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Syndicate 1861 Annual Report & Accounts

As at 31 December 2022

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Directors and Professional Advisors

MANAGING AGENT:

Canopus Managing Agents Limited

Directors

N J Betteridge

P Ceurvorst *

M V Greenwood *

P F Hazell *

S Lacy

P Meader *

N D Robertson

K Roy

Appointed 5 September 2022

M C Watson *

Former Directors who served during the year and prior to date of signing

M J Bishop Resigned 30 June 2022

M P Duffy Resigned 31 December 2022

I B Owen* Resigned 31 December 2022

S A Willmont Appointed 6 September 2022; Resigned 31 October 2022

* Non-Executive Director

Company Secretary

P P Hicks

Registered office

Floor 29

22 Bishopsgate

London

EC2N 4BQ

Managing Agent's registration No. 01514453

FCA firm registration No. 204847

SYNDICATE:

Active Underwriter

A Rouffiac

Investment Manager

BlackRock - 12 Throgmorton Avenue, London, EC2N 2DL

Federated – Nuffield House, 41-46 Piccadilly, London, W1J 0DS

Lloyd's – One Lime Street, London, EC3M 7HA

Wellington – Cardinal Place, 80 Victoria Street, London, Sw1E 5JL

Barings – 20 Old Bailey, London, EC4M 7BF

Statutory Auditor

Ernst & Young LLP ("EY")

25 Churchill Place, Canary Wharf, London, E14 5EY

Report of the Directors of the Managing Agent

The directors of Canopus Managing Agents Limited (“CMA”), the managing agent for Syndicate 1861 (the ‘Syndicate’), present the annual report and audited financial statements for the Syndicate for the year ended 31 December 2022.

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, “The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland” (“FRS102”), Financial Reporting Standard 103, “Insurance Contracts” (“FRS103”) and the Companies Act 2006. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 (“the 2008 Regulations”).

Review of the business

Syndicate 1861 is a syndicate at Lloyd’s managed by CMA. Its principal activity is the underwriting of insurance and reinsurance business at Lloyd’s, transacted through direct channels and via delegated underwriting. The Syndicate did not underwrite on the 2022 or 2021 year of account, the 2020 year of account was the last year the Syndicate underwrote business. The capacity for the 2020 year of account was £550m.

The 2020 year of account of Syndicate 1861 was written on a split stamp basis with Syndicate 4444, another syndicate managed by CMA. Under this arrangement Syndicate 1861 has underwritten 35% of the joint operations. The Syndicate did not underwrite on the 2021 year of account following the pooling of capacity with Syndicate 4444 which underwrote all risks from the 2021 year of account onwards.

In December 2021 CMA entered into a Loss Portfolio Transfer Reinsurance (LPT) agreement with RiverStone Managing Agency Limited (“RiverStone”) covering the majority of classes of business no longer written by Syndicates 4444 (2020 & prior years of account) and 1861 (2020 year of account only). Under the terms of the agreement the Syndicates purchased reinsurance from RiverStone’s managed syndicate (Lloyd’s syndicate 3500) to provide loss portfolio reinsurance on the agreed policies. The results for the prior year include the premium ceded to Riverstone of £14m under the contract, while the reinsurers share of the change in provisions for claims includes the recoveries due on the business reinsured under the agreement. As at the year end the balance of the premium due to Riverstone is included in reinsurance payable.

Results and performance - Key performance indicators (‘KPIs’)

The following KPI’s were used during the year:

	2022 £m	2021 (post LPT) £m	2021 (pre LPT) £m
Gross premiums written	8.4	91.9	91.9
Earned premiums, net of reinsurance	35.7	215.2	225.1
Investment return	(5.9)	(0.8)	(0.8)
Profit for the year	15.4	2.6	1.7
Total comprehensive income	11.9	3.1	2.2
Gross claims ratio ¹	14.2%	62.0%	62.0%
Net claims ratio ²	(16.1)%	56.1%	58.4%
Expense ratios ³			
- Acquisition ratio	55.9%	37.9%	36.3%
- Administrative Expense ratio	5.4%	4.6%	4.4%
Combined operating ratio ⁴	45.2%	98.6%	98.9%
Investment return, on average invested balances ⁵	(3.0)%	(0.2)%	(0.2)%

¹The gross claims ratio is the ratio of gross claims incurred to gross premiums earned gross of reinsurance and acquisition costs.

²The net claims ratio is the ratio of net claims incurred to premiums earned net of reinsurance and gross of acquisition costs.

³The expense ratios are the ratios of the acquisition cost and operating expenses to earned premiums net of reinsurance and gross of brokerage and commissions.

⁴The combined ratio is the ratio of net claims incurred, acquisition costs and net operating expenses to net premiums earned.

⁵Investment return is calculated as the combined investment income for the period divided by the average of the opening and closing investments, cash and overseas deposit balances.

Report of the Directors of the Managing Agent

Syndicate 1861 recorded a profit for the year ended 31 December 2022 of £15.4m (2021: £2.6m post LPT profit) with a combined ratio of 45.2% (2021: 98.6% post LPT and 98.9% pre LPT). The full results of the Syndicate are set out on pages 11 and 12.

As the Syndicate ceased to write new business from the 2021 year of account, the gross written premium has continued to reduce to £8.4m for the calendar year 2022 (2021: £91.9m).

The positive claims development during the year has resulted in a combined ratio for the run off Syndicate of 45.2% for 2022, compared to 98.6% in the prior year.

Syndicate 1861's investment portfolio generated a loss of £5.9m in 2022 (2021: loss £0.8m). The decrease compared to the previous year is primarily due to significant increases in risk-free yields during the period in a bid to contain rampant inflation and accompanying spread widening, resulting in mark to market losses on the high quality short duration bond portfolio held within the Syndicate.

The 2020 year of account of Syndicate 1861 closed with a reported loss of £15.9m representing a loss of 2.9% on managed capacity. The 2020 year of account will RITC into Syndicate 4444 from 1st January 2023.

Reinsurance is purchased to reduce retention levels in accordance with CMA's risk appetite as well as to protect against potential catastrophe accumulations. Catastrophe reinsurances are generally purchased to protect capital whereas non-catastrophe reinsurances, including the loss portfolio transfer concluded in the year, are purchased for a blend of capital protection, capital efficiency and profit stability.

Business environment

The rapid increase in inflation, exacerbated by the effects of the war in Ukraine, is impacting insurers and reinsurers, driving up the cost of claims as well as other expenses. To combat inflation, central banks increased interest rates markedly over the course of 2022 and into the early part of 2023. While this has led to significant mark to market losses on fixed-income investment portfolios across the industry, these losses are expected to reverse as bonds mature and healthy investment returns are anticipated in 2023 and 2024.

Further discussion on the future business environment is not relevant as the Syndicate closed its final open year of account.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. All policies are subject to Board approval and ongoing review by management, risk management and internal audit. The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

CMA's governance structure ensures a clear definition of responsibility for the management and oversight of the risks faced by the business. CMA has an established Enterprise Risk Management ("ERM") framework that is designed to identify, assess, measure, mitigate, monitor and report all material financial and non-financial risk.

The managing agent has identified the following principal risks and uncertainties facing the Syndicate as detailed in Note 5 to the financial statements (management of risk):

Report of the Directors of the Managing Agent

- Insurance risk
- Financial risk
 - i. Market risk
 - ii. Credit risk
 - iii. Currency risk
 - iv. Liquidity risk
- Group risk
- Operational and regulatory risk
- Climate change risk

Strategy and future developments

Following the decision to concentrate underwriting into Syndicate 4444 for the 2021 year of account, the 2020 year of account is the last year of underwriting for the Syndicate.

The 2020 year of account of the Syndicate has been closed into the 2021 year of account of Syndicate 4444 via a reinsurance to close arrangement concluding the business of Syndicate 1861. The closure of the 2020 year of account concludes the business of Syndicate 1861.

Going concern

As of the date of approval of the Annual Accounts, the 2020 year of account of Syndicate 1861 has been closed into the 2021 year of account of Syndicate 4444. Syndicate 1861 has ceased to operate and with no successor years of account thus concluding its business. On this basis the Syndicate is no longer a going concern. This does not affect the balance sheet valuations in the annual accounts. The annual accounts have been prepared on the basis of other than going concern.

