	**177,580**	66,921	**178,393**	68,135

All financial investments in the current and prior financial year were carried at fair value through profit or loss. No financial assets in the current or prior financial year were classified as 'held for trading' under FRS 102.

Fair value hierarchy

The Syndicate has classified its financial investments using the fair value hierarchy in accordance with the FRS 102 amendments to "Fair value hierarchy disclosures" issued by the Financial Reporting Council on 8 March 2016.

The fair value hierarchy classifies financial instruments into Levels 1 through 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The classifications within the fair value hierarchy are defined as follows:

- Level 1 – Quoted price for an identical asset in an active market. This includes securities and financial investments that are priced based on unadjusted quoted prices in an active market for identical assets that can be accessed at the measurement date.
- Level 2 – Price of a recent transaction for an identical asset and valuation technique using observable market data. This includes securities and financial investments that are priced using valuation techniques based on direct or indirect observable market data, including market prices from recognised exchanges, broker-dealers, recognised indices, or pricing vendors.
- Level 3 – Valuation technique using unobservable market data. This includes securities and financial investments which are priced using valuation techniques incorporating unobservable market data.

2022	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	**83,940**	**-**	**1,402**	**85,342**
Debt securities and other fixed income securities	**48,699**	**43,539**	**-**	**92,238**
Overseas deposits	**10,471**	**16,001**	**-**	**26,472**
Total	**143,110**	**59,540**	**1,402**	**204,052**

2021	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	19,173	-	1,566	20,739
Debt securities and other fixed income securities	15,089	31,093	-	46,182
Overseas deposits	1,198	4,130	-	5,328
Total	35,460	35,223	1,566	72,249

Level 3 investments consist of loans made to the Lloyd's Central Fund to which a fair value adjustment has been applied based on the Lloyd's RT1 valuation model. The fund has been classed as equity as it is not tradeable and the repayment of the loan, and payment of interest thereon is at the discretion of the Corporation of Lloyd's. The table below sets out a reconciliation of the opening and closing balances for financial instruments classified under level 3 of the fair value hierarchy:

	2022 £000	2021 £000
Balance at 1 January	**1,566**	1,566
Purchases	**-**	-
Balance at 31 December	**1,402**	1,566
Unrealised losses in the year on securities held at the end of the year	**(164)**	-

The Syndicate measures the fair value of its financial assets based on prices provided by custodians and asset managers, who obtain market data from numerous independent pricing services. The pricing services used by the custodians obtain actual transaction prices for securities that have quoted prices in active markets.

For those securities which are not actively traded, the pricing service uses common market valuation pricing models. Observable inputs used in common market valuation pricing models including, but are not limited to, broker quotes, credit ratings, interest rates, and yield curves, prepayment speeds, default rates, and other such inputs which are available from market sources.

Cash and cash equivalents in the annual accounts comprise cash at bank and in hand and shares and other variable yield securities with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

12. Foreign exchange (loss)/gain

	2022 £000	2021 £000
Non-technical account foreign exchange (loss)/gain	**(2,812)**	1,841
Foreign exchange translation differences	**(2,415)**	(977)
Total	**(5,227)**	864

13. Technical Provisions – Unearned Premium

2022	**Gross**	**Reinsurer's share**	**Net**
	£000	**£000**	**£000**
At 1 January 2022	**89,149**	**(9,816)**	**79,333**
Premium written in the year	**544,013**	**(103,555)**	**440,458**
Premium earned in the year	**(424,098)**	**91,709**	**(332,389)**
Effect of movements in exchange rates	**13,548**	**(1,531)**	**12,017**
At 31 December 2022	**222,612**	**(23,193)**	**199,419**

2021	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2021	45,502	(11,685)	33,817
Premium written in the year	189,991	(23,862)	166,129
Premium earned in the year	(149,335)	25,859	(123,476)
Effect of movements in exchange rates	2,991	(128)	2,863
At 31 December 2021	89,149	(9,816)	79,333

14. Technical Provisions - Claims Outstanding

2022	**Gross**	**Reinsurer's share**	**Net**
	£000	**£000**	**£000**
At 1 January 2022	**166,393**	**(63,837)**	**102,556**
Claims incurred in the year	**320,828**	**(80,756)**	**240,072**
Claims paid during the year	**(129,204)**	**16,346**	**(112,858)**
Foreign exchange	**25,615**	**(11,221)**	**14,394**
At 31 December 2022	**383,632**	**(139,468)**	**244,164**

2021	Gross	Reinsurer's share	Net
	£000	£000	£000
At 1 January 2021	144,225	(44,201)	100,024
Claims incurred in the year	113,369	(28,284)	85,085
Claims paid during the year	(89,794)	9,509	(80,285)
Foreign exchange	(1,407)	(861)	(2,268)
At 31 December 2021	166,393	(63,837)	102,556

An unexpired risk reserve was not required at 31 December 2022. (2021: nil)

15. Deferred Acquisition Cost

	2022 £000	2021 £000
At 1 January 2022	**21,536**	11,037
Change in deferred acquisition costs	**20,172**	10,076
Foreign exchange	**5,795**	423
At 31 December 2022	**47,503**	21,536

