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Liberty Syndicate 4472

Annual Report and Financial Statements for the year ended
31 December 2023

Contents

| | Page |
|--|-------------|
| Directors and Administration | 3 |
| Managing Agent's Report | 4 |
| Statement of Managing Agent's Responsibilities | 12 |
| Independent Auditor's Report | 13 |
| Income Statement: Technical Account - General Business | 17 |
| Income Statement: Non-Technical Account - General Business | 18 |
| Statement of Other Comprehensive Income | 19 |
| Statement of Changes in Member's Balances | 20 |
| Statement of Financial Position - Assets | 21 |
| Statement of Financial Position - Liabilities | 22 |
| Statement of Cash Flows | 23 |
| Notes to the Financial Statements | 24 |

Directors and Administration

Managing Agent

Liberty Managing Agency Limited

Directors

| | |
|-------------------|---|
| Graham Brady | Executive Director |
| Nigel Davenport | Group Non-Executive Director |
| Richard Hoskins | Independent Non-Executive Director |
| Steven McMurray | Executive Director |
| Cathryn Riley | Independent Non-Executive Director |
| Chantal Rodriguez | Executive Director |
| Jane Warren | Executive Director |
| Mark Winlow | Chairman & Independent Non-Executive Director |

Company Secretary

Gina Tighe

Managing Agent's Registered Office

20 Fenchurch Street
London
EC3M 3AW

Managing Agent's Registered Number

3003606

Active Underwriter

Jane Warren

Investment Manager

Liberty Mutual Group Asset Management Inc.

Registered Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Managing Agent's Report

The Directors of the Managing Agent present their report for Syndicate 4472 for the year ended 31 December 2023. The Syndicate's Managing Agent is a company registered in England and Wales.

Principal activity and review of the business

The Syndicate's principal activity is the transaction of general insurance and reinsurance business. The Syndicate trades through the Lloyd's worldwide licenses. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from S&P and AA- (Very strong) rating from Fitch.

There have not been any significant changes to the Syndicate's principal activity during the year.

The Syndicate is managed by Liberty Managing Agency Limited (LMAL) which is wholly owned by Liberty Mutual Group Incorporated (the Group), a diversified global insurer. The Group offers a wide range of insurance products and services to meet the needs of individuals, families and businesses. Functionally, the Group conducts substantially all of its business through two business units: US Retail Markets (USRM) and Global Risk Solutions (GRS). The Syndicate operates as part of the Liberty Specialty Markets (LSM) and Liberty Mutual Reinsurance (LMRe) segments within the GRS business unit.

Underwriting performance

The Syndicate's combined ratio deteriorated to 106.7% (2022: 99.3%). Overall, the result for the calendar year was a profit of £122.3m (2022: £221.3m loss) driven by an investment return of £190.5m (2022: £212.2m loss) and foreign exchange gains of £19.8m (2022: £17.2m loss), partly offset by an underwriting loss of £88m (2022: £8.1m profit).

| | 2023 | 2022 |
|--------------------------------------|---------|---------|
| | £m | £m |
| Gross Written Premium | 1,696.5 | 1,617.9 |
| Net Earned Premium | 1,315.7 | 1,126.8 |
| Underwriting Result | (88.0) | 8.1 |
| Profit/(Loss) for the Financial Year | 122.3 | (221.3) |
| Claims ratio %* | 73.1% | 67.2% |
| Expense Ratio %* | 33.6% | 32.1% |
| Combined Ratio %* | 106.7% | 99.3% |

**The claims ratio is calculated as net claims incurred over the net earned premiums. The expense ratio is the sum of operating expenses and acquisition costs over the net earned premiums. The combined ratio is the sum of the ratios of net incurred claims and net operating expenses to net earned premiums. A combined ratio of less than 100% represents an underwriting profit. In calculating the claims and expense ratios foreign exchange gains and losses have been excluded.*

Gross written premium increased by 4.9%. This is predominantly driven by a positive average rate increase of 14.6% within our Reinsurance portfolio.

Net earned premium increased by 16.8% due to the earn through of higher gross premium volumes, along with a reduction to ceded costs, mainly driven by the non-renewal of the catastrophe aggregate layer of the umbrella contract.

The Syndicate's underwriting result represents a decline of £96.1m compared to prior year which is attributable to the increase in the net loss ratio of 5.9%. The attritional component of the loss ratio improved by 3.5% with favourable experience. Although the Syndicate was impacted by key events such as the Turkish Earthquake (net £71.2m), Cyclone Gabriel (net £42.7m) and Auckland Floods (net £30.8m) the catastrophe loss ratio improved by 12.4% as 2022 deteriorated by a higher quantum due to events such as Hurricane Ian and the Russia-Ukraine conflict.

Managing Agent's Report (continued)

Underwriting performance (continued)

These favourable movements were offset by prior year reserve strengthening driven by claims development and allowance for the uncertain risk environment.

The expense ratio increased to 33.6%, from 32.1% in the prior year. The net acquisition cost ratio is 0.9% higher than prior year due to business mix. The operating expense ratio is 0.7% higher than prior year due to an increase in payroll and bonus costs. Operating costs continue to be closely monitored and managed.

There is no profit commission due on the closure of the 2021 year of account.

Investment performance

Overall, the total investment return was a profit of £190.5m (2022: £212.2m loss). This was driven by unrealised gains as a result of falling bond yields, primarily due to market expectations of future interest rate reductions. As yield curves fell asset values increased together with the "pull to par" unwind effect that occurs as assets approach maturity. The underlying interest income generated by the portfolio was £104.2m (2022: £69.8m) which resulted in the interest rate of return improving to 3.1% (2022: 2.3%).

Foreign exchange gains/losses

The Foreign exchange profit of £19.8m (2022: £17.2m loss) was driven by the translation of non-functional currencies to the functional currency of USD.

Review of financial position

The Member's Balance has increased by £68.6m from £892.6m in 2022 to £961.2m in 2023.

Assets have increased by £69.8m. This is driven by an uplift of £280.4m in financial investments and cash due to unrealised gains on the portfolio as explained above. Technical debtors dropped by £48.8m as a result of the timing of settlements. Reinsurers' share of technical provision decreased by £208.6m which is in line with the decline in ceded premiums and the increment in the settlement of claims recoveries during the year.

Liabilities remained fairly stable and increased marginally by £1.2m. The main movements were a rise in gross technical provisions of £9.5m which reflects the loss experience noted above being largely offset by settlements in the period and a slight uptick in gross written premiums. There were offsetting movements due to timing of settlements within technical and other creditors which led to an overall reduction of £2.9m.

Principal risks and uncertainties

The Board of Directors for LMAL ("LMAL Board") is responsible for the oversight and operation of the Syndicate. The LMAL Board has established a robust corporate governance structure that is supported by the Board Sub-Committees, including the Risk Management Committee ("RMC"), Audit Committee, Nominations Committee and Remuneration Committee. This is further supported by Executive level "Legal Entity Committees" established by the responsible executives to assist them with discharging their duties by considering specific management information for oversight and management of LMAL's operational and regulatory performance.

From a risk perspective, the LMAL Board meets regularly to approve any commercial, regulatory and organisational requirements which includes key policies, frameworks or other documents due to their importance of establishing expected standards. The LMAL Board sets risk appetite annually as part of the Syndicate's business planning and capital setting process. The LMAL Board approves the Syndicate's Own Risk and Solvency Assessment ('ORSA'), which provides an assessment of the adequacy of the solvency and capital needs of the Syndicates risk profile on a forward-looking basis.

Managing Agent's Report (continued)

Principal risks and uncertainties (continued)

The principal risks and uncertainties facing the Syndicate are set out below and within the Notes to the Financial Statements where additional information relating to these risks is provided.

Insurance risk

Insurance risk incorporates premium risk and reserve risk. Premium risk is the variation of underwriting results from plan for reasons other than operational or insurance counterparty risk. This is influenced by the frequency and severity of claims events. Reserve risk is the variation in policyholder reserves for prior accident years required for reasons other than operational or insurance counterparty risk. This is influenced by uncertainty in the notification of claims and value of claims paid.

Premium risk is mitigated through a diversified business plan operating within Board risk appetites and supported through the Syndicate's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual and correlated events.

Reserve risk is managed within the Board risk appetite and is mitigated through strong control mechanisms as well as detailed analysis and benchmarking exercises reviewed by Management and Board Committees.

Premium and Reserve risk have both continued to be impacted by the change in the inflationary outlook through 2023. The effects of inflation continue to be monitored and managed have been considered within business planning, pricing and reserving.

Management continues to monitor developments in Ukraine. During the year, the Syndicate used a reserve modelling framework that considers a range of potential outcomes and associated probabilities. Given the framework is dependent on external factors, the continued uncertainty surrounding the loss development and range of potential outcomes will be actively monitored.

Market risk

Market risk is the risk of realised or unrealised investment losses or adverse net asset movements resulting from factors that affect the invested assets or insurance liabilities, including economic and financial variables. Market risk is subcategorised into asset-liability management risk (relating to mismatches in asset-liability currency mix and/or interest rate duration) and investment risk (which includes credit risk, spread risk, equity risk, property risk, concentration risk, alternative asset risk, illiquid asset pricing risk and inflation risk).

Market risk exposures are managed within the Board risk appetites. In addition to this there are a number of preventative, detective and directive controls. Asset-liability management is reviewed in conjunction with investment management in order to optimise the overall performance of assets relative to the liabilities.

Liquidity Risk

Liquidity risk is defined as the risk of the Syndicate being unable to meet its financial obligations as they fall due, as a result of the insufficient liquid resources. Liquidity risk exposures are managed within the Board risk appetite. In addition to this there are a number of preventative, detective and directive controls. The Syndicate manages its cash and invested assets to ensure that cash is available to pay claims as they fall due.

Credit risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations to the Syndicate. The principal source of credit risk arises from the inability of reinsurers to meet their contractual obligations if they become due. Credit risk also arises from brokers, third parties with delegated underwriting and / or claims authority or insureds, who are unable or unwilling to pay amounts to the Syndicate as they are presented and fall due.

Managing Agent's Report (continued)

Principal risks and uncertainties (continued)

Credit risk (continued)

Credit risk is managed within the Board risk appetite statements. In addition to this there are a number of preventative, detective and directive controls. These encompass due diligence and monitoring controls to ensure the appropriate selection of counterparties to prevent inappropriate credit risk concentrations.

Operational risk

Operational risk is the risk of loss to the Syndicate resulting from the inadequate or failed internal processes, people and systems, or from external events. This includes cyber and security issues, and risks arising from outsourced functions as well as legal and non-dispute risks.

Operational risk is managed within the Board risk appetite and mitigated through the use of the three lines of defence model in conjunction with a system of documented, monitored and tested internal controls. The model aims to provide clarity over roles and responsibilities within the Company, ensuring that all key risk activities are managed effectively.