Directors

The directors of the managing agents who served from 1 January 2022 to the date of this report are shown on page 2. None of the directors had an allocated premium limit on the Syndicate, on either an unlimited or limited liability basis, for the 2020 year of account.

Statement of disclosure of information to auditors

In the case of each of the persons who are directors of the managing agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate's auditor in connection with the auditor's report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency 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.

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the directors of the managing agent to prepare syndicate annual accounts each year which give a true and fair view, in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing those financial statements, the managing agent is required to:

Report of the Directors of the Managing Agent

- 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 syndicate accounts; and
- Prepare the syndicate accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to do so.

The managing agent confirms that it has complied with the above requirements in preparing the syndicate accounts. The directors of the managing agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate accounts comply with the 2008 Regulations. The managing agent is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Independent Auditors

Following the completion of the reinsurance to close arrangement and closure of the Syndicate, Ernst & Young LLP will resign as the Syndicate's auditor.

By order of the Board of the managing agent.

G Phillips
Group Chief Financial Officer
London,
27 February 2023

Independent Auditor's Report to the Members of Syndicate 1861

for the year ended 31 December 2022

Opinion

We have audited the syndicate annual accounts of Syndicate 1861 ('the syndicate') for the year ended 31 December 2022 which comprise the Income Statement, the Statement of Changes in Member's Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 30, 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 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the 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.

Emphasis of matter – closure of the 2020 year of account

We draw attention to the basis of preparation note 1 which explains that the 2020 year of account of Syndicate 1861 has closed and all assets and liabilities transferred to the 2021 year of account of Syndicate 4444 through a third-party reinsurance to close arrangement at 31 December 2022. Syndicate 1861 has no successor year of account.

As a result, the Annual Report and Accounts of Syndicate 1861 has been prepared under a basis other than going concern.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Annual Report and Accounts, 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 Accounts.

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.

Independent Auditor's Report to the Members of Syndicate 1861

for the year ended 31 December 2022

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.

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 5, 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.

Independent Auditor's Report to the Members of Syndicate 1861

for the year ended 31 December 2022

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 Audit 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 to the Members of Syndicate 1861

for the year ended 31 December 2022

- 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. The fraud risk was considered to be higher within the valuation of gross incurred but not reported reserves and estimated premium income.

Our audit procedures included:

- Reviewing accounting estimates for evidence of management bias. Supported by our Actuaries we assessed if there were any indicators of management bias in the valuation of gross incurred but not reported reserves and the recognition of estimated premium income.
- Evaluating the business rationale for significant and/or unusual transactions.
- Testing the appropriateness of journal entries recorded in the general ledger, particularly in respect of judgemental areas including gross incurred but not reported reserves and estimated premium income.

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.

Andrew Blackmore (Senior statutory auditor)

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

London

27 February 2023

Income Statement: Technical Account – General Business

for the year ended 31 December 2022

	Notes	2022		2021	
		£000	£000	£000	£000
Earned premiums, net of reinsurance					
Gross premiums written	7	8,413		91,879	
Outward reinsurance premiums		(2,311)		(32,254)	
Net premiums written		6,102		59,625	
Change in the provision for unearned premiums:					
Gross amount	24	38,877		178,841	
Reinsurers' share	24	(9,275)		(23,284)	
Change in the net provision for unearned premiums		29,602		155,557	
Earned premiums, net of reinsurance					
			35,704		215,182
Allocated investment (loss)/return transferred from the non-technical account	14		(5,851)		(780)
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(119,781)		(221,736)	
Reinsurers' share		29,790		15,218	
Net claims paid		(89,991)		(206,518)	
Change in the provision for claims					
Gross amount	24	113,060		53,781	
Reinsurers' share	24	(17,328)		31,988	
Change in the net provisions for claims		95,732		85,769	
Claims incurred, net of reinsurance			5,741		(120,749)
Net operating expenses	10, 11		(21,877)		(91,501)
Balance on the technical account for general business			13,717		2,152

The Syndicate ceased underwriting with effect from 1 January 2021 and therefore there are no component parts of the business to be separately classified and disclosed as discontinued.

Income Statement: Non-technical Account

for the year ended 31 December 2022

	<i>Notes</i>	2022 £000	2021 £000
<i>Balance on the general business technical account</i>		13,717	2,152
Investment income	14	2,723	1,043
Realised losses on investments	14	(3,828)	(38)
Net unrealised losses investments	14	(4,607)	(1,621)
Investment expenses and charges	14	(139)	(164)
Allocated investment return transferred to the general business technical account		5,851	780
Profit on exchange	10	1,657	407
Profit for the year		15,374	2,559
Other comprehensive income - Currency translation differences		(3,484)	505
Total comprehensive income for the year		11,890	3,064

The Syndicate ceased underwriting with effect from 1 January 2021 and therefore there are no component parts of the business to be separately classified and disclosed as discontinued

Statement of Change in Members' Balances

for the year ended 31 December 2022

	2022 £000	2021 £000
<i>Members' balances at 1 January</i>	(28,768)	(184,161)
Total comprehensive income for financial year	11,890	3,064
Cash calls made	-	115,705
Amount received from members' personal reserve fund	1,015	36,627
Other movements in Members' balances	(12)	(3)
<i>Members' balances at 31 December</i>	(15,875)	(28,768)

Statement of Financial Position – Assets

at 31 December 2022

		2022		2021	
	Notes	£000	£000	£000	£000
Investments					
Other financial investments	15		118,971		191,647
Deposits with ceding undertakings			365		336
Reinsurers' share of technical provisions					
Provision for unearned premiums	24	5,186		13,448	
Claims outstanding	24	147,677		149,573	
			152,863		163,021
Debtors					
Debtors arising out of direct insurance operations	16	41,033		50,665	
Debtors arising out of reinsurance operations	17	28,175		33,406	
Other debtors	18	1,126		215	
			70,334		84,286
Other assets					
Cash at bank and in hand			5,128		2,957
Overseas deposits	19		23,202		34,242
Prepayments and accrued income					
Deferred acquisition costs	23	7,497		20,168	
Other prepayments and accrued income		383		451	
			7,880		20,619
Total assets			378,743		497,108

Statement of Financial Position – Liabilities

at 31 December 2022

	Notes	2022		2021	
		£000	£000	£000	£000
Capital and reserves					
Members' balances	2		(15,875)		(28,768)
Technical provisions					
Provision for unearned premiums	24	26,893		62,373	
Claims outstanding	24	313,953		391,956	
			340,846		454,329
Creditors					
Creditors arising out of direct insurance operations	20	6,385		11,556	
Creditors arising out of reinsurance operations	21	43,765		48,150	
Other creditors	22	3,622		11,841	
			53,772		71,547
Total liabilities			378,743		497,108

The financial statements on pages 11 to 41 were approved by the Board of CMA on 27 February 2023 and were signed on its behalf by:

G Phillips
Group Chief Financial Officer
27 February 2023

Statement of Cash Flows

for the year ended 31 December 2022

	2022		2021	
	£000	£000	£000	£000
Cash flows from operating activities				
Profit for the year	15,374		2,559	
Decrease in gross technical provisions	(113,483)		(631,018)	
Increase in reinsurers' share of gross technical provisions	10,158		82,953	
Decrease in debtors	15,036		207,890	
Decrease in creditors	(18,899)		(62,430)	
Movement in other assets/liabilities	23,779		91,216	
Investment return	5,851		780	
Foreign exchange	(3,622)		2,814	
<i>Net cash flows from operating activities</i>		(65,806)		(305,236)
Cash flows from investing activities				
Purchase of equity and debt instruments	(119,799)		(139,776)	
Sale of equity and debt instruments	187,991		249,210	
Investment income received	(1,244)		841	
<i>Net cash flows from investing activities</i>		66,948		110,275
Cash flows from financing activities				
Amount received from members' personal reserve funds and cash calls	1,015		152,332	
<i>Net cash flows from financing activities</i>		1,015		152,332
Foreign exchange on cash and cash equivalents		136		(2,309)
<i>Net increase/(decrease) in cash and cash equivalents</i>		2,293		(44,938)
Cash at bank and in hand	2,957		48,876	
Short term deposits with credit institutions	981		-	
<i>Cash and cash equivalents at beginning of year</i>		3,938		48,876
Cash at bank and in hand	5,128		2,957	
Short term deposits with credit institutions	1,103		981	
<i>Cash and cash equivalents at end of year</i>		6,231		3,938

Notes to the Financial Statements

for the year ended 31 December 2022

1. Statement of compliance & basis of preparation

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102"), Financial Reporting Standard 103, "Insurance Contracts" and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Following the conclusion of a reinsurance to close arrangement with Syndicate 4444, another syndicate managed by Canopius Managing Agents Limited, effective 1 January 2023, Syndicate 1861 will cease to operate and will have no successor years of account thus concluding its business. Accordingly, these accounts have been prepared on a basis other than going concern. This has had no impact on the carrying value of the Syndicate's assets and liabilities.