16. Debtors arising out of direct insurance operations

	2022 £000	2021 £000
Amounts due from intermediaries		
Due within one year	**74,634**	37,019
Due after one year	**-**	-
Total	**74,634**	37,019

17. Debtors arising out of reinsurance operations

	2022 £000	2021 £000
Amounts due from intermediaries	**109,286**	32,408
Total	**109,286**	32,408

18. Other debtors

	2022 £000	2021 £000
Amounts due from IQUW group companies (due within one year)	**4,156**	**-**
Amounts due from Arcus 1856 Limited (due within one year)	**-**	30
Total	**4,156**	30

Amounts due from Arcus 1856 Limited were received in January 2022.

19. Creditors arising out of direct insurance operations

	2022 £000	2021 £000
Amounts due to intermediaries:		
Due to within one year	**2,076**	-
Total	**2,076**	-

20. Creditors arising out of reinsurance operations

	2022 £000	2021 £000
Amounts due to intermediaries:		
Due within one year	**59,893**	15,378
Total	**59,893**	15,378

21. Other Creditors

	2022 £000	2021 £000
Amounts due to IQUW group companies (due within one year)	**2,908**	4,095
Amounts due to Arch group companies (due within one year)	**-**	151
Ceded Commission Payable	**3,391**	-
Total	**6,299**	4,246

22. Accruals and Deferred Income

	2022 £000	2021 £000
Accrued expenses	**1**	482
Total	**1**	482

23. Other net cashflow from investing activities

Other net cashflow from investing activities of £20.9 million (2021: £5.6 million) comprises of overseas deposits and deposits with ceded undertakings.

24. Related Parties

IQUW Corporate Member Limited ("IQUW CML")

IQUW CML is a wholly owned subsidiary of IQUW IGL through which IQUW Holdings Bermuda Limited ("IQUW Group") conducts its underwriting business at Lloyd's. IQUW CML provides dedicated corporate capacity for the Syndicate as follows:

Year of account	Stamp participation £000
2023	**£563,284**
2022	**£400,286**
2021	**£187,980**

IQUW CML's share of the syndicate loss for the year is £12.2 million (2021: Profit £6.3 million).

IQUW Syndicate Services Limited ("IQUW SSL")

IQUW SSL is a wholly owned subsidiary of IQUW SML and acts as a service company for the Syndicate.

IQUW SSL became an appointed representative of the managing agent IQUW SML on 14 January 2005 and is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and PRA. The managing agent IQUW SML does not receive any direct income from IQUW SSL. No director of the managing agent IQUW SML has received any benefit for acting as a director of IQUW SSL.

IQUW SSL recharged the following expenses to the Syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) £000
2022 calendar year	**4,156**	**33,069**

Arch Managing Agency Limited ("AMAL")

Following Lloyd's approval, the managing agent responsibility for the Syndicate was novated effective 1 September 2021 from AMAL to IQUW SML.

AMAL recharged the following expenses to the Syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) £000
2022 calendar year	-	-
2021 calendar year	(151)	3,356

Humboldt Re Limited

The Syndicate purchased several outwards quota share reinsurance contracts with Humboldt Re Limited across the 2016 to 2020 underwriting years. In addition the syndicate also purchased whole account aggregate cover in the 2017 and 2018 calendar years of which Humboldt Re was one of the reinsurers.

These are related counterparties because Humboldt Re Limited is part of the same corporate group as Humboldt Corporate Member Limited that is a member.

Following the RITC of 2020 and prior years into the 2021 YOA, Humboldt Re ceased as a member of Syndicate 1856.

There is a total net amount (due from) of £3.1 million (2021: £6.0 million) as per note 4(iii) but excludes Kelvin Re Limited, which is expected to be recovered in full.

25. Syndicate Structure

The managing agent of the Syndicate is IQUW Syndicate Management Limited whose immediate parent undertaking is IQUW Insurance Group Limited ("IQUW IGL"), a company registered in England and Wales.

The ultimate parent undertaking of the largest and smallest group of companies for which Group accounts are drawn up is IQUW Holdings Bermuda Limited. Copies of financial statements can be obtained from the Company Secretary at 30 Fenchurch Street, London, England, EC3M 3BD.

26. Derivatives

The Syndicate has not purchased any forward foreign currency contracts to hedge currency exposure or entered any other derivative contracts within the period.

27. Post Reporting Date Events

The capital providers to the 2020 and prior years of account of the Syndicate (then under the management of Arch Managing Agency Limited) did not participate in the provision of capital to the 2021 and subsequent years of account of the Syndicate. In order to protect the interests of the former, current and upcoming members of the Syndicate, the 2020 and prior years have been closed into the 2021 year of the Syndicate with the support of an adverse development cover placed with Artex SAC Limited, acting on behalf of two of its segregated accounts, designated respectively IRBA and IRLO Plus. IRBA and IRLO Plus were providers of part of the capacity of the 2020 year of account of the Syndicate.