A key focus area of operational risk is providing oversight on Operational Resilience. This includes review and challenge to the annual Operational Resilience Self-Assessment Report that summarises the Syndicate's Operational Resilience capabilities.

Group risk

Group risk is the risk of loss to the Syndicate arising from its membership of GRS and the Liberty Mutual Group "the Group."

Group risk is mitigated through the monitoring of Liberty Mutual Group's financial strength and business strategy developments. In addition, the chairperson of any committee reviewing risk information ensures that due attention is given to each legal entity within "the Group," even in times of stress to one entity.

Strategic risk

Strategic risk is the risk of loss to the Syndicate arising from key business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is managed within the Board risk appetite and mitigated through the development and implementation of the Syndicate's strategy, business plan and through controls relating to the development of new business opportunities.

These risks are covered in detail in the Notes to the Financial Statements, Note 14.

Climate Change Risk

Climate change risk arises from the impacts associated with an increase in global average temperatures, measured against pre-industrial levels. The risks to the Syndicate are multiple and will likely occur over an extended period of time i.e. (Short-term (1-5 years), Medium-term (5-15 years) and Long-term (15+ years)). Climate change risk has the potential to manifest in three forms:

- Physical risks result from the impacts of increasingly frequent and severe extreme weather events and longer-term shifts in climatic conditions.
- Transition risks arise from economy wide decarbonisation efforts to mitigate against the most extreme physical impacts of climate change. Risks will stem from large scale market, technological, and policy changes. Litigation risks stem from parties seeking legal redress against those deemed to be responsible for the impacts of physical and transitional risks.

Managing Agent's Report (continued)

Principal risks and uncertainties (continued)

Climate Change Risk (continued)

Climate change is classified as a cross-cutting risk, meaning it impacts a number of the different risk areas outlined above, as such it is being managed through the existing Risk Management Framework.

Insurers have a pivotal role in supporting a just transition to a low carbon economy through their products, asset holdings and disclosures. The Group have set thermal coal thresholds within underwriting and investments to support this shift.

Since 2020, LMAL continues to be a member of voluntary initiative ClimateWise, a global insurance industry network focused on climate-related issues. In 2023, the second ClimateWise report was published, demonstrating how we respond to the ClimateWise Principles that are aligned with the Task Force on Climate-related Financial Disclosures ("TCFD"). This provides our policyholders and counterparties with additional climate change-specific information.

The ClimateWise score improved to 82% for 2023 (2022: 71%). There was particular improvement in Principle 5 – 'Inform public policy making' from 8% (2022) to 14% (2023).

Managing Agent's Report (continued)

Principal risks and uncertainties (continued)

Climate Change Risk (continued)

The below table provides an overview of how LMAL is responding to the 7 ClimateWise Principles.

| ClimateWise Principles | Overview of the Syndicate's response |
|---|--|
| 1. Be accountable | Embedding climate change into all relevant management / governance structures and responsibilities. |
| 2. Incorporate climate-related issues into our strategies and investments | Assessing our portfolio against different climate change pathways and evidencing material climate-related risks and opportunities. Applying a Responsible Investment Policy and a Responsible Business Framework. |
| 3. Lead in the identification, understanding and management of climate risk | Making significant advancements in our climate risk capabilities through utilisation of data, stress and scenario testing, and undertaking a climate risk appetite and materiality assessment |
| 4. Reduce the environmental impact of our business | Measuring, reducing, and disclosing our Scope 1-2 (and some scope 3) emissions, procurement policy and other environmental impacts; working with our suppliers and engaging our colleagues on environmental impact. LMAL also works to reduce other environmental impacts; working with our suppliers and engaging our colleagues on environmental impact. |
| 5. Inform public policy making | Engagement activities and leadership conducted throughout the year to influence public policy and prioritisation of activities to achieve impact related to material climate-related issues. Engaging with global regulators and actively contributing to several collaborative industry initiatives and working groups. |
| 6. Support climate awareness amongst our customers/ clients | Providing products and services to support a responsible energy transition and build resilience. Working with climate resiliency teams at leading brokers to collaborate on new de-risking solutions. Communicating our climate strategy through Liberty Mutual TCFD report. |
| 7. Enhance reporting | Publishing an annual summary of our climate approach and key activities in the ClimateWise report. Aligning with the ESG strategy set by Lloyd's. |

Sustainability Risk

Sustainability Risks, which considers environmental, social and governance risks, affect the Syndicate's relationship with external stakeholders. Failure to address sustainability factors may lead to reputational damage, loss of trust with customers, and regulatory and financial interventions.

Integrating Sustainability across business and operations functions is an important part of Liberty's strategy. Risk management is aligned with LMAL's sustainability priorities to identify, monitor and report different types of sustainability risk. Sustainability risk is classified as a cross-cutting risk, meaning it impacts a number of risk register risks, as such it is being mitigated through the existing Risk

Managing Agent's Report (continued)

Principal risks and uncertainties (continued)

Sustainability Risk (continued)

Management Framework. Governance structures, such as internal working groups, are in place to discuss, escalate and respond to sustainability topics.

As part of that governance, a Liberty-wide underwriting led, cross-functional council was established to monitor and manage a set of topics where we perceive elevated reputational and commercial risk. Several new topic-specific underwriting guidelines were introduced in 2023 that complement an overarching sustainable underwriting risk framework of material environmental, social, and governance dimensions relevant across the portfolio.

In addition to its Responsible Investment Policy, LMAL also applies Sustainability restrictions which explicitly adhere to the minimum Lloyd's requirements; these are listed below (from Lloyd's ESG report).

Lloyd's commitment to responsible investment:

- The Lloyd's market and the Corporation will phase out new investments in thermal coal-fired power plants, thermal coal mines, oil sands and new Arctic energy exploration activities by 1 January 2022.
- The Lloyd's market and the Corporation will phase out existing investments in thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities by the end of 2025. This includes phasing out existing investments in respect of companies with business models which derive at least 30% of their revenues from either thermal coal-fired power plants, thermal coal mines, oil sands or new Arctic energy exploration activities.

Macroeconomic and geopolitical challenges

Throughout 2023, the macroeconomic and geopolitical environment has remained volatile. The conflict between Russia and Ukraine has continued into a second year and shows no signs of abating. Sanctions continue to be actively monitored and applied. The more recent events between Israel and Palestine have added to the complexities and uncertainty within the geopolitical landscape. The global economy continued its battle with sustained high levels of inflation throughout the year, with Central banks responding by keeping base rates high to dampen inflationary pressures. This in turn is impacting debt servicing for governments, companies and individuals, leading to recessionary concerns and adding to the potential for civil commotion with multiple global flash points. We continue to monitor the situation with regards to these systemic risk environment factors in accordance with our Risk Management Framework.

Directors

The current Directors are listed on page 3. Directors who held office between 1 January 2023 and the date of signing the financial statements were:

| | |
|-------------------|--|
| Graham Brady | Executive Director |
| Nigel Davenport | Group Non-Executive Director |
| Philip Hobbs | Chief Executive Officer & Executive Director (resigned 01/01/2024) |
| Richard Hoskins | Independent Non-Executive Director |
| Steven McMurray | Executive Director |
| Cathryn Riley | Independent Non-Executive Director |
| Chantal Rodriguez | Executive Director (appointed 16/01/2024) |
| Jane Warren | Executive Director |
| Mark Winlow | Chair & Independent Non-Executive Director |

Luis Prato was appointed Chief Executive Officer of LMAL on 1st January 2024, which is subject to regulatory approval.

Managing Agent's Report (continued)

Directors (continued)

None of the Directors has any participation on the Syndicate.

Going Concern

The Directors of the Managing Agent have assessed the Syndicate's ability to continue as a going concern by considering the Syndicate's reserve strength, available capital, future business plan and any expected material changes to its operations. Based on the assessment, they continue to adopt the going concern basis in preparing the financial statements.

Future developments

LSM/LMRe is committed to supporting its clients and stakeholders throughout the market cycle.

We aim to maximise opportunities in both the Lloyd's and Company markets and still hold true to our ethos of delivering as a high performing, financial services company.

The Syndicate will continue to look for growth where opportunities and our risk appetite allows. We focus on profitability, supported by our enhanced data and analytics capability, and our attention to detail in maintaining a competitive expense ratio.

Our commitment to helping people prosper and transition in a changing environment, remains steadfast.

Auditors

Disclosure of Information to the Auditors

In the case of each of the persons who are Directors of the Managing Agent at the time the report was approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the Managing Agent and the Syndicate's auditor, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

On behalf of the Board

Steve McMurray

Steven McMurray

Director
London

27 February 2024

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate annual report and financial statements, including the Managing Agent's Report, in accordance with applicable laws and regulations.

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

In preparing the Syndicate financial statements, 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 annual accounts; and
- prepare the Syndicate financial statements 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 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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 the Syndicate 4472

Opinion

We have audited the syndicate annual accounts of syndicate 4472 ('the syndicate') for the year ended 31 December 2023 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard as applied to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the syndicate's ability to continue as a going concern for a period of 12 months from when the syndicate annual accounts are authorised for issue.

Our responsibilities and the responsibilities of the managing agent with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Independent Auditor's Report (continued)

Other information

The other information comprises the information included in the annual report and financial statements, other than the syndicate annual accounts and our auditor's report thereon. The directors of the managing agent are responsible for the other information contained within the annual report and financial statements.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

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

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

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

Independent Auditor's Report (continued)

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 12, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. 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.

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the managing agent and management.

Our approach was as follows:

- We obtained a general understanding of the legal and regulatory frameworks that are applicable to the syndicate and determined that the most significant are direct laws and regulations related to elements of Lloyd's Byelaws and Regulations, and the financial reporting framework (UK GAAP). Our considerations of other laws and regulations that may have a material effect on the syndicate annual accounts included permissions and supervisory requirements of Lloyd's of London, the Prudential Regulation Authority ('PRA') and the Financial Conduct Authority ('FCA').
- We obtained a general understanding of how the syndicate is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters of the syndicate. In assessing the effectiveness of the control environment, we also reviewed significant correspondence between the syndicate, Lloyd's of London and other UK regulatory bodies; reviewed minutes of the Board and Risk Committee of the managing agent; and gained an understanding of the managing agent's approach to governance.
- For direct laws and regulations, we considered the extent of compliance with those laws and regulations as part of our procedures on the related syndicate annual accounts' items.
- For both direct and other laws and regulations, our procedures involved: making enquiries of the directors of the managing agent and senior management for their awareness of any non-compliance of laws or regulations, enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, enquiring about the managing agent's methods of enforcing and monitoring compliance with such policies, and inspecting significant correspondence with Lloyd's, the FCA and the PRA.