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

The financial statements are presented in Sterling, the presentation currency, and rounded to the nearest £'000. The functional currency of the Syndicate is US dollars.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

2. Members' balances and Funds at Lloyd's ("FAL")

The members' balances on the balance sheet shows a deficit of £15.9m (2021: deficit £28.8m). The ability of the Syndicate to meet its obligations as they fall due is underpinned by the members' Funds at Lloyd's and the support provided by the Lloyd's chain of security for any members who are unable to meet their underwriting liabilities. FAL is further explained in Note 29.

3. Summary of significant accounting policies

a. Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those that transfer significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits above the premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Contracts that do not transfer significant insurance risk are accounted for as financial transactions. The Syndicate adopts an annual basis of accounting for insurance contracts whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance.

Gross premiums written, stated gross of acquisition costs and exclusive of premium taxes, relate to business incepted during the year and adjustments to premiums booked in prior years and includes estimates, based on underwriting estimates or past experience, of premiums due but not yet receivable or notified to the syndicate by intermediaries. Additional or return premiums are treated as a re-measurement of the initial premium.

Notes to the Financial Statements

for the year ended 31 December 2022

3. Summary of significant accounting policies (continued)

a. Insurance contracts (continued)

Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated by reference to the expected incidence of risk over the period of cover.

'Risks attaching' outwards reinsurance premiums (net of reinsurance commission costs) are accounted for with regard to the incidence of risk of the premiums for the direct or inwards reinsurance business to which they relate. Reinsurance contracts that operate on a 'losses occurring' basis are accounted for in full over the period of coverage. The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums written which is estimated to be earned in the following financial years.

There are a number of different types of business written by the Syndicate, including property, liability and marine business, broadly categorised as either "short tail" or "long tail" business. The Syndicate also writes reinsurance business. The characteristics of this business mirror those of the underlying business ceded to the syndicate.

The accounting policies for insurance claims and claims settlement expenses are considered in Note 4 (Critical accounting judgements and estimation uncertainty).

Short Tail Business

For "short tail" business there is typically no significant delay between the occurrence of the claim and the claim being reported. The costs of claims notified at the balance sheet date are estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims, including provisions for claims incurred but not reported ("IBNR"), is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time.

Longer tail business

For longer tail business there is typically a delay between the occurrence of a claim and the claim being reported. Consequently a larger element of the claims provision relates to IBNR claims. Claims estimates for business in this category are derived from a combination of loss ratio based estimates and estimates based upon actual claims experience, using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimates of the claims provisions are based on the experience of previous years and benchmarks adjusted for factors such as premium rate changes and claims inflation. For liability claims, the assessment of claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability classes of business are also subject to the emergence of new types of latent claims.

b. Unexpired risk reserves

At each balance sheet date tests are performed to ensure the adequacy of the unearned premium reserve, net of associated deferred acquisition costs, to cover future claims liabilities. In performing these tests, estimates of future premiums and claims cash flows, claims handling expenses and investment income from the assets backing such liabilities are considered and compared to the balances in the unearned premium reserve and deferred acquisition costs. Provision is made for any deficiencies by establishing an unexpired risk reserve.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. Unexpired risk reserves, where relevant, are included within "claims outstanding" in the balance sheet. At 31 December 2022 the Syndicate did not have an unexpired risks provision (31 December 2021: £Nil).

c. Deferred acquisition costs

Acquisition costs comprise costs arising from the inception of insurance contracts. They include both direct costs, such as intermediary commissions and indirect costs, such as the administrative expenses associated with the issuing of policies. Deferred acquisition costs represent the proportion of commission and other acquisition costs relating to policies in force at the period-end, that cover subsequent reporting periods. These are amortised over the period in which the related premiums are earned.

Notes to the Financial Statements

for the year ended 31 December 2022

3. Summary of significant accounting policies (continued)

d. Reinsurance to close (“RITC”)

Each syndicate’s underwriting year of account is normally closed after the end of the third year by means of reinsurance into the following underwriting year of account, which reinsures all liabilities for the closed year in return for a premium determined by the Syndicate’s managing agent.

Third party RITCs, either inwards or outwards, are not reported as income but recognised as a transfer of assets and liabilities.

e. Outwards reinsurance contracts

Outwards reinsurance contracts are contracts entered into by the Syndicate with reinsurers whereby the syndicate may recover a proportion of losses on contracts written by the Syndicate. Contracts that do not transfer significant insurance risk are accounted for as financial transactions.

The benefits to which the Syndicate is entitled under its outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related insurance contracts. These balances are based on calculated amounts of outstanding claims and projections for IBNR, having regard to the reinsurance programme in place for the class of business and the claims experience for the period, net of estimated irrecoverable amounts after assessing the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

The Syndicate assesses its reinsurance assets for impairment. If there is evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the profit and loss account.

f. Receivables and payables related to insurance contracts

Receivables and payables include amounts due to and from agents, brokers and insurance contract holders. If there is evidence that the insurance receivable is impaired, the Syndicate reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account.

g. Financial assets

The Syndicate states financial assets at fair value.

The Syndicate classifies its financial assets into the following categories: financial assets at fair value through profit and loss, loans and receivables and derivative financial instruments. There are no assets classified as available for sale.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

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

(i) Financial assets at fair value through profit and loss

The Syndicate classifies its investments at fair value through profit and loss.

Purchases and sales of investments are accounted for at their fair values (normally their cost of acquisition or proceeds of disposal) on the trade date, which is the date the Syndicate commits to purchase or sell the assets.

Notes to the Financial Statements

for the year ended 31 December 2022

3. Summary of significant accounting policies (continued)

g. Financial assets (continued)

The fair value of quoted investments is based on quoted bid prices. Realised and unrealised gains and losses arising from the changes in fair values are included in investment return in the profit and loss account in the period in which they arise. Unquoted investments are initially carried at cost as the best estimate of fair value, which is adjusted using appropriate valuation techniques and having regard to subsequent events or changes in circumstances.

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are not intended to be sold in the short term and do not fall into the other categories of financial assets as described above. Loans and receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the Syndicate will not be able to collect all amounts due according to their original terms. These are reversed if the payment is received. Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(iii) Deposits with ceding undertakings

Syndicate 1861 advances funds to ceding undertakings for the settlement of claims. These are measured at cost less allowance for impairment.

(iv) Derivative financial instruments

Syndicate 1861 enters into exchange traded derivatives and foreign currency forward contracts from time to time to manage its exposures to interest rate risk and foreign exchange rate volatility. These contracts are initially recorded at cost and revalued to their fair value at each period end by reference to the rates of exchange ruling at the balance sheet date. Any gains or losses on the contracts are included in the non-technical account.