Independent Auditor's Report (continued)


Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

- The syndicate operates in the insurance industry which is a highly regulated environment. As such the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities, which included the use of specialists where appropriate.
- We assessed the susceptibility of the syndicate's annual accounts to material misstatement, including how fraud might occur by considering the controls that the managing agent has established to address risks identified by the managing agent, or that otherwise seek to prevent, deter or detect fraud. We also considered areas of significant judgement, complex transactions, performance targets, economic or external pressures and the impact these have on the control environment. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk including the risk of fraud in the valuation of gross and net IBNR reserves and the recognition of estimated premium income. These procedures included testing manual journals and were designed to provide reasonable assurance that the syndicate annual accounts were free from fraud or error.

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

Use of our report

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

DocuSigned by:

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Joseph Warrender (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

27 February 2024

Income Statement: Technical Account - General Business

for the year ended 31 December 2023

| | | 2023 | 2022 |
|---|-------|----------------|----------------|
| | Notes | £m | £m |
| Gross premiums written | 2 | 1,696.5 | 1,617.9 |
| Outward reinsurance premiums | | (338.6) | (424.9) |
| Net premiums written | | 1,357.9 | 1,193.0 |
| Change in provision for unearned premiums: | | | |
| Gross amount | 12 | (35.3) | (84.2) |
| Reinsurers' share | 12 | (6.9) | 18.0 |
| Change in net provision for unearned premiums | | (42.2) | (66.2) |
| Earned premiums, net of reinsurance | | 1,315.7 | 1,126.8 |
| Allocated investment return transferred from the non-technical account | 7 | 129.7 | (138.5) |
| Claims incurred, net of reinsurance: | | | |
| Claims paid | | | |
| Gross amount | | (990.7) | (874.1) |
| Reinsurers' share | | 326.1 | 231.1 |
| Net claims paid | | (664.6) | (643.0) |
| Change in the provision for claims | | | |
| Gross amount | 13 | (164.8) | (265.9) |
| Reinsurers' share | 13 | (131.8) | 151.6 |
| Change to the net provision for claims | | (296.6) | (114.3) |
| Claims incurred, net of reinsurance | | (961.2) | (757.3) |
| Net operating expenses | 3 | (442.5) | (361.4) |
| Balance on the general business technical account | | 41.7 | (130.4) |

All the amounts above are in respect of continuing operations.

Income Statement: Non-Technical Account - General Business

for the year ended 31 December 2023

| | | 2023 | 2022 |
|---|-------|--------------|----------------|
| | Notes | £m | £m |
| Balance on the general business technical account | | 41.7 | (130.4) |
| Investment income | 7 | 95.1 | 64.4 |
| Unrealised gains/(losses) on investments | 7 | 99.0 | (273.1) |
| Investment expenses and charges | 7 | (3.6) | (3.5) |
| Allocated investment return transferred to the general business technical account | | (129.7) | 138.5 |
| Foreign exchange gains/(losses) | | 19.8 | (17.2) |
| Profit/(Loss) for the financial year | | 122.3 | (221.3) |

Statement of Other Comprehensive Income

for the year ended 31 December 2023

| | | 2023 | 2022 |
|---|-------|--------------|----------------|
| | Notes | £m | £m |
| Profit/(Loss) for the financial year | | 122.3 | (221.3) |
| Effect of foreign exchange translation | | (53.5) | 118.8 |
| Total Comprehensive Income/(Loss) for the year | | 68.8 | (102.5) |

Statement of Changes in Member's Balances

for the year ended 31 December 2023

| | 2023 | 2022 |
|---|--------------|--------------|
| Notes | £m | £m |
| Balance due to member brought forward at 1 January | 892.6 | 996.7 |
| Total Comprehensive Income/(Loss) for the financial year | 122.3 | (221.3) |
| Net release of Funds in Syndicate | (0.2) | (1.6) |
| Foreign exchange gains on Funds in Syndicate | (53.5) | 118.8 |
| Balance due to member carried forward at 31 December | 961.2 | 892.6 |

Statement of Financial Position - Assets

as at 31 December 2023

| | Notes | 2023 | 2022 |
|--|-------|----------------|----------------|
| | | £m | £m |
| Investments | | | |
| Financial investments | 8 | 3,208.3 | 2,887.7 |
| Deposits with ceding undertakings | | 8.2 | 8.0 |
| | | 3,216.5 | 2,895.7 |
| Reinsurers' share of technical provisions | | | |
| Claims outstanding | 13 | 1,313.1 | 1,505.9 |
| Provision for unearned premiums | 12 | 178.1 | 193.9 |
| | | 1,491.2 | 1,699.8 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | | 279.5 | 302.8 |
| Debtors arising out of reinsurance operations | | 591.6 | 617.1 |
| Other debtors | 18 | 68.1 | 34.2 |
| | | 939.2 | 954.1 |
| Other assets | | | |
| Cash at bank and in hand | 11 | 37.0 | 77.2 |
| Other assets | 10 | 86.6 | 89.1 |
| | | 123.6 | 166.3 |
| Prepayments and accrued income | | | |
| Accrued interest | | 23.8 | 19.5 |
| Deferred acquisition costs | 9 | 194.3 | 184.0 |
| Other prepayments and accrued income | | 5.8 | 5.2 |
| | | 223.9 | 208.7 |
| Total Assets | | 5,994.4 | 5,924.6 |

Statement of Financial Position - Liabilities

as at 31 December 2023

| | Notes | 2023 | 2022 |
|--|-------|----------------|----------------|
| | | £m | £m |
| Member's balances | | | |
| Profit and loss account | | 961.2 | 892.6 |
| Technical provisions | | | |
| Claims outstanding | 13 | 3,854.4 | 3,851.9 |
| Provision for unearned premiums | 12 | 799.6 | 792.6 |
| | | 4,654.0 | 4,644.5 |
| Creditors | | | |
| Creditors arising out of direct insurance operations | | 2.1 | 2.7 |
| Creditors arising out of reinsurance operations | | 278.3 | 268.6 |
| Other creditors | 19 | 40.1 | 52.1 |
| | | 320.5 | 323.4 |
| Accruals and deferred income | 20 | 58.7 | 64.1 |
| Total Liabilities | | 5,994.4 | 5,924.6 |

The financial statements on pages 17 to 55 were approved by the Board of LMAL and were signed on its behalf by:

Steve McMurray

Steven McMurray
Director

27 February 2024

Statement of Cash Flows

for the year ended 31 December 2023

| | 2023 | 2022 |
|--|----------------|----------------|
| Notes | £m | £m |
| Reconciliation of Total Comprehensive Profit/(Loss) for the Financial Year to Net Cash Inflow from operating activities | | |
| Operating result | 122.3 | (221.3) |
| Increase in gross technical provisions | 9.5 | 701.7 |
| Decrease / (increase) in reinsurers' share of gross technical provisions | 208.6 | (308.1) |
| (Increase) in debtors | (0.3) | (148.9) |
| (Decrease) / increase in creditors | (8.3) | 65.0 |
| Decrease / (increase) in other assets | 2.5 | (7.8) |
| Investment return | (190.5) | 212.2 |
| Foreign exchange | (34.4) | 102.9 |
| Net cash flows from operating activities | 109.4 | 395.7 |
| Cash flows from investing activities | | |
| Purchase of equity and debt instruments | (701.7) | (1,632.6) |
| Sale of equity and sale/maturity of debt instruments | 468.6 | 1,147.7 |
| Investment income received | 91.5 | 61.0 |
| Other | (0.1) | 5.3 |
| Net cash flows from investing activities | (141.7) | (418.6) |
| Cash flows from financing activities | | |
| Distribution of closed year of account result | (105.0) | (53.6) |
| Closed year of account result released to member | 98.9 | 58.5 |
| Net cash flows from financing activities | (6.1) | 4.9 |
| Net decrease in cash and cash equivalents | (38.4) | (18.0) |
| Cash and cash equivalents at beginning of year | 96.5 | 103.9 |
| Foreign exchange on cash and cash equivalents | (3.5) | 10.6 |
| Cash and cash equivalents at end of year | 54.6 | 96.5 |
| Cash at bank and in hand | 37.0 | 77.2 |
| Short term deposits with credit institutions | 17.6 | 19.3 |
| Cash and cash equivalents at end of year | 11 | 54.6 |
| | | 96.5 |

Notes to the Financial Statements

1. Accounting Policies

1.1. Statement of compliance

The Syndicate is the vehicle through which (re)insurance business is conducted at Lloyd's on behalf of the corporate capital provider, Liberty Corporate Capital Limited (LCCL). The Syndicate is managed by Liberty Managing Agency Limited (LMAL). Registered details for the managing agent can be found on page 3. The financial statements cover those of the Syndicate and are prepared as at, and for the year ended, 31 December 2023.

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

The financial statements are prepared under the historical cost convention except for financial investments which are measured at fair value.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2023 were approved for issue by the Board of Directors on 27 February 2024.

The financial statements are prepared in GBP, which is the presentation currency of the Syndicate, and is rounded to the nearest £0.1 million, unless otherwise stated. The functional currency of the Syndicate is United States Dollars (USD).

As permitted by FRS 103, the Syndicate has continued to apply the accounting policies that existed prior to this standard for its insurance contracts.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.3. Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management 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. However, the nature of estimation means that actual outcomes could differ from those estimates.

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

1.3.1. Technical provisions

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.3. Judgements and key sources of estimation uncertainty (continued)

1.3.1. Technical provisions (continued)

Historical claims development is mainly analysed by underwriting years by significant lines of business. Large/catastrophe claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. A “bottom up” approach was taken when setting the best estimate reserves, incorporating explicit and specific allowance for elevated economic inflation within each class of business. A cashflow model was used throughout 2023 to sensitivity test the assumptions and allow further challenge of the output from the bottom-up approach. The cashflow approach required assumptions around the expected levels of future economic inflation by calendar year, territory, and line of business. This was then applied to the payment profile of each line of business. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of ultimate premiums.

Further details are given in Note 14.

1.3.2. Estimates of future premiums

Estimation techniques are necessary to quantify the future premium on all syndicate business written and are commonly used within the Lloyd’s (re)insurance market. The majority of the estimation arises predominantly within the binder estimates where the premium amounts are dependent on the volume of policies that are insured under the binder over the coverage period. In these cases underwriters estimate an initial premium volume and then adjust throughout the life of the binder as and when new information becomes available. The process of determining the Estimated Premium Income (EPI) is based on a number of factors, which can include:

- coverholder/ reinsured business plan documents supplied prior to binding;
- historical trends of business written;
- current and expected market conditions for this line of business; and
- life to date bordereaux submissions versus expectation.

Due to the nature of the Lloyd’s business and the settlement patterns of the underlying business it is also not uncommon for some contracts to take a number of years to finalise and settle, and a receivable on the balance sheet remains. An additional control is in place to align to the actuarially modelled ultimate premiums at a reserving class level. Furthermore, an analytical review of current year EPI against historical signing patterns is performed. In month 24 of an underwriting year a portfolio level adjustment is made to align to the actuarial view.

1.3.3. Fair value of financial assets determined using valuation techniques

Where the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or other mathematical models. The inputs from these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. For fixed-income and asset-backed securities the judgments include considerations for liquidity risk, credit risk, and prepayment rates.

Changes in the assumptions about these factors could affect the reported fair value of the financial instruments. Further details are given in Note 8.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4. Significant accounting policies

1.4.1. Financial investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments: recognition and measurement (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate determines the classification of its financial assets on initial recognition.

Financial assets at fair value through profit or loss

Redeemable debt securities and other fixed-income securities are classified as fair value through profit or loss and are initially measured at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Deposits with credit institutions are also classified at fair value through profit or loss and are held at cost as the best measure for fair value. These typically consist of callable on-demand deposits, which are and cash letters of credit (LOCs).

Shares and other variable yield securities and units in unit trusts consist of collective investment schemes and private equity investments. These are also designated on initial recognition as an asset to be measured at fair value with fair value changes recognised in profit or loss account at subsequent reporting periods. Realised gains and losses are also recognised through profit and loss account.

Offsetting of financial instruments

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

Deposits with ceding undertakings

Deposit with ceding undertakings are cash deposits withheld from reinsurers and stated at nominal value. All deposits in the Syndicate balance sheet relate to funds withheld with Lloyd's Brussels.

Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries. These are initially recorded at cost, which equates to fair value, and subsequently carried at fair value through profit or loss.

1.4.2. Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short-term deposits with credit institutions. These consist of collateralised cash LOCs with a restriction of one month or less and highly liquid short-term investments with maturity of less than 90 days from the date of acquisition.

Cash at bank and in hand on the statement of financial position includes only cash and balances at central banks and loans and advances to banks repayable on demand.

Note 11 to the cash flow statement discloses both cash at bank as well as short-term deposits with credit institutions.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.3. Fair value of financial assets

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

- Level 1: the unadjusted quoted prices in active market for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

Note 8 illustrates the fair value hierarchy as applied to the Syndicate's financial assets.

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- when the Syndicate has transferred its rights to receive cash flows from the asset and has transferred substantially all the risks and rewards of ownership.

1.4.4. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price if acquired during the year. In the period in which investment disposals take place, any associated unrealised gains and losses are also reversed.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account in respect of actual investment return on investments supporting the general insurance technical provisions and member balances.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.5. Financial liabilities

The Syndicate's financial liabilities consist of insurance creditors, intercompany balances and trade payables.

All financial liabilities are recognised initially at fair value. Intercompany balances are repayable on demand. Financial liabilities are subsequently measured at amortised cost and are derecognised when the obligation under the liability is discharged or expires.

1.4.6. Insurance contracts

Insurance contracts are those contracts when the Syndicate (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

1.4.7. Premium

Gross written premium comprises the total premium receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premium receivable in respect of business written in prior reporting periods. Additional or return premium are treated as a re-measurement of the initial premium. Gross written premium is stated gross of commission.

Written premium includes an estimate for pipeline premium (i.e. premium written but not reported to the Syndicate by the reporting date) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date.

Written premium is earned over the period of the policy (usually 12 months) on a straight-line basis except for certain inwards reinsurance contracts where there is a marked unevenness in the incidence of risk over the period of cover, in which case the premium is earned on a basis which reflects the profile of risk.

Outward reinsurance premium is accounted for in the same accounting period as the premium for the related direct insurance or inwards reinsurance business.

Reinstatement premiums arise on both inwards and outwards policies when a loss has been incurred on a policy and there is a clause which requires the reinstatement of the policy with the payment of a further premium by the policyholder. They are recognised as written and earned in full at the date of the event giving rise to the reinstatement premium. Outwards reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.8. Managing Agent profit commission

Profit commission is charged by the managing agent based on annual accounting result for certain years of account and is charged to the Syndicate as incurred but does not become payable until after the year of account closes at 36 months. No profit commission has been charged by the managing agent.

1.4.9. Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims management costs that have been determined by an apportionment of employment costs, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

1.4.10. Claims outstanding

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported (IBNR) is established from statistical analysis undertaken by the Syndicate's actuaries. The methods used and the estimates made are reviewed regularly.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated based on the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

In calculating the estimated cost of unpaid claims, the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to change when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movement in industry benchmarks

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.10. Claims outstanding (continued)

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Syndicate has regard to claim circumstances as reported, and information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are assessed separately where appropriate, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of the large claims.

The provision for claims outstanding is based on information available at the balance sheet date and is estimated to give a result within a normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example, where assumptions over claims inflation may alter in future, there is a contingent liability in respect of this uncertainty. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year, and the current security rating of the reinsurance companies involved.

Anticipated salvage and subrogation recoveries are calculated on an individual case basis. The level of recovery estimated is based on the information which is currently available, including potential outstanding claims advices and case law. Salvage and subrogation recoveries are included in claims incurred in the income statement.

The liability is not discounted for the time value of money except for discounting credit relating to Motor XL PPOs.

1.4.11. Provisions for unearned premiums

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

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

1.4.12. Provisions for unexpired risks

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The overall assessment of whether a provision is necessary is made based on all categories of business. No account is taken of future investment income.

At 31 December 2023 and in the comparative year, the Syndicate did not have an unexpired risks provision.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.13. Deferred acquisition costs

Acquisition costs, comprising commission and costs that are directly related to the acquisition of new business or renewal of insurance contracts and that are expected to be recovered out of future margins in revenue of these contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date. All other costs are expensed as incurred.

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

Commissions receivable on outwards reinsurance contracts are amortised over the term of the outwards reinsurance premiums and deferred to the extent that they are attributable to outwards reinsurance premiums unearned as at the balance sheet date. The deferral of commissions receivable on outwards reinsurance contracts is included in Accruals and deferred income.

1.4.14. Reinsurance assets and retroactive reinsurance contracts

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

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

The Syndicate recognises gains and losses arising from retroactive reinsurance in the income statement at the date of purchase of the reinsurance cover, with premiums ceded and claims reimbursed presented on a gross basis. This policy has been applied in respect of the LPT agreement reinsuring the Motor XL book of business on the Syndicate for the 2021 and prior underwriting years.

1.4.15. Debtors arising from direct insurance and reinsurance operations

Debtors arising from direct insurance and reinsurance operations are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest rate method.

The carrying value of debtors are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the statement of profit or loss. They are derecognised when the derecognition criteria for financial assets have been met.

1.4.16. Creditors arising from direct insurance and reinsurance operations

Creditors arising from direct insurance and reinsurance operations are recognised when due and measured on initial recognition at the fair value of the consideration paid or payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

They are derecognised when the obligation under the liability is settled, cancelled or expired.

Notes to the Financial Statements (continued)

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.17. Pension costs

Liberty Specialty Markets Limited (LSML) operates a defined contribution pension scheme. Pension contributions relating to managing agency staff working on behalf of the Syndicate, as seconded from LSML are charged to the Syndicate and included within net operating expenses.

LMAL operates a defined benefit pension scheme, which provides benefits based on final pensionable pay for all qualifying employees. Costs in respect of the scheme relating to managing agency staff working on behalf of the Syndicate are charged to the Syndicate.

1.4.18. Foreign currencies

Presentation currency

The presentation currency of the Syndicate is GBP, in order to align the financial statements with the currency used for reporting to the Lloyd's insurance market.

In preparing financial statements, assets and liabilities are translated into GBP at the exchange rate ruling on the reporting date, with items of income and expenditure translated into GBP at average rates of exchange. The resulting difference between the exchange rates used for translation of assets and liabilities and the rate for income and expenses is taken to Other Comprehensive Income.

Functional currency

The functional currency of the Syndicate is USD. Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions, or at an appropriate average rate. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Foreign exchange differences are recorded in the non-technical account.

1.4.19. Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from Syndicate 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 'Other Debtors'.

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

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Notes to the Financial Statements (continued)

2. Segmental analysis

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

| | Gross premiums written £m | Gross premiums earned £m | Gross claims incurred £m | Gross operating expenses £m | Re insurance balance £m | Total £m |
|---------------------------------|------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|----------------------------------|----------------|
| 2023 | | | | | | |
| Direct insurance: | | | | | | |
| Accident & health | 24.2 | 23.0 | (6.5) | (12.1) | 1.0 | 5.4 |
| Motor (third-party liability) | - | - | 1.1 | - | 0.5 | 1.6 |
| Marine aviation & transport | 225.0 | 210.8 | (314.6) | (85.3) | 62.4 | (126.7) |
| Fire & other damage to property | 227.4 | 211.4 | (102.3) | (75.9) | (7.8) | 25.4 |
| Third party liability | 249.7 | 273.4 | (164.9) | (72.1) | (61.7) | (25.3) |
| Miscellaneous | 9.9 | 13.7 | (8.6) | (4.4) | (1.5) | (0.8) |
| Energy – Marine | 3.7 | 4.6 | 1.1 | (2.5) | - | 3.2 |
| Energy – Non Marine | 20.6 | 20.4 | (12.9) | (5.8) | 0.3 | 2.0 |
| | 760.5 | 757.3 | (607.6) | (258.1) | (6.8) | (115.2) |
| Reinsurance | 936.0 | 903.9 | (547.9) | (255.0) | (73.8) | 27.2 |
| Total | 1,696.5 | 1,661.2 | (1,155.5) | (513.1) | (80.6) | (88.0) |

| | Gross premiums written £m | Gross premiums earned £m | Gross claims incurred £m | Gross operating expenses £m | Re insurance balance £m | Total £m |
|---------------------------------|------------------------------------|-----------------------------------|-----------------------------------|--------------------------------------|----------------------------------|--------------|
| 2022 | | | | | | |
| Direct insurance: | | | | | | |
| Accident & health | 23.9 | 21.6 | (8.3) | (12.9) | 2.8 | 3.2 |
| Motor (third-party liability) | 2.8 | 2.8 | 0.7 | (1.4) | (0.8) | 1.3 |
| Marine aviation & transport | 206.4 | 202.8 | (255.7) | (78.5) | 108.2 | (23.2) |
| Fire & other damage to property | 202.1 | 180.2 | (108.6) | (64.6) | 19.1 | 26.1 |
| Third party liability | 267.5 | 259.9 | (172.3) | (61.0) | (27.0) | (0.4) |
| Miscellaneous | 21.4 | 17.8 | 7.5 | (6.6) | (10.8) | 7.9 |
| Energy – Marine | 4.3 | 3.6 | (0.6) | (1.7) | (0.4) | 0.9 |
| Energy – Non Marine | 15.5 | 15.0 | (11.7) | (4.0) | (2.1) | (2.8) |
| | 743.9 | 703.7 | (549.0) | (230.7) | 89.0 | 13.0 |
| Reinsurance | 874.0 | 830.0 | (591.0) | (208.0) | (35.9) | (4.9) |
| Total | 1,617.9 | 1,533.7 | (1,140.0) | (438.7) | 53.1 | 8.1 |

Reinsurers' commissions and profit participations are included in the reinsurance balance.