(v) Cash and cash equivalents

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

Lloyd's overseas deposits are not included within the balance of cash at bank and in hand on the Balance Sheet. These are recognised separately in their own category within other assets.

h. Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the Syndicate operates. The functional currency for Syndicate 1861 is the US Dollar. The presentational currency for the Syndicate Annual Report and Accounts is Sterling. Foreign exchange resulting from translating balances in functional currency into Sterling is included in Other Comprehensive Income. FRS 102 requires all foreign currency transactions to be translated into the functional currency at the transactional rate of exchange. Transactions in Sterling, Canadian dollars and Euros are translated to US Dollars at the average rates of exchange for the period as these approximate the actual rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Notes to the Financial Statements

for the year ended 31 December 2022

3. Summary of significant accounting policies (continued)

h. Foreign currencies (continued)

At the period end, the monetary foreign currency items are translated to US Dollars at the closing rate with any difference being recorded in the non-technical account. For the purposes of applying the requirements of Section 30 Foreign Currency Translation of FRS 102, all assets and liabilities arising from insurance contracts are treated as monetary items.

i. Taxation

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

No provision has been made for any United States federal income tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading "other debtors". No provision has been made for any other overseas tax payable by members on underwriting results.

4. Critical accounting judgements and estimation uncertainty

Insurance claims and claims settlement expenses

Insurance claims and claims settlement expenses comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for IBNR and related expenses, together with any other adjustments to claims from prior years. See Note 24.

Provision is made at the period-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. There is inherent uncertainty in establishing claims provisions and it is likely that the final outcome will prove to be different from the original estimate of the liability. Adjustments to the amounts of claims provisions established in prior years are included in the financial statements in the period in which the adjustments are made. The claims provisions are reviewed regularly.

Estimating claims IBNR is inherently more uncertain than the cost of claims notified, for which more information about the claim event is generally available.

Classes of business where the IBNR proportion of the total claims provisions is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility in the claims provisions.

Where possible the Syndicate adopts multiple techniques to estimate the required level of claims provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each underwriting year of account.

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

- changes in the business environment or processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from prior periods;
- changes in the legal environment;
- the effects of inflation;

Notes to the Financial Statements

for the year ended 31 December 2022

4. Critical accounting judgements and estimation uncertainty (continued)

Insurance claims and claims settlement expenses (continued)

- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

In estimating the cost of notified but not paid claims the Syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims and catastrophe events impacting each relevant business class are generally assessed separately, 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 these large claims.

Claims provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers. An assessment is also made of the recoverability of reinsurance recoveries having regard to available data on the financial strength of each of the reinsurance companies.

Claims reserved as non-life annuities are discounted for investment earnings that may be expected to arise in the future on funds retained to meet the future liabilities. All other claims provisions are undiscounted.

Premium estimates

Gross written premiums include an estimate of the total premiums expected to be received under each insurance and reinsurance contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips, is calculated based on the estimated underlying inception profile of each contract and, therefore, this premium recognition is judgemental. Further adjustments to estimates from previous years are also included in the reported premiums for the relevant underwriting years.

Reinstatement premiums are estimated in accordance with the contract terms and recorded based upon paid losses and claims reserves.

Premium estimation uses expert judgement, the quality of the estimate being influenced by the nature and maturity of the portfolio, availability of timely data, relevant underwriting input to the estimating process and management review. Gross written premium estimates are reviewed regularly using underwriter estimates and actuarial projections. The amount of estimated future premium that remains in insurance receivable is disclosed in Notes 16 and 17.

Financial investments

The Syndicate uses prices provided by third party suppliers, investment managers and counterparty banks in determining the fair value of financial assets. Depending on the methods and assumptions used, for example, in the fair valuation of Level 2 and Level 3 financial assets, the fair valuation can be subject to estimation uncertainty. These methods and assumptions are described in Note 5 below.

5. Management of risk

The Syndicate has identified the principal risks and uncertainties arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below explain how the Syndicate defines and manages each category of risk.

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

a. Insurance risk

Insurance risk is defined as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Syndicate 1861's exposure to insurance risk arises from underwriting/pricing, insurance concentrations, reserving and reinsurance. The Board of CMA seeks to mitigate insurance risk by analysing historical pricing and claims experience, setting a tolerance to concentration risk, monitoring performance, and conducting in-house actuarial reviews of claims provisions, independent of the underwriting teams.

The Syndicate has formal controls in place to ensure that business is underwritten in a controlled environment by reference to both the annual business plan and in line with underwriting policy. Preventative controls include underwriting authority limits which are agreed and signed off by the Active Underwriter, divisional and Group underwriting guidelines and benchmark ratings for all underwriting divisions. Detection controls include exception reports where authority limits are exceeded, expert review procedures, peer reviews and internal audit reviews.

Syndicate 1861 is exposed to potentially significant losses arising from natural catastrophe events such as windstorm, earthquake, flood or pandemic in addition to man-made perils. CMA quantifies catastrophe risk exposures using proprietary modelling software in conjunction with the principal underwriting systems to assess and model catastrophe exposures. The modelling tools are used in conjunction with CMA's knowledge of the business, historical loss information and geographic accumulations to monitor aggregation and to simulate catastrophe losses. The range of scenarios considered includes natural catastrophe, property, marine, liability and terrorism events.

CMA's capital setting methodology enables modelling to be performed in a sophisticated, but practical, manner particularly in determining the correlations between catastrophe exposed classes of business. Models use event tables which capture directly the different geographic distributions of risk in the various lines of business.

Effective risk management in non-core areas and from non-modelled perils is ensured using a suite of exposure accumulation and aggregation monitoring techniques and proprietary deterministic models.

The managing agent manages insurance risks on behalf of the Syndicate, including the following:

- inappropriate underwriting activities and cycle management;
- inadequate catastrophe exposure management; and
- inadequate or insufficient reinsurance protection.

The underwriters, supported by the actuarial pricing team, use their expertise and experience to determine the likely claims cost and, therefore, the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit in line with the agreed business plan.

Due to the nature of insurance risk, however, the premium charged may not be sufficient to cover the cost of claims. The shortfall may result from insufficient premium being calculated and charged or from an unexpected or unprecedented high level of claims.

A number of controls are employed to limit insurance exposures. Each year a business plan is prepared and agreed by the Board which sets the premium income targets and exposures to be written in total and for each class of business. Progress against this plan is monitored by the Board during the year.

Insurance liabilities are assumed through individual risk acceptances, reinsurance treaties or binding authorities. Binding authorities delegate underwriting authority to other underwriters, or agents acting as coverholders, who use their judgement to write risks on Syndicate 1861's behalf under clear authority levels. In such situations, the coverholders' activities are closely monitored and reviewed, and periodic on-site audits are carried out to ensure that the terms of the delegated authorities are being adhered to.

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

a. Insurance risk (continued)

The Syndicate is also exposed to the risk of:

- inappropriate claims reserves;
- inappropriate payment of claims.

All claims arising are reserved upon notification. The entire portfolio of business is subject to a quarterly reserving process whereby levels of paid and outstanding claims are reviewed. Potential future claims are assessed with a provision for IBNR claims being made. The quarterly review process is overseen by the Reserving Committee and Board Audit Committee. Whilst a detailed and disciplined reserving exercise is carried out, known claims can develop beyond the level of reserves held.

Furthermore, there is increased uncertainty around the provision for IBNR claims. Consequently, there is a possibility that claims may arise which in aggregate exceed the reserve provision established. In the event that claims do not develop in line with expectations, the Reserving Committee will seek to release any redundant reserves.

The Syndicate purchases specific reinsurances to protect against single risk losses. The Syndicate also purchases general excess of loss reinsurance to protect from severe losses. The structure of the programme and type of protection bought will vary from year to year depending on risk appetite and the availability and price of cover.

(i) Development of claims

The claims provisions established can be more or less than adequate to meet eventual claims. The level of uncertainty varies from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be a £1.7m gain/loss (2021: £2.4m gain/loss).

(ii) Claims development tables

The development of insurance liabilities provides a measure of the Syndicate's ability to estimate the ultimate value of claims. Historic development includes a mix of prior year releases and deteriorations, and in 2022 gross and net deteriorations occurred. Claims development is expected over the first 3 years of a year of account as the business written, and as yet unwritten, writes and earns.

The tables below are presented at the exchange rates prevailing at 31 December 2022.