Commissions on direct insurance gross premiums written during 2023 were £191.9m (2022: £182.6m). All premiums were concluded in the UK.

Notes to the Financial Statements (continued)

2. Segmental analysis (continued)

The geographical analysis of premiums by destination is as follows:

| | 2023 | 2022 |
|--------------|----------------|----------------|
| | £m | £m |
| UK | 330.9 | 237.0 |
| EU Countries | 105.1 | 97.0 |
| Americas | 695.0 | 645.5 |
| Worldwide | 565.5 | 638.4 |
| Total | 1,696.5 | 1,617.9 |

Notes to the Financial Statements (continued)

3. Net operating expenses

| | 2023 | 2022 |
|--------------------------------------|----------------|----------------|
| | £m | £m |
| Acquisition costs | (373.2) | (334.1) |
| Change in deferred acquisition costs | 11.3 | 17.2 |
| Administrative expenses | (151.2) | (121.8) |
| Gross operating expenses | (513.1) | (438.7) |
| Reinsurance commissions receivable | 70.6 | 77.3 |
| Net operating expenses | (442.5) | (361.4) |

Reinsurance commissions receivable comprises reinsurance commissions of £67.8m (2022: £82.6m) less change in unearned reinsurance commissions of £2.8m (2022: (£5.3)m).

The member's standard personal expenses are included within administrative expenses and include Lloyd's subscriptions, New Central Fund contributions and Managing Agent's fees.

4. Staff costs and Directors' remuneration

4.1 Staff costs

All UK staff are employed by LSML while all non-UK staff are employed by Liberty Specialty Markets Europe (LSME) and Liberty Specialty Markets Europe Two (LSME2). A proportion of these employees are seconded to work on the Syndicate. The following amounts were recharged to the Syndicate in respect of salary costs:

| | 2023 | 2022 |
|-----------------------|-------------|-------------|
| | £m | £m |
| Wages and salaries | 63.3 | 42.3 |
| Social security costs | 7.6 | 5.6 |
| Pension costs | 4.9 | 4.2 |
| Other | 3.1 | 1.9 |
| Total | 78.9 | 54.0 |

The average number of employees seconded to the Syndicate during the year was as follows:

| | 2023 | 2022 |
|----------------------------|------------|------------|
| | Number | Number |
| Administration and Finance | 274 | 224 |
| Underwriting | 98 | 100 |
| Claims | 29 | 27 |
| Total | 401 | 351 |

Notes to the Financial Statements (continued)

4.2 Directors' remuneration

| | 2023 | 2022 |
|-------------------|------------|------------|
| | £m | £m |
| Emoluments | 1.5 | 1.8 |

During the year the directors of the Managing Agent provided services to the Syndicate. The amounts shown above are the full amounts recharged to the Syndicate in respect of directors' emoluments for these services.

5. Active underwriter emoluments

The Active Underwriter received an allocated remuneration of £299,635 (2022: £352,546) for the services provided to the Syndicate. This is recharged to the Syndicate and included within net operating expenses.

6. Auditors' remuneration

Auditors' remuneration is included as part of the administrative expenses in note 3 to the financial statements.

| | 2023 | 2022 |
|---|------------|------------|
| | £m | £m |
| Auditor's remuneration: | | |
| - Audit of Syndicate annual accounts | 1.0 | 1.0 |
| - Other services required by regulation Lloyd's Byelaws | 0.8 | 0.8 |
| Total | 1.8 | 1.8 |

Notes to the Financial Statements (continued)

7. Investment return

| | Technical account General business | | Non-Technical account | | Total | |
|--|---------------------------------------|----------------|--------------------------|---------------|--------------|----------------|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| | £m | £m | £m | £m | £m | £m |
| Income from other financial investments | 66.8 | 40.6 | 37.4 | 29.2 | 104.2 | 69.8 |
| Net losses on realisation of investments | (8.2) | (3.2) | (0.9) | (2.2) | (9.1) | (5.4) |
| Total investment income | 58.6 | 37.4 | 36.5 | 27.0 | 95.1 | 64.4 |
| Net unrealised gains/(losses) on investments | 73.1 | (174.3) | 25.9 | (98.8) | 99.0 | (273.1) |
| Investment expenses and charges | (2.0) | (1.6) | (1.6) | (1.9) | (3.6) | (3.5) |
| Total investment return | 129.7 | (138.5) | 60.8 | (73.7) | 190.5 | (212.2) |

8. Financial investments

| | Carrying Value £m | Purchase Price £m | Listed £m |
|---|-------------------------|-------------------------|--------------|
| 2023 | | | |
| Shares and other variable yield securities and units in trust | 248.6 | 250.0 | 203.9 |
| Debt securities and other fixed income securities | 2,942.1 | 3,077.5 | 260.0 |
| Deposits with credit institutions | 17.6 | 17.6 | 17.6 |
| Total | 3,208.3 | 3,345.1 | 481.5 |

| | Carrying Value £m | Purchase Price £m | Listed £m |
|---|-------------------------|-------------------------|--------------|
| 2022 | | | |
| Shares and other variable yield securities and units in trust | 139.5 | 141.0 | 50.0 |
| Debt securities and other fixed income securities | 2,728.9 | 2,979.4 | 217.0 |
| Deposits with credit institutions | 19.3 | 19.3 | 19.3 |
| Total | 2,887.7 | 3,139.7 | 286.3 |

All shares and other variable yield securities, debt securities and loans and deposits with credit institutions are designated at fair value through profit & loss.

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

Notes to the Financial Statements (continued)

8. Financial investments (continued)

| | Fair Value Hierarchy | | | Total £m |
|---|----------------------|----------------|---------------|----------------|
| | Level 1 £m | Level 2 £m | Level 3 £m | |
| 2023 | | | | |
| Shares and other variable yield securities and units in trust | 203.9 | - | 44.7 | 248.6 |
| Debt securities and other fixed income securities | 260.0 | 2,682.0 | 0.1 | 2,942.1 |
| Loans and deposits with credit institutions (incl. overseas deposits) | 35.7 | 68.5 | - | 104.1 |
| Total | 499.6 | 2,750.5 | 44.8 | 3,294.9 |

| | Fair Value Hierarchy | | | Total £m |
|---|----------------------|----------------|---------------|----------------|
| | Level 1 £m | Level 2 £m | Level 3 £m | |
| 2022 | | | | |
| Shares and other variable yield securities and units in trust | 50.0 | 56.7 | 32.8 | 139.5 |
| Debt securities and other fixed income securities | 217.0 | 2,506.5 | 5.4 | 2,728.9 |
| Loans and deposits with credit institutions (incl. overseas deposits) | 35.7 | 72.7 | - | 108.4 |
| Total | 302.7 | 2,635.9 | 38.2 | 2,976.8 |

Included within the Level 1 category are unadjusted quoted prices in active markets for identical assets that the Syndicate's asset manager has the ability to access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available, except as noted below.

If the Syndicate holds a large number of similar assets that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets individually. In that case, fair value may be measured using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower level in the fair value hierarchy.

In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the measurement date.

If the quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower level in the fair value hierarchy.

Level 2 inputs are inputs other than quoted prices that are either directly or indirectly observable in the market. If the asset has a specified contractual term, a Level 2 input must be observable for substantially the full term of the asset. Adjustments to Level 2 inputs may vary depending on factors specific to the asset type. Those factors include the condition and/or location of the asset, the extent to which the inputs relate to items that are comparable to the asset, and the volume and level of activity in the

Notes to the Financial Statements (continued)

8. Financial investments (continued)

markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

Level 3 inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. Unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability including assumptions about risk. Unobservable inputs are developed based on the best information available in the circumstances. No further Level 3 disclosures have been provided on the grounds of materiality.

All manually priced broker quotes are non-binding. The Portfolio Manager makes an assessment of the reasonableness of the broker quote received. Based on the Portfolio Manager's assessment, additional quotes may be obtained to support the fair value of an investment, in which case, the average of those quotes is used as the fair value of the investment. The Portfolio Manager provides support for the manual price and the Investments team determines the appropriate level (level 2 or level 3) for the security. Manually priced broker quotes obtained on an individual case basis that cannot be substantiated to represent an executable/ exit price are classified as level 3. If the security was actively traded (with significant volume) within a thirty-day period from the last day it was manually priced, evidence of the active trade with a broker quote is appropriate documentation to classify the security a level 2. When the average of multiple broker quotes is used, the level (2 or 3) is determined based on whether or not those quotes can be substantiated.

The Syndicate asset portfolio includes Private Equity investments and the Syndicate Loan to central fund. These have all been classified as Level 3 based on the criteria above. The Group Portfolio Manager receives partnership statements / financial statements for each investment from which the residual values are recorded, and then potentially adjusted when combined with adjusted ending value reports. The Group Portfolio Manager recommends a valuation for each position, based on these statements and their own assessment/judgement.

9. Deferred acquisition costs

| | 2023 | 2022 |
|--------------------------------------|--------------|--------------|
| | £m | £m |
| At 1 January | 184.0 | 150.1 |
| Change in deferred acquisition costs | 11.3 | 17.2 |
| Foreign exchange | (1.0) | 16.7 |
| At 31 December | 194.3 | 184.0 |

10. Other Assets

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

11. Cash and cash equivalents

| | 2023 | 2022 |
|---|-------------|-------------|
| | £m | £m |
| Cash at bank and in hand | 37.0 | 77.2 |
| Short-term deposits with credit institutions* | 17.6 | 19.3 |
| Total | 54.6 | 96.5 |

*Short-term deposits with credit institutions is included in Note 8.

Notes to the Financial Statements (continued)

12. Provisions for Unearned Premiums

| | Gross £m | Reinsurers' Share £m | Net £m |
|------------------------------|--------------|----------------------------|--------------|
| 2023 | | | |
| At 1 January 2023 | 792.6 | (193.9) | 598.7 |
| Premiums written in the year | 1,696.5 | (338.6) | 1,357.9 |
| Premiums earned in the year | (1,661.2) | 345.5 | (1,315.7) |
| Foreign exchange | (28.3) | 8.9 | (19.4) |
| At 31 December 2023 | 799.6 | (178.1) | 621.5 |

| | Gross £m | Reinsurers' Share £m | Net £m |
|------------------------------|--------------|----------------------------|--------------|
| 2022 | | | |
| At 1 January 2022 | 651.3 | (159.4) | 491.9 |
| Premiums written in the year | 1,617.9 | (424.9) | 1,193.0 |
| Premiums earned in the year | (1,533.7) | 406.9 | (1,126.8) |
| Foreign exchange | 57.1 | (16.5) | 40.6 |
| At 31 December 2022 | 792.6 | (193.9) | 598.7 |

13. Claims Outstanding

| | Gross £m | Reinsurers' Share £m | Net £m |
|---------------------------------|----------------|----------------------------|----------------|
| 2023 | | | |
| At 1 January 2023 | 3,851.9 | (1,505.9) | 2,346.0 |
| Claims incurred during the year | 1,155.5 | (194.3) | 961.2 |
| Claims paid during the year | (990.7) | 326.1 | (664.6) |
| Foreign exchange | (162.3) | 61.0 | (101.3) |
| At 31 December 2023 | 3,854.4 | (1,313.1) | 2,541.3 |

| | Gross £m | Reinsurers' Share £m | Net £m |
|---------------------------------|----------------|----------------------------|----------------|
| 2022 | | | |
| At 1 January 2022 | 3,291.5 | (1,232.2) | 2,059.3 |
| Claims incurred during the year | 1,140.0 | (382.7) | 757.3 |
| Claims paid during the year | (874.1) | 231.1 | (643.0) |
| Foreign exchange | 294.5 | (122.1) | 172.4 |
| At 31 December 2022 | 3,851.9 | (1,505.9) | 2,346.0 |

Notes to the Financial Statements (continued)

14. Risk Management

14.1. Governance framework

The LMAL Board has delegated the responsibility for oversight of risk to the LMAL Risk Management Committee ("RMC"), which is supported by Executive level risk committees and an established Risk Management function.

Board risk appetites articulate the nature and extent of risks that LMAL is prepared to accept in pursuit of the strategic objectives. The Risk Management Framework is the overarching document that outlines the risk management strategy, principles and approach to managing risks, which is approved by the Board annually. Risk policies are in place for each category of risk which the Syndicate is exposed to and an emphasis is placed on assessment and documentation of existing and emerging risks and controls.

The RMC provides advice, oversight and challenge necessary to embed and maintain a supportive risk and compliance culture. In discharging its duties, the RMC provides assurance to the Board that there is an effective risk management system, comprising strategies, processes and reporting procedures, that is well integrated into the organisational structure and decision-making processes adequately covering all of the business.

14.2. Capital management objectives, policies and approach

14.2.1. Capital framework at Lloyd's

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

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

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

14.2.2. Lloyd's capital setting process

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

Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2023 was £479.0m (unaudited) on top of the member's SCR 'to ultimate'.

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.2. Capital management objectives, policies and approach (continued)

14.2.3. Provision of capital by members

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

Accordingly, all assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

14.3. Insurance risk

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

The Syndicate issues general insurance contracts referenced in note 2 segmental analysis. These risks typically cover twelve months' duration.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, which are designed to ensure that risks are diversified in terms of industry sectors, type of risk and level of insured benefits.

The Syndicate purchases reinsurance as part of its risk's mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess of loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities and in the pricing of underlying risk. The current heightened risk, due to the increased uncertainty in the future value of inflation, has been further mitigated by management actions including; pricing interventions, specific planning and reserving allocations for inflation, as well as regular review of claims trends and the forward view of inflation.

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.3. Insurance risk (continued)

The Syndicate carefully monitors risks that are emerging or changing. Management continues to monitor the developments in Ukraine. During the year, the Syndicate used a reserve modelling framework that considers a range of potential outcomes and associated probabilities. Given the framework is dependent on external factors, the continued uncertainty surrounding the loss development and range of potential outcomes will be actively monitored.

The current global macro-economic issues of inflation and potential recession are under constant assessment, with the Syndicate well placed to withstand its impact. Climate change is another key evolving area of risk, and the Syndicate monitors the impact of this through regular scenario testing, as well as ensuring that it understands and complies with relevant regulatory requirements.

Exposure to concentrations arising from the insurance contracts is a material risk to the Syndicate. The Board risk appetites include specific exposure management limits; these are cascaded down to individual underwriting portfolios. The Syndicate supports its internal quantification of exposure concentrations by utilising external, commercially available exposure management models.

The following table shows the Syndicate's exposure to its three largest natural catastrophe perils on active policies in 2023:

| Peril Region | Industry Loss £m | Syndicate Loss Gross £m | Syndicate Loss Final Net £m |
|---------------------------|-----------------------------|--|--|
| North American Hurricane | 167,897.7 | 727.8 | 448.3 |
| North American Earthquake | 68,571.0 | 737.1 | 469.4 |
| European Wind | 23,522.6 | 425.3 | 263.5 |

The following table sets out the concentration of net technical liabilities by type of contract:

| | 31 December 2023 | | | 31 December 2022 | | |
|--------------|-------------------------------------|--|-----------------------------------|-------------------------------------|--|-----------------------------------|
| | Gross liabilities £m | Reinsurance of liabilities £m | Net liabilities £m | Gross liabilities £m | Reinsurance of liabilities £m | Net liabilities £m |
| Commercial | 808.3 | (512.3) | 296.0 | 880.0 | (505.9) | 374.1 |
| Specialty | 1,538.5 | (479.1) | 1,059.4 | 1,340.7 | (482.9) | 857.8 |
| Reinsurance | 2,307.2 | (499.8) | 1,807.4 | 2,423.8 | (711.0) | 1,712.8 |
| Total | 4,654.0 | (1,491.2) | 3,162.8 | 4,644.5 | (1,699.8) | 2,944.7 |

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.3. Insurance risk (continued)

The geographical concentration of the net technical liabilities is also noted below. The disclosure is based on the countries where business is written.

| | 31 December 2023 | | | 31 December 2022 | | |
|--------------|-------------------------|----------------------------------|-----------------------|-------------------------|----------------------------------|-----------------------|
| | Gross liabilities £m | Reinsurance of liabilities £m | Net liabilities £m | Gross liabilities £m | Reinsurance of liabilities £m | Net liabilities £m |
| UK | 3,608.8 | (1,161.7) | 2,447.1 | 3,598.7 | (1,319.3) | 2,279.4 |
| EU countries | 418.3 | (164.7) | 253.6 | 448.2 | (198.1) | 250.1 |
| USA | 134.3 | (45.4) | 88.9 | 121.5 | (45.5) | 76.0 |
| Worldwide | 492.6 | (119.4) | 373.2 | 476.1 | (136.9) | 339.2 |
| Total | 4,654.0 | (1,491.2) | 3,162.8 | 4,644.5 | (1,699.8) | 2,944.7 |

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of paid and incurred claims, claim handling costs and claim inflation factors for each underwriting year.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future and are also used to assess the extent to which external factors such as judicial decisions and government legislation affect estimates.

There is a wide range of possible outcomes in assessing the technical provisions due to the uncertainty associated in estimating ultimate claims and premiums for the business written.

For all actuarial projections the final outcome will depend on the actual development of claims which in turn relies upon the appropriateness of the historic data to predict the likely development by class. Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

The results and accuracy of some underwriting classes can be sensitive to the performance of certain key contracts, either through large exposures or through a large volume of business being written under the contract, relative to the size of the account. Additionally, ultimate claims are highly dependent on exposure to and the future incidence of catastrophe events, either natural or man-made.

A large proportion of the technical provisions are in long-tail casualty classes, which increases the uncertainty relative to other classes of business. Estimates make no provision for potential and uncertainty of future claims arising from new latent causes or classes of claims not yet materially recognised in the historical experience.

A one percent increase or decrease in total claims liabilities would have the following effect on profit and equity:

| | 2023 | 2022 |
|--------------------------------|--------|--------|
| | £m | £m |
| 1% increase in claims reserves | (25.4) | (23.5) |
| 1% decrease in claims reserves | 25.4 | 23.5 |

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.3. Insurance risk (continued)

The following table shows the impact of a 1% variation in the loss ratio on profit or loss and member's balance:

| | 2023 | 2022 |
|-----------------------------|-------------|-------------|
| Net loss ratio | 73.1% | 67.2% |
| Impact of 1% variation (£m) | 13.2 | 11.3 |

14.4. Financial risk

14.4.1. Credit risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations to the Syndicate.

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

- A Reinsurer Credit Risk Policy and a Broker, Delegated Authority and Insured Credit Risk Policy setting out the framework for what constitutes credit risk for the Syndicate. The policy documents are regularly reviewed for pertinence and for changes in the credit risk environment.
- Ensuring counterparties are within risk appetite by dealing with companies that have a good credit rating or financial standing and active mitigation of credit risk by obtaining collateral or financial guarantees where necessary.
- From an investment perspective, credit risk captures the potential loss due to default or migration to a lower rating. An Investment Risk (which includes Market Risk) and a Liquidity Risk Policy exist to set out the Syndicate's approach to these risks, but also credit risk (as a subset of market risk). The policies are reviewed regularly. Limits are set for financial investments; a minimum overall average credit rating must be maintained in addition to minimum rating requirements per asset.

The tables on the following page show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. More than 57% of the past due balance is up to 12 months overdue, with the remaining balance over 12 months overdue. All overdue balances are deemed to be fully recoverable; as such no impairment has been recognised against these assets.

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.4. Financial risk (continued)

14.4.1. Credit risk (continued)

| | Neither due nor impaired £m | Financial assets that are past due but not impaired £m | Financial assets that have been impaired £m | Total £m |
|--|--------------------------------------|--|---|----------------|
| 2023 | | | | |
| Shares and other variable yield securities and unit trusts | 248.6 | - | - | 248.6 |
| Debt securities | 2,942.0 | - | - | 2,942.0 |
| Deposits with credit institutions | 17.6 | - | - | 17.6 |
| Overseas deposits as investments | 86.6 | - | - | 86.6 |
| Deposits with ceding undertakings | 8.2 | - | - | 8.2 |
| Reinsurers' share of claims outstanding | 1,313.1 | - | - | 1,313.1 |
| Reinsurance debtors | - | 88.6 | - | 88.6 |
| Cash at bank and in hand | 37.0 | - | - | 37.0 |
| Insurance debtors | 243.4 | 36.1 | - | 279.5 |
| Other debtors | 973.1 | - | - | 973.1 |
| Total credit risk | 5,869.6 | 124.7 | - | 5,994.3 |

| | Neither due nor impaired £m | Financial assets that are past due but not impaired £m | Financial assets that have been impaired £m | Total £m |
|--|--------------------------------------|--|---|----------------|
| 2022 | | | | |
| Shares and other variable yield securities and unit trusts | 139.5 | - | - | 139.5 |
| Debt securities | 2,728.9 | - | - | 2,728.9 |
| Deposits with credit institutions | 19.3 | - | - | 19.3 |
| Overseas deposits as investments | 89.1 | - | - | 89.1 |
| Deposits with ceding undertakings | 8.0 | - | - | 8.0 |
| Reinsurers' share of claims outstanding | 1,505.9 | - | - | 1,505.9 |
| Reinsurance debtors | - | 99.1 | - | 99.1 |
| Cash at bank and in hand | 77.2 | - | - | 77.2 |
| Insurance debtors | 262.5 | 40.3 | - | 302.8 |
| Other debtors | 954.8 | - | - | 954.8 |
| Total credit risk | 5,785.2 | 139.4 | - | 5,924.6 |

Insurance debtors represent amounts due from policyholders / intermediaries under direct insurance business of which 2.1% (£5.9m) of the total balance are overdue more than 12 months. Reinsurance debtors represent amounts due from recoverables on paid claims of which 53.7% (£47.6m) of the total balance are overdue more than 12 months. The insurance and reinsurance debtors are not rated and all overdue balances are deemed to be fully recoverable; as such no impairment has been recognised against these assets.