At 31 December 2022	2019 YOA	2020 YOA	Total
Gross of reinsurance	£000	£000	£000
At end of underwriting year	150,863	172,646	323,509
One year later	492,493	321,067	813,560
Two years later	529,995	333,257	863,252
Three years later	524,961		524,961
Gross incurred claims on premium earned to date	524,961	333,257	858,218
Cumulative payments	(363,225)	(181,040)	(544,265)
Gross claim reserve	161,736	152,217	313,953

At 31 December 2022	2019 YOA	2020 YOA	Total
Net of reinsurance	£000	£000	£000
At end of underwriting year	117,775	132,221	249,996
One year later	382,908	226,932	609,840
Two years later	421,659	243,583	665,242
Three years later	399,296		399,296
Net incurred claims on premium earned to date	399,296	243,583	642,879
Cumulative payments	(330,625)	(145,980)	(476,604)
Net claim reserve	68,673	97,603	166,275

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

b. Financial risk

The Syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts. An analysis of the Syndicate's exposure to the significant components of financial risk is given below split between:

- (i) Market risk (including interest rate risk and equity price risk);
- (ii) Credit risk (including Fair Value Hierarchy);
- (iii) Currency risk; and
- (iv) Liquidity risk.

(i) Market risk

Market risk arises from fluctuations in values of, or income from, assets or in interest or exchange rates and is derived primarily from the Syndicate's investment asset portfolio and from currency exposures. The Board has agreed an investment strategy commensurate with the Syndicate's risk appetite.

(ii) Interest rate risk

CMA manages sensitivity to market conditions by reference to interest rate risk and equity price risk. Since the majority of the Syndicate's investments comprise cash, overseas deposits and fixed income securities, the fair value of the portfolio is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the Syndicate's fixed income securities tends to rise and vice versa. The fair value of fixed income investments in the Syndicate's balance sheet at 31 December 2022 was £98.8m (2021: £111.0m) with an average duration 2.3 years (2021: 2.3 years).

The sensitivity of the Syndicate's investments from a rise or fall in interest rates is listed below:

	<i>Impact on profit and net assets</i>	
	<i>2022</i>	<i>2021</i>
	<i>£m</i>	<i>£m</i>
50 basis points increase	(1.2)	(1.5)
50 basis points decrease	1.2	1.5

The Syndicate manages interest rate risk by investing in financial investments, cash and overseas deposits with an average duration of less than four years. The Group Investment Committee monitors the duration of these assets on a regular basis.

Outstanding claims provisions are not sensitive to the level of interest rates as they are undiscounted and contractually non-interest bearing.

Equity price risk

Equity price risk is managed through a well-diversified portfolio which is complemented by non-correlated assets.

At the balance sheet date the Syndicate was not exposed to any direct equity price risk other than the loan to the Lloyd's central fund.

(iii) Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations. Credit risk could, therefore, impact upon the Syndicate's ability to meet its claims as they fall due. The Syndicate has in place policies and procedures designed to manage its credit risk exposures.

The primary sources of credit risk for the Syndicate are:

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

(iii) Credit risk (continued)

- amounts due from reinsurers,
- amounts due from insurance intermediaries, and
- counterparty risk with respect to investments including cash and cash equivalents.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security by CMA's Reinsurance Security Committee, prior to the purchase of reinsurance contracts. Guidelines are set and monitored, that limit the purchase of reinsurance based on Standard & Poor's or appropriate alternative ratings for each reinsurer. The credit risk in respect of reinsurers is primarily managed by CMA's reinsurance team. Provisions are made against the amounts due from certain reinsurers, depending on the current rating assigned to the reinsurer. Some reinsurers provide collateral, usually in the form of either deposits held in designated trust accounts or letters of credit, to protect the Syndicate in the event of non-payment of debt. As this collateral effectively guarantees the debt, these reinsurers are zero-rated for bad debt provisions. The recovery of debt from reinsurers is administered by the credit management team. This risk continues to reduce as new business is no longer written and debtor balances fall year on year.

The credit risk in respect of insurance intermediaries is managed by the credit management function with the aid of the underwriting support team and a dedicated binder management team. This risk continues to reduce as new business is no longer written and debtor balances fall year on year.

To transact business with the Syndicate the insurance intermediary must first comply with internal guidelines that include approval (where relevant) by both the PRA and Lloyd's, to have a satisfactory credit rating and to have in place a terms of business agreement or a binding authority agreement with the Syndicate. The position is then monitored through ongoing review of the amount of debt outstanding to terms, and by regular cover-holder audits.

Debts from insurance intermediaries fall due according to the terms of trade; debts from reinsurers crystallise in line with the reinsurance contract terms.

An analysis of amounts past due from insurance intermediaries and reinsurers by age is presented below.

<i>At 31 December 2022</i>	<i>Neither past due nor impaired</i>	<i>Up to 3 months</i>	<i>3 – 6 months</i>	<i>6 – 12 months</i>	<i>More than 12 months</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Debtors arising out of direct insurance operations	41,033	-	-	-	-	41,033
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	14,701	-	-	-	-	14,701
Reinsurance recoverables on paid claims	-	6,185	3,926	2,705	658	13,474
Total	55,734	6,185	3,926	2,705	658	69,208

Reinsurance recoverables on paid claims is net of bad debt provision of £319k (2021: £165k).

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

(iii) Credit risk (continued)

<i>At 31 December 2021</i>	<i>Neither past due nor impaired</i>	<i>Up to 3 months</i>	<i>3 – 6 months</i>	<i>6 – 12 months</i>	<i>More than 12 months</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Debtors arising out of direct insurance operations	50,665	-	-	-	-	50,665
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	25,126	-	-	-	-	25,126
Reinsurance recoverables on paid claims	-	6,968	718	437	157	8,280
Total	75,791	6,968	718	437	157	84,071

Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by setting minimum credit worthiness of investments and ensuring diversification of the holdings.

An analysis of the Syndicate's major exposure to counterparty credit risk and credit risk with the investment funds and cash, based on Standard & Poor's or equivalent rating, is presented below. These assets are neither overdue nor impaired.

<i>At 31 December 2022</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB/ BB</i>	<i>Other/Not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Reinsurers' share of claims outstanding	-	14,706	114,182	178	18,611	147,677
Debt and other fixed income securities	46,471	17,553	34,280	462	-	98,766
Shares and other variable yield securities and units in unit trusts	6,563	1,840	-	-	8,103	16,506
Derivative assets	-	-	-	-	2,596	2,596
Overseas deposits	9,820	2,782	1,781	8,710	109	23,202
Deposits with credit institutions	-	1,103	-	-	-	1,103
Cash	-	5,128	-	-	-	5,128
Total	62,854	43,112	150,243	9,350	29,419	294,978

<i>At 31 December 2021</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB/ BB</i>	<i>Other/Not rated</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Reinsurers' share of claims outstanding	-	19,164	118,810	466	11,133	149,573
Debt and other fixed income securities	56,801	23,353	30,601	228	-	110,983
Shares and other variable yield securities and units in unit trusts	70,826	-	-	-	8,403	79,229
Derivative assets	-	-	-	-	454	454
Overseas deposits	14,010	2,014	7,907	1,746	8,565	34,242
Deposits with credit institutions	-	-	981	-	-	981
Cash	92	-	2,865	-	-	2,957
Total	141,729	44,531	161,164	2,440	28,555	378,419

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

(iii) Credit risk (continued)

The carrying values represent the maximum exposure to credit risk at the balance sheet date in respect of the above assets. The analysis above does not include insurance debtors from direct insurance operations as the majority of these assets are in respect of premiums for which the information is not readily available. Those reinsurance reserves with unrated counterparties are fully collateralised.

Fair Value Hierarchy

The Syndicate has classified its financial instruments in accordance with the requirements of paragraph 34.42 to the March 2018 amendment to FRS102 and has adopted an approach consistent with IFRS13, Fair Value Measurement. The fair value hierarchy classifies financial instruments into Level 1 to 3 based on the significance of the inputs used in measuring their fair value.