Other debtors include amounts due from ceding insurers and debtors from reinsurance inwards business, which represents 51.7% (£503.0m) of the total balance. These assets are not rated.

The tables on the following page provide information regarding the credit risk exposure of the Syndicate at 31 December 2023. Assets have been classified by way of a waterfall approach and three rating agents are used in this analysis where possible. Internal ratings are then applied for those instances where an external rating does not exist.

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.4. Financial risk (continued)

14.4.1. Credit risk (continued)

| 2023 | Credit rating relating to financial assets that are neither past due nor impaired | | | | | | Total £m |
|---|---|----------------|----------------|--------------|-------------|-----------------|----------------|
| | AAA £m | AA £m | A £m | BBB £m | <BBB £m | Not Rated £m | |
| Shares and other variable yield securities and unit trust | 203.9 | - | 17.6 | - | - | 27.1 | 248.6 |
| Debt securities | 384.1 | 1,048.3 | 935.3 | 515.6 | 4.1 | 54.7 | 2,942.1 |
| Deposits with credit institutions | - | - | 17.6 | - | - | - | 17.6 |
| Overseas deposits as investments | 38.8 | 5.2 | 6.4 | 5.0 | 9.5 | 21.7 | 86.6 |
| Deposits with ceding undertakings | - | - | 8.2 | - | - | - | 8.2 |
| Reinsurer' share of claims outstanding | - | 33.9 | 1,273.9 | - | - | 5.3 | 1,313.1 |
| Reinsurance debtors | - | - | - | - | - | - | - |
| Cash at bank and in hand | - | - | 37.0 | - | - | - | 37.0 |
| Total credit risk | 626.8 | 1,087.4 | 2,296.0 | 520.6 | 13.6 | 108.8 | 4,653.2 |

| 2022 | Credit rating relating to financial assets that are neither past due nor impaired | | | | | | Total £m |
|---|---|--------------|----------------|--------------|-------------|-----------------|----------------|
| | AAA £m | AA £m | A £m | BBB £m | <BBB £m | Not Rated £m | |
| Shares and other variable yield securities and unit trust | 106.7 | - | 16.9 | - | - | 15.9 | 139.5 |
| Debt securities | 837.8 | 468.8 | 854.3 | 502.3 | 8.3 | 57.4 | 2,728.9 |
| Deposits with credit institutions | - | - | 19.3 | - | - | - | 19.3 |
| Overseas deposits as investments | 35.3 | 7.3 | 6.7 | 4.9 | 15.1 | 19.8 | 89.1 |
| Deposits with ceding undertakings | - | - | 8.0 | - | - | - | 8.0 |
| Reinsurer' share of claims outstanding | - | 55.0 | 1,444.0 | - | - | 6.9 | 1,505.9 |
| Reinsurance debtors | - | - | - | - | - | - | - |
| Cash at bank and in hand | - | - | 77.2 | - | - | - | 77.2 |
| Total credit risk | 979.8 | 531.1 | 2,426.4 | 507.2 | 23.4 | 100.0 | 4,567.9 |

Maximum Credit Exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit risk portfolio. This enables management to focus on the applicable risks and comparison of credit exposures. During the year, the portfolio's average credit rating has not fallen below the required minimum.

Over 2023, the estimated change in the fair value of financial instruments through profit and loss attributable to changes in credit ratings was a decrease of £2.0m (2022: £0.3m increase).

Collateral

Credit Risk is also mitigated by entering into collateral agreements. At 31 December 2023, the Syndicate held collateral in the form of letters of credit of £17.6m as on-balance sheet assets (2022: £19.3m) and £43.6m pledged assets (2022: £46.1m) as off-balance sheet assets.

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.4. Financial risk (continued)

14.4.2. Liquidity risk

Liquidity risk is defined as the risk of the Syndicate being unable to meet its financial obligations as they fall due, as a result of the insufficient liquid resources. The Syndicate's appetite is to maintain sufficient liquidity to meet liabilities as they fall due. Cash will only be held for routine cash flow purposes, or where there is a specific regulatory requirement. The Syndicate accepts exposure to liquidity risk with the aim of enhancing investment return whilst preserving capital.

The Syndicate aims to maintain a diversified and appropriately liquid portfolio. Illiquid investments will be considered on a case-by-case basis depending on the supporting justification; these securities will be subject to regular review to ensure the impact on liquidity risk is immaterial.

A Liquidity risk policy exists to set out the Syndicate's approach to Liquidity Risk and detail how the Syndicate measures, manages, and reports liquidity risk.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. With the exception of £52.1m (2022: £29.9m) of discount credit relating to Motor XL PPOs, the contractual obligations are undiscounted.

| | No stated maturity | 0-1 year | 1-3 years | 3-5 years | >5 years | Total |
|-------------------------------|--------------------------|--------------|----------------|--------------|--------------|----------------|
| 2023 | £m | £m | £m | £m | £m | £m |
| Outstanding claim liabilities | - | 713.6 | 2,169.8 | 443.6 | 527.4 | 3,854.4 |
| Creditors | 320.5 | - | - | - | - | 320.5 |
| Total credit risk | 320.5 | 713.6 | 2,169.8 | 443.6 | 527.4 | 4,174.9 |

| | No stated maturity | 0-1 year | 1-3 years | 3-5 years | >5 years | Total |
|-------------------------------|--------------------------|--------------|----------------|--------------|--------------|----------------|
| 2022 | £m | £m | £m | £m | £m | £m |
| Outstanding claim liabilities | - | 379.9 | 2,166.7 | 494.6 | 810.7 | 3,851.9 |
| Creditors | 323.4 | - | - | - | - | 323.4 |
| Total credit risk | 323.4 | 379.9 | 2,166.7 | 494.6 | 810.7 | 4,175.3 |

14.4.3. Market risk

Market risk is the risk of realised or unrealised the risk of investment losses or adverse net asset movements resulting from factors that affect the invested assets or insurance liabilities, including economic and financial variables..

A Investment Risk Policy exists to set out the Syndicate's approach to Market Risk and details how the Syndicate measures, monitors and mitigates the potential market risks posed by the investment portfolio. The policy is regularly reviewed for pertinence and for changes in the Market risk environment.

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.4. Financial risk (continued)

14.4.4. Currency risk

Foreign exchange risk is the risk of fluctuations in the net asset value (NAV) due to changes in the level and volatility of currency exchange rates and mismatches between the assets and liabilities.

The Syndicate's functional currency is the USD and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP and Canadian dollars. The Syndicate seeks to mitigate the risk by matching foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign exchange rate risk at the reporting date:

| | GBP | USD | EUR | CAD | Total |
|-------------------|--------------|--------------|---------------|--------------|--------------|
| 2023 | £m | £m | £m | £m | £m |
| Total assets | 1,565.6 | 3,847.2 | 230.8 | 350.8 | 5,994.4 |
| Total liabilities | (1,109.4) | (3,465.1) | (267.6) | (191.1) | (5,033.2) |
| Net assets | 456.2 | 382.1 | (36.8) | 159.7 | 961.2 |

| | GBP | USD | EUR | CAD | Total |
|-------------------|--------------|--------------|---------------|--------------|--------------|
| 2022 | £m | £m | £m | £m | £m |
| Total assets | 1,259.8 | 4,102.9 | 251.5 | 310.4 | 5,924.6 |
| Total liabilities | (1,136.9) | (3,400.7) | (302.9) | (191.5) | (5,032.0) |
| Net assets | 122.9 | 702.2 | (51.4) | 118.9 | 892.6 |

The table below gives an indication of the impact on net asset value of a percentage change in the relative strength of the USD against GBP, Canadian dollar and the Euro simultaneously.

| | 2023 | 2022 |
|------------------------------|-------------|-------------|
| | £m | £m |
| Dollar weakens | | |
| 10% against other currencies | (59.3) | (16.4) |
| 20% against other currencies | (134.0) | (36.8) |
| Dollar strengthens | | |
| 10% against other currencies | 49.3 | 13.4 |
| 20% against other currencies | 90.0 | 24.6 |

14.4.5. Interest rate risk

Interest rate risk is the risk of realised or unrealised loss caused by a mismatch between asset and reserving liability interest rate exposure combined with fluctuating interest rates.

Liabilities in respect of Motor XL PPOs are sensitive to the level of market interest rates, as they are discounted, however, as the Syndicate entered into a Loss Portfolio Transfer agreement, during 2021 the impact of the sensitivity to the interest rate risk is mitigated.

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.4. Financial risk (continued)

14.4.5. Interest rate risk (continued)

The analysis below is performed for reasonably possible movements in interest rates, with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on fixed rate and variable rate financial assets.

This measures the impact on profit or loss for the year (for items recorded at fair value through profit or loss) that would arise from a reasonably possible change in interest rates on financial instruments at the period end.

| Changes in variables | Impact on result £m | Impact on Member's balances £m |
|----------------------|------------------------|---|
| At 31 December 2023 | | |
| + 50 basis points | (46.8) | (46.8) |
| - 50 basis points | 49.3 | 49.3 |
| At 31 December 2022 | | |
| + 50 basis points | (47.4) | (47.4) |
| - 50 basis points | 49.9 | 49.9 |

14.4.6 Equity price risk

Equity risk arises from the level or volatility of market prices for equities.

The Syndicate's equity risk exposure relates to the fluctuations in values of financial assets as a result of changes in market prices.

Equity risk is managed through limits in the investment guidelines.

The analysis below is performed for reasonably possible movements in market indices on financial instruments, insurance assets and liabilities with all other variables held constant, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the income statement) and equity (that reflects adjustments to profit before tax and changes in fair value of available for sale financial assets that are equity instruments).

The method used for deriving sensitivity information and significant variables did not change from the previous period.

| | Change in variables | 2023 | | 2022 | |
|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | | Impact on result £m | Impact on equity £m | Impact on result £m | Impact on equity £m |
| Changes in variables - market indices | | | | | |
| Shares and other variable - yield securities | +5% | 1.1 | 1.1 | 0.8 | 0.8 |
| Shares and other variable - yield securities | -5% | (1.1) | (1.1) | (0.8) | (0.8) |

Notes to the Financial Statements (continued)

14. Risk Management (continued)

14.5. Operational risk

Operational risk is the risk of loss to the Syndicate resulting from the inadequate or failed internal processes, people and systems, or from external events. This includes cyber and security issues, and risks arising from outsourced functions as well as legal and non-dispute risks.