The levels within the fair value hierarchy are defined as follows:

- Level 1 - Based on unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement.
- Level 2 - Based on inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 - Where inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

<i>At 31 December 2022</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Shares and other variable yield securities	1,903	6,500	8,103	16,506
Debt and other fixed income securities	14,435	84,331	-	98,766
Deposits with credit institutions	1,103	-	-	1,103
Derivative assets	-	2,596	-	2,596
Other financial investments	17,441	93,427	8,103	118,971
Overseas Deposits	3,194	20,008	-	23,202
Total	20,635	113,435	8,103	142,173

<i>At 31 December 2021</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Shares and other variable yield securities	2,394	68,432	8,403	79,229
Debt and other fixed income securities	19,405	91,578	-	110,983
Deposits with credit institutions	981	-	-	981
Derivative assets	-	454	-	454
Other financial investments	22,780	160,464	8,403	191,647
Overseas Deposits	8,143	26,099	-	34,242
Total	30,923	186,563	8,403	225,889

The level within the hierarchy that a financial instrument is placed is based on the lowest level of any input that is significant to its fair value measurement. Quoted prices for corporate bonds are based on a limited number of transactions for those securities and as such are considered to meet the definition of level 2 assets. CMA determines whether transfers have occurred between levels in the fair value hierarchy by assessing categorisation at the end of the reporting period. There have been no transfers between level 1 and level 2 financial instruments during the year (2021: £nil).

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

Fair Value Hierarchy (continued)

Values for assets which have no observable market value are considered level 3 assets. This balance represents the Syndicate's loans to the Lloyd's central fund, these are not tradeable and are fair valued based on a discounted cash flow model to which a fair value adjustment has been applied to appropriately reflect the credit and illiquidity risk of the instrument. These loans are deemed to be equity on the basis that the repayment of the loan and payment of interest thereon is at the discretion of the Corporation of Lloyd's. The Syndicate loans have been classified as level 3 because the valuation approach include significant unobservable inputs and an element of subjectivity in determining appropriate credit and illiquidity spreads within the discount rates used in the discounted cash flow model. The fair value of the loan at year end is £8.1m (2021: £8.4m).

There were no transfers to and from level 3 assets for the period ended 31 December 2022 when compared with the comparative prior period end.

(iv) Currency risk

Policyholders' assets are held in the five principal Lloyd's settlement currencies (Sterling, Euros, US, Australian and Canadian dollars) which represent the vast majority of the Syndicate's liabilities by currency. A significant proportion of the Syndicate's business is transacted in US dollars. The Syndicate's functional currency is US dollars and, therefore, foreign exchange risk also arises when non-US dollar profits are converted into US dollars.

CMA has a policy to mitigate foreign exchange risk and this policy is managed by the Finance team and overseen by the Finance Committee.

The Syndicate is exposed to foreign exchange risk primarily with respect to the Sterling, Euro Australian and Canadian dollar. The Syndicate mitigates this risk by endeavouring to match assets and liabilities in foreign currency. The Managing Agent reviews currency matching quarterly.

In certain circumstances, the Syndicate is exposed to a foreign exchange risk where regulators demand that the Syndicate holds US, Australian and Canadian dollar currency assets to match liabilities measured on a regulatory basis, rather than best estimate.

If the exchange rates of all non-USD currencies moved by a foreseeable 5%, either to the benefit or detriment of the Syndicate at the same time, the impact on both the result for the year and the member's balances, expressed in presentational GBP terms, would be £915k (2021: £126k).

The profile of the Syndicate's assets and liabilities, categorised by currency, was as follows:

<i>At 31 December 2022</i>	<i>Sterling & Other</i>	<i>US dollar</i>	<i>Euro</i>	<i>CAD</i>	<i>AUD</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial investments	8,732	97,395	-	12,844	-	118,971
Overseas deposits	17,155	2,592	-	3,183	272	23,202
Reinsurers' share of technical provisions	16,195	129,485	6,164	945	74	152,863
Insurance and reinsurance receivables	10,200	52,189	5,272	969	578	69,208
Cash and cash equivalents	6	-	1,023	-	4,099	5,128
Other assets	2,852	5,028	1,386	51	54	9,371
Total assets	55,140	286,689	13,845	17,992	5,077	378,743
Technical provisions	56,809	249,249	23,731	6,637	4,420	340,846
Insurance and reinsurance payables	9,293	32,237	7,573	893	154	50,150
Other creditors	1,676	1,877	57	12	-	3,622
Total liabilities	67,778	283,363	31,361	7,542	4,574	394,618

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for the year ended 31 December 2022

5. Management of risk (continued)

<i>At 31 December 2021</i>	<i>Sterling & Other £000</i>	<i>US dollar £000</i>	<i>Euro £000</i>	<i>CAD £000</i>	<i>AUD £000</i>	<i>Total £000</i>
Financial investments	8,403	129,604	37,660	15,980	-	191,647
Overseas deposits	21,289	2,849	-	4,396	5,708	34,242
Reinsurers' share of technical provisions	20,838	130,158	10,523	1,424	78	163,021
Insurance and reinsurance receivables	10,119	61,233	11,035	1,044	640	84,071
Cash and cash equivalents	330	-	1,375	-	1,252	2,957
Other assets	8,053	7,947	4,726	340	104	21,170
Total assets	69,032	331,791	65,319	23,184	7,782	497,108
Technical provisions	79,936	315,814	41,355	10,657	6,567	454,329
Insurance and reinsurance payables	9,037	37,635	11,304	1,429	301	59,706
Other creditors	7,306	4,455	71	9	-	11,841
Total liabilities	96,279	357,904	52,730	12,095	6,868	525,876

(v) Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due.

All valid claims must be paid as they fall due and, therefore, it is essential that the Syndicate maintains an appropriate level of liquidity at all times. As a consequence, cash is managed closely by the Treasury team. The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities.

The Syndicate's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. The availability of liquidity in the event of a major loss event is regularly tested using internal cash flow forecasts and realistic disaster scenarios.

The majority of the Syndicate's investments are in highly liquid assets which could be converted into cash promptly and at minimal expense. Cash and overseas deposits are generally bank deposits and money market funds.

In addition, the duration of assets is maintained at a level to manage liability durations and in recognition of the Syndicate's catastrophe exposures. Greater levels of cash and/or liquid assets may be held when determined by market conditions and is considered appropriate by the Chief Investment Officer and the Board.

The tables below show the maturity profile of the Syndicate's financial liabilities.

<i>At 31 December 2022</i>	<i>No stated maturity £000</i>	<i>0-1 year £000</i>	<i>1-3 years £000</i>	<i>3-5 years £000</i>	<i>>5 years £000</i>	<i>Total £000</i>
Creditors	-	53,772	-	-	-	53,772
Claims outstanding	-	131,921	109,964	41,167	30,901	313,953
Total	-	185,693	109,964	41,167	30,901	367,725

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

(v) Liquidity risk (continued)

<i>At 31 December 2021</i>	<i>No stated maturity</i>	<i>0-1 year</i>	<i>1-3 years</i>	<i>3-5 years</i>	<i>>5 years</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Creditors	-	71,547	-	-	-	71,547
Claims outstanding	-	174,881	129,038	51,226	36,811	391,956
Total	-	246,428	129,038	51,226	36,811	463,503

c. Group risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. CMA is part of the Canopus Group Limited ("CGL"), a global underwriter of insurance and reinsurance business transacted both through direct channels and via delegated underwriting. CGL has established a risk management framework to protect the Group's stakeholders, including syndicate members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having effective risk management systems in place.

A clear organisational structure is in place with delegated authorities and clear responsibilities. A Group policy framework is in place which sets out the risk management, internal control and business conduct standards for the Group's operations. Group risk management policies set out the identification of risk and its interpretation, to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Each policy has a member of senior management charged with overseeing compliance throughout the Group and the CGL Board meet regularly to approve any commercial, regulatory and organisational requirements of such policies.

d. Operational and Regulatory risk

Operational risk is the risk of inadequate or failed internal processes, people and systems, or external events that have an adverse impact on the business. The Syndicate manages these risks through a framework of robust systems and controls. CMA's objective for operational risk management is to identify, assess, manage, monitor and report risks and to prevent or reduce any failures or inadequacies in systems and controls. To this end, CMA has established key policies and controls that include:

- regular meetings of the Board of directors at which key aspects of the managing agent's and Syndicate's businesses are reviewed, including review of reports from various sub-committees of the Board
- underwriting procedures guidelines
- claims management policies and guidelines
- risk registers which are reviewed by risk and control owners on a regular basis
- a suite of risk policies for major risk categories relating to the activities of the Syndicate
- an internal audit function whose audit plan is aligned with CMA's risk framework
- human resources policies and guidelines designed to ensure that the operations are adequately resourced by sufficiently skilled and trained people, who are appropriately remunerated

Notes to the Financial Statements

for the year ended 31 December 2022

5. Management of risk (continued)

d. Operational and Regulatory risk

- financial policies and controls that cover:
 - maintaining segregated funds for the Syndicate's assets
 - investment of funds
 - expense management
 - establishing adequate provisions for unpaid claims
 - credit risk, including debt collection and managing counter-party exposures
 - cash flow and other financial projections
 - regular review and reconciliation of the entity's financial records.