In the normal course of business, the Syndicate may receive legal claims against it in different jurisdictions and may be subject to regulatory investigations and proceedings from time to time. The Syndicate currently considers none of the ongoing claims, investigations or proceedings to be material. However, in light of the uncertainties involved in such matters there can be no assurance that the outcome of a particular matter or matters currently not considered to be material may not ultimately be material to the Syndicate's results in a particular reporting period depending on, among other things, the amount of the loss resulting from the matter(s) and the results otherwise reported for such period. Where the Syndicate can look to another party to pay some or all of the expenditure required to settle a provision, any reimbursement is recognised when, and only when, it is virtually certain that it will be received.

Notes to the Financial Statements (continued)

15. Claims Development

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The cumulative claims estimates and cumulative payments are translated into GBP at the period end rate as at 31 December 2023.

Gross Insurance contract outstanding claims provision as at 31 December 2023

| Estimate of cumulative claims | 2013 and prior | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|--------------------------------------|-----------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At end of underwriting year | | 389.7 | 352.0 | 412.3 | 826.7 | 504.1 | 459.0 | 375.3 | 495.3 | 584.5 | 409.0 | |
| One year later | | 775.6 | 703.7 | 888.4 | 1,263.8 | 1,028.9 | 843.9 | 674.4 | 946.9 | 984.7 | | |
| Two years later | | 850.9 | 779.4 | 926.4 | 1,356.8 | 1,264.8 | 874.4 | 696.3 | 1,184.9 | | | |
| Three years later | | 866.0 | 813.2 | 1,007.9 | 1,446.6 | 1,300.3 | 908.9 | 711.6 | | | | |
| Four years later | | 856.0 | 842.7 | 1,018.8 | 1,467.3 | 1,372.6 | 890.3 | | | | | |
| Five years later | | 862.3 | 885.9 | 1,044.3 | 1,466.8 | 1,391.4 | | | | | | |
| Six years later | | 873.7 | 897.1 | 1,046.1 | 1,501.2 | | | | | | | |
| Seven years later | | 880.0 | 902.4 | 1,071.9 | | | | | | | | |
| Eight years later | | 854.3 | 891.8 | | | | | | | | | |
| Nine Year later | | 862.4 | | | | | | | | | | |
| Cumulative payments | | 769.0 | 788.0 | 885.3 | 1,255.2 | 1,043.8 | 567.9 | 405.9 | 407.1 | 233.2 | 53.0 | |
| Estimated balance to pay | 363.6 | 93.4 | 103.8 | 186.6 | 246.0 | 347.6 | 322.4 | 305.7 | 777.8 | 751.5 | 356.0 | 3,854.4 |

Net insurance contract outstanding claims provision as at 31 December 2023:

| Estimate of cumulative claims | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | Total |
|--------------------------------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| At end of underwriting year | | 354.0 | 307.6 | 331.3 | 612.5 | 392.9 | 332.4 | 251.1 | 401.6 | 485.9 | 346.4 | |
| One year later | | 702.5 | 597.7 | 678.8 | 801.2 | 668.2 | 567.8 | 441.5 | 677.4 | 816.6 | | |
| Two years later | | 747.0 | 662.7 | 620.3 | 823.5 | 829.4 | 577.8 | 433.0 | 852.5 | | | |
| Three years later | | 752.2 | 664.2 | 679.8 | 877.8 | 861.1 | 592.9 | 482.2 | | | | |
| Four years later | | 714.8 | 649.6 | 620.0 | 864.4 | 882.7 | 539.6 | | | | | |
| Five years later | | 710.1 | 644.3 | 625.2 | 861.7 | 906.5 | | | | | | |
| Six years later | | 711.5 | 638.2 | 619.4 | 891.5 | | | | | | | |
| Seven years later | | 710.2 | 666.1 | 642.5 | | | | | | | | |
| Eight years later | | 658.7 | 658.9 | | | | | | | | | |
| Nine Year later | | 667.2 | | | | | | | | | | |
| Cumulative payments | | 602.8 | 594.2 | 558.6 | 751.2 | 699.9 | 352.5 | 299.4 | 381.4 | 227.8 | 52.7 | |
| Estimated balance to pay | 257.9 | 64.4 | 64.7 | 83.9 | 140.3 | 206.6 | 187.1 | 182.8 | 471.1 | 588.8 | 293.7 | 2,541.3 |

Notes to the Financial Statements (continued)

15. Claims Development (continued)

The prior year development on net incurred losses for the 2023 financial year is a deterioration of £188.6m (2022: £82.5m favourable).

| | 2023 | 2022 |
|---------------------------------|----------------|-------------|
| | £m | £m |
| Direct insurance: | | |
| Accident & health | 6.4 | 5.4 |
| Motor (third-party liability) | 1.6 | (0.4) |
| Marine aviation & transport | (103.9) | 20.3 |
| Fire & other damage to property | (6.6) | 15.3 |
| Third party liability | (16.3) | 9.5 |
| Miscellaneous | 1.5 | 12.2 |
| Energy – Marine | 4.5 | 2.1 |
| Energy – Non Marine | (1.2) | (4.5) |
| | (114.0) | 59.9 |
| Reinsurance | (74.6) | 22.6 |
| Total | (188.6) | 82.5 |

16. Related parties

Liberty Corporate Capital Limited (LCCL) is the corporate member of the Syndicate. LCCL's immediate parent company is Liberty International Holdings Inc.

LMAL is the managing agent of the Syndicate. LMAL's immediate parent company is Liberty UK and Europe Holdings Limited. The Agency charged a managing agency fee of £12.2m (2022: £12.7m) to the Syndicate for its services, which is within the pre-determined percentage by year of account. The Agency did not charge the Syndicate a profit commission (2022: nil). At the balance sheet date, the Syndicate owed LMAL £24.8m (2022: £19.7m).

LSML is a service company from which employees are seconded to the LMAL to perform Syndicate duties for and behalf of the corporate member, for which costs are incurred and re-charged to the Syndicate. During the year, LSML charged a total of £104.4m to the Syndicate (2022: £79.6m). At year end, the Syndicate balance was nil with LSML (2022: nil). LSML's immediate parent company is Liberty UK and Europe Holdings Limited.

LSME is a European-based coverholder for Syndicate 4472. During the year, LSME charged a total of £17.7m (2022: £9.4m) to the Syndicate in recharged expenses. At the Balance Sheet date, the Syndicate owed LSME £9.1m (2022: LSME owed the Syndicate £1.4m).

LSME 2 is a European-based coverholder for Syndicate 4472. LSME2 charged a total of £6.3m (2022: £10.6m) to the Syndicate in recharged expenses. At year end LSME2 owed the Syndicate £26.6m (2022: £30.5m).

Liberty Specialty Services Limited (LSSL) acts as a coverholder for the Syndicate. During the year, LSSL did not charge the Syndicate any recharged expenses (2022: nil). At year end, the Syndicate owed LSSL £5.3m (2022: Syndicate owed £5.5m). The ultimate parent company is Liberty Mutual Holdings Company Inc.

Notes to the Financial Statements (continued)

16. Related parties (continued)

Liberty Mutual Insurance Europe SE (LMIE) is a company domiciled in Luxembourg that operates under the LSM/LMRe umbrella underwriting insurance and reinsurance business from London and its branches across Europe. During the year, the Syndicate placed no reinsurance with LMIE (2022: nil). The Syndicate paid £0.1m to LMIE during the year (2022: £0.2m). At year end the Syndicate also has a reinsurance reserve with LMIE of £14.1m (2022: £12.4m). Its ultimate parent company is Liberty Mutual Holding Company Inc.

Liberty International Group (LIG) constitutes all other entities and affiliates to the Syndicate's ultimate parent company, Liberty Mutual Holdings Company. During the year, the Syndicate placed outwards reinsurance protection of £228.2m (2022: £367.4m) with LIG. The losses recovered from LIG during the year amounted to £274.9m (2022: £160.6m). At year end, the Syndicate also has a reinsurance reserve with LIG of £1,046.6m (2022: £1,223.6m).

Liberty Specialty Markets MENA Limited (LSM MENA) also acts as a coverholder for the Syndicate, for which it charges a fee for its services. The amount charged during the period was £2.0m (2022: £1.9m). At year end, MENA owed the Syndicate £0.1m (2022: £0.1m). LSM MENA's immediate parent company is Liberty UK and Europe Holdings Limited.

17. Member's Funds

17.1. Funds at Lloyd's (FAL)

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

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

17.2. Funds in Syndicate (FIS)

The member participates on the Syndicate by reference to years of accounts' ultimate results, and assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year. The balance due to the member is payable when a year of account closes, usually after three years. Syndicate's which are wholly aligned are able to retain closed year profits as capital to support their underwriting activities. This is known as Funds in Syndicate (FIS).

LCCL holds investments of the Syndicate to be used to support the Syndicate's capital requirements of Funds at Lloyd's. This gives the Syndicate the ability to manage these funds under the same Investment Management Agreement as the other funds of the Syndicate that are held within the premiums trust funds. The value of FIS as at the balance sheet date was £1,084.0m (2022: £981.2m).

The 2006 year of account balance was retained within the Syndicate at its time of closure. Subsequently, the Syndicate also retained the results of the 2007 to 2018 years of account at their time of closure. There was a release to FIS during the year of £98.9m, of which none was used to settle the 2020 year of account profit. No additional FIS releases were made in the calendar year 2023.

Notes to the Financial Statements (continued)

18. Other debtors

| | 2023 | 2022 |
|-------------------------------------|-------------|-------------|
| | £m | £m |
| Amounts due from group undertakings | 29.9 | 34.2 |
| Sundry debtors | 38.2 | - |
| Total | 68.1 | 34.2 |

19. Other Creditors

| | 2023 | 2022 |
|-----------------------------------|-------------|-------------|
| | £m | £m |
| Amounts due to group undertakings | 39.7 | 29.4 |
| Other creditors | 0.4 | 22.7 |
| Total | 40.1 | 52.1 |

20. Accruals and deferred income

| | 2023 | 2022 |
|---|-------------|-------------|
| | £m | £m |
| Deferred acquisition costs on ceded commissions | 57.0 | 62.4 |
| Accruals | 1.7 | 1.7 |
| Total | 58.7 | 64.1 |

21. Off-balance sheet arrangements

The Syndicate benefits from collateral pledged of £43.6m (2022: £46.1m) by ceded reinsurance counterparties which is not held on the balance sheet. The collateral is held in segregated funds and acts as additional security in the event of failure of those counterparties to meet their contractual obligations.

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

22. Ultimate parent Company

The ultimate parent Company is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A. a Company Inc. in the United States of America. The smallest higher group of companies for which group accounts are drawn up and of which this Company is a member of is Liberty International Holdings Incorporated, a Company Inc. and registered in the U.S.A.

Copies of the group accounts of Liberty International Holdings Incorporated and Liberty Mutual Holding Company Inc. of Boston are available from the company's office, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A.