In addition, the managing agent has an established and integrated capital and planning cycle. This provides an assessment of the significant financial and non-financial risks, as identified by the managing agent's risk management framework. The capital requirement is assessed in accordance with applicable requirements through the use of deterministic and stochastic modelling and further challenged using a comprehensive validation process which includes the use of stress and scenario tests. This process assesses the capital required to meet a 1 in 200 level extreme outcome from the aggregation of all recognised sources of risk.

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the Prudential Regulatory Authority ("PRA"), the Financial Conduct Authority ("FCA"), Lloyd's and those of overseas regulators in jurisdictions where Lloyd's syndicates are licensed to trade.

Regulatory risk is a key area of focus for the Risk and Compliance teams to ensure legislative and regulatory changes are understood and observed.

e. Climate change risk

CMA has recognised climate change as an emerging risk for a number of years but has significantly developed its climate risk framework recently in line with Canopus Group developments and evolving regulatory expectations. Climate change and society's response to it, present physical, transition and liability risks to the business but CMA believes it is well positioned to identify, assess, manage and mitigate risk and seek opportunities for innovation, diversification and growth within the industry.

CMA's climate risk framework covers governance, risk management, scenario analysis and disclosures. It aligns with the requirements of regulatory requirements in the UK, specifically PRA Supervisory Statement SS3/19. During 2021, Canopus Group became a member of ClimateWise, a global network of leading insurers, reinsurers, brokers and industry service providers which share a commitment to reduce the impact of climate change on society and the insurance industry..

CMA's climate risk framework is part of its wider ESG framework which covers a broad range of sustainability issues. As part of this, CMA is developing and embedding a suite of responsible business policies covering underwriting, investments and operations.

6. Capital setting, capital management policies and objectives

The Syndicate's objectives in managing its capital are to:

- satisfy the requirements of its policyholders and regulators; and
- allocate capital efficiently to support strategic objectives.

The Society of Lloyd's applies capital requirements at member level and in aggregate to ensure that Lloyd's complies with all regulatory requirements such as Solvency II, whilst meeting its own financial strength, licence and ratings objectives.

Notes to the Financial Statements

for the year ended 31 December 2022

6. Capital setting, capital management policies and objectives (continued)

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 Syndicate 1861 is not disclosed in these financial statements.

The PRA and Lloyd's oversee the capital setting regime that requires syndicates to calculate their own capital requirements through a Solvency Capital Requirement ("SCR"). The SCR must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member, operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member.

The SCR represents the equivalent of minimum regulatory capital, as is required by the PRA and Lloyd's, and does not represent the amount of economic capital required to support and maintain Lloyd's financial strength, licence and ratings objectives. The SCR process produces a result that is then uplifted by Lloyd's (by 35% in 2022) of the member's SCR 'to ultimate'.

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position on page 13, are included in resources available to meet members' and Lloyd's capital requirements.

The Syndicate maintains models in accordance with this regime, and also operates an Own Risk & Solvency Assessment ("ORSA") process which it reports on at least annually.

Key elements of CMA's capital methodology include:

- risk identification;
- the articulation of risk bearing capacity and establishment of risk appetite;
- identification of capital requirement for all significant risks;
- sensitivity analysis and 'reasonableness checks';
- aggregation and correlation of risks;
- comparison with other benchmarks e.g. prior years' internal SCRs, standard formula SCR results, the PRA published calculations based on industry SCR submissions and market surveys/studies; and
- Board review and challenge.

To improve the risk management capability, and the assessment of capital requirements, CMA has developed a stochastic model to analyse the potential performance of its main underwriting operations. Stress and scenario analysis is also performed for those risks that cannot be easily modelled quantitatively and where more subjective judgement is required (for example, operational risk) as well as to challenge the output of the stochastic model.

Using its detailed measurement of risk exposures, the Syndicate allocates capital to support the business according to the risk appetite and expected returns. The Syndicate has complied with all capital requirements during the year.

Notes to the Financial Statements

for the year ended 31 December 2022

6. Capital setting, capital management policies and objectives (continued)

CMA regularly reviews and enhances its risk management processes and their enabling governance structures to ensure that CMA can demonstrate continuous compliance with regulatory and Lloyd's requirements.

7. Segmental analysis

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

2022	Gross written premiums	Gross premiums earned	Gross claims incurred	Gross operating expenses	Re-insurance Balance	Total
	£000	£000	£000	£000	£000	£000
Direct Insurance:						
Accident and health	(268)	3,274	2,585	(2,293)	(279)	3,287
Energy	1,519	2,242	(16,393)	(709)	9,579	(5,281)
Marine, Aviation & Transport	301	1,730	(341)	(1,079)	(874)	(564)
Fire & other damage to property	(745)	8,028	(1,199)	(3,267)	(6,214)	(2,652)
Third party liability	10,319	13,342	4,327	(7,737)	(6,857)	3,075
Pecuniary Loss	(2,184)	6,754	(2,046)	(2,609)	(2,350)	(251)
Others	(545)	339	198	(65)	364	836
Total Direct	8,397	35,709	(12,869)	(17,759)	(6,631)	(1,550)
Reinsurance inwards	16	11,581	6,148	(4,118)	7,507	21,118
Total	8,413	47,290	(6,721)	(21,877)	876	19,568

Underwriting results for those policies transferred to Lloyd's Brussels via Part VII transfer and subsequently reinsured back to the Syndicate on 30 December 2020 have been reported under the inwards reinsurance class of business, reflecting the contractual arrangement with Lloyd's Brussels.

2021	Gross written premiums	Gross premiums earned	Gross claims incurred	Gross operating expenses	Re-insurance Balance	Total
	£000	£000	£000	£000	£000	£000
Direct Insurance:						
Accident and health	13,300	28,201	(16,193)	(12,267)	(1,010)	(1,269)
Energy	2,158	7,231	(6,819)	(1,928)	(1,118)	(2,634)
Marine, Aviation & Transport	5,525	14,817	(2,232)	(4,082)	(3,215)	5,288
Fire & other damage to property	34,757	84,754	(55,651)	(29,024)	7,320	7,399
Third party liability	22,977	61,018	(38,772)	(19,381)	(3,778)	(913)
Pecuniary Loss	2,021	12,974	(15,230)	(4,275)	(3,819)	(10,350)
Others	(246)	9,033	(3,133)	(5,160)	(480)	260
Total Direct	80,492	218,028	(138,030)	(76,117)	(6,100)	(2,219)
Reinsurance inwards	11,387	52,692	(29,925)	(15,384)	(2,232)	5,151
Total	91,879	270,720	(167,955)	(91,501)	(8,332)	2,932

The reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards. All premiums were concluded in the United Kingdom.

Notes to the Financial Statements

for the year ended 31 December 2022

7. Segmental analysis (continued)

The geographical analysis of gross premiums written by situs of risk is as follows:

	2022	2021
	£000	£000
US	233	42,638
UK	7,888	27,789
EU	(330)	3,536
Australia	(140)	3,414
Canada	(386)	2,830
Other	1,148	11,672
Total	8,413	91,879

8. Currency rates of exchange

	31 Dec 22	Average for 2022	31 Dec 21	Average for 2021
US \$	1.20	1.24	1.35	1.38
Euro	1.13	1.17	1.19	1.16
Canadian \$	1.63	1.61	1.71	1.72

9. Net claims outstanding

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and reinsurers' share thereof. Included within net claims incurred of £5.7m (2021: £120.9m) is a favourable development of £20.5m (2021: deterioration of £0.8m pre LPT) to claims reserves established at the prior year end.

10. Net operating expenses

	2022	2021
	£000	£000
Commissions	3,849	26,493
Other acquisition costs	2,658	4,553
Change in deferred acquisition costs	13,440	50,592
Administrative expenses	1,930	9,856
Personal expenses (see note 11)	-	7
Total expenses – technical account	21,877	91,501
Profit on exchange – non technical account	(1,657)	(407)
Total expenses	20,220	91,094

Administrative expenses include:

	2022	2021
	£000	£000
Auditors' remuneration		
Audit of syndicate accounts	145	271
Other services pursuant to Regulations and Lloyd's Byelaws	75	108
Other non-audit services	35	50
Total audit and non-audit fees	255	429

Notes to the Financial Statements

for the year ended 31 December 2022

11. Personal Expenses

	2022	2021
	£000	£000
Managing Agent's fee	-	7
Total	-	7

12. Staff numbers and costs

All staff are employed by a service company Canopus Services Limited ("CSL"). The following amounts were recharged to the Syndicate in respect of salary costs:

	2022	2021
	£000	£000
Wages and salaries	2,717	6,006
Social security costs	327	742
Pension contributions to money purchase schemes	171	443
Total	3,215	7,191

The average number of employees employed by CSL working on the Syndicate's affairs during the year was as follows:

	2022	2021
Underwriting	4	14
Insurance Services	13	23
Other	13	20
Total	30	57

13. Emoluments of the directors of the Managing Agents

The directors of CMA received the following aggregate remuneration for their qualifying services rendered to the Syndicate during the year ended 31 December 2022, borne by the syndicate and a fellow group company:

	2022	2021
	£000	£000
Emoluments	231	280
Pension contributions to money purchase schemes	12	19
Total	243	299

Retirement benefits are accruing to 8 directors (2021: 8) under money purchase schemes. The Active Underwriters received the following remuneration charged as a syndicate expense:

	2022	2021
	£000	£000
Emoluments	12	58
Total	12	58

Pension contributions amounting to £1k were charged to Syndicate 1861 on behalf of the active underwriters in 2022. (2021: £3k).

Notes to the Financial Statements

for the year ended 31 December 2022

14. Net investment income recognised in profit or loss

	2022	2021
	£000	£000
Interest and similar income		
From financial instruments designated at fair value through profit or loss	2,723	1,043
Investment expenses	(139)	(164)
Total interest and similar income	2,584	879
Other income from investments designated at fair value through profit or loss		
Realised losses on investments	(3,828)	(38)
Unrealised losses on investments	(4,607)	(1,621)
Total other losses	(8,435)	(1,659)
Net investment return	(5,851)	(780)
	2022	2021
	£000	£000
Average amount of syndicate funds available for investment during the year	188,074	309,976
Gross aggregate investment return for the calendar year in Sterling	(5,712)	(616)
Gross calendar year investment yield	(3.0)%	(0.2)%

The Syndicate classifies its investments at fair value through profit and loss. Financial assets classified into this category form a portfolio of financial assets which may be sold to meet the cash flow requirements of the Syndicate or as investment conditions change.

15. Other financial investments

	Fair value		Cost		Listed	
	2022	2021	2022	2021	2022	2021
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	16,505	79,229	17,451	79,875	5,391	40,386
Debt and other fixed income securities	98,767	110,983	105,521	111,856	98,767	110,982
Deposits with credit institutions	1,103	981	1,103	981	-	-
Derivative assets	2,596	454	-	454	-	-
Total	118,971	191,647	124,075	193,166	104,158	151,368

The Syndicate uses exchange traded derivatives and forward foreign exchange derivatives in order to hedge its exposure to interest rate and foreign currency risk.

The following derivative assets were held at 31 December.

	Notional amount		Fair value	
	2022	2021	2022	2021
	£000	£000	£000	£000
Foreign exchange forward contracts	41,335	102,476	2,596	454
Total	41,335	102,476	2,596	454

Notes to the Financial Statements

for the year ended 31 December 2022

16. Debtors arising out of direct insurance operations

	2022 £000	2021 £000
Due within one year		
Intermediaries	41,033	50,665
	41,033	50,665

Debtors arising out of direct insurance operations include £13.3m (2021: £27.9m) of pipeline premium which is estimated using expert judgement, relevant underwriting input and management review.

17. Debtors arising out of reinsurance operations

	2022 £000	2021 £000
Due within one year		
Ceding insurers and intermediaries under reinsurance business	14,701	25,121
Reinsurance recoverable on paid claims net of bad debt provision	13,474	8,281
	28,175	33,402
Due after more than one year and within five years		
Ceding insurers and intermediaries under reinsurance business	-	4
Total	28,175	33,406

Debtors arising out of reinsurance operations include £12.0m (2021: £22.1m) of pipeline premium which is estimated using expert judgement, relevant underwriting input and management review.

18. Other debtors

	2022 £000	2021 £000
Due within one year		
Amounts due from group undertakings	1,126	-
Others	-	215
Total	1,126	215

19. Overseas deposits

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

20. Creditors arising out of direct insurance operations

	2022 £000	2021 £000
Due within one year		
Intermediaries	6,385	11,556
Total	6,385	11,556

Notes to the Financial Statements

for the year ended 31 December 2022

21. Creditors arising out of reinsurance operations

	2022 £000	2021 £000
Due within one year		
Reinsurance accepted	547	717
Reinsurance ceded	43,218	47,433
Total	43,765	48,150

22. Other creditors

	2022 £000	2021 £000
Due within one year		
Amounts due to group undertakings	2,984	10,187
Other	638	1,654
Total	3,622	11,841

23. Deferred acquisition costs

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2022 £000	2021 £000
At 1 January	20,168	103,621
RITC adjustment ¹	-	(32,276)
Adjusted 1 January	20,168	71,345
Change in deferred acquisition costs	(13,440)	(50,592)
Foreign exchange	769	(585)
At 31 December	7,497	20,168

¹ 2021 RITC adjustment: At 31 December 2020 the 2018 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2018 & Prior years of account.

24. Reconciliation of insurance balances

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		Reinsurers' share	
	2022 £000	2021 £000	2022 £000	2021 £000
At 1 January	62,373	314,376	13,448	40,237
RITC adjustment ¹	-	(71,151)	-	(3,348)
Adjusted 1 January	62,373	243,225	13,448	36,889
Change in provision	(38,877)	(178,841)	(9,275)	(23,284)
Foreign exchange	3,397	(2,011)	1,013	(157)
At 31 December	26,893	62,373	5,186	13,448

¹ 2021 RITC adjustment: At 31 December 2020 the 2018 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2018 & Prior years of account.

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24. Reconciliation of insurance balances (continued)

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2022	2021	2022	2021
	£000	£000	£000	£000
At 1 January	391,956	770,971	149,573	205,737
RITC adjustment ¹	-	(327,542)	-	(90,072)
Adjusted 1 January	391,956	443,429	149,573	115,665
Change in provision	(113,060)	(53,781)	(17,328)	31,988
Foreign exchange	35,057	2,308	15,432	1,920
At 31 December	313,953	391,956	147,677	149,573

¹ 2021 RITC adjustment: At 31 December 2020 the 2018 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2018 & Prior years of account.

25. Post balance sheet events

On 9th February 2023 the Board of the Managing Agent approved the closure of the 2020 year of account of the Syndicate, by way of an reinsurance to close agreement, into the 2021 year of account of Syndicate 4444, another syndicate managed by CMA

26. Pensions

CSL operates defined contribution pension schemes for the employees of CSL, including those working on the Syndicate's affairs during the year. The assets of the schemes are held separately from those of CSL in independently administered funds. The amounts recharged to the Syndicate from CSL in respect of pensions are disclosed in Note 12.

27. Related parties

Transactions between the Managing Agent/Service Company and the Syndicate

CMA is the managing agent of Syndicate 1861. Managing agency fees of £nil were charged to the Syndicate by CMA during 2021 (2021: £7k). At December 2022 no amount was due to CMA from the Syndicate (2021: £nil).

Employment of staff, provision of accommodation and related services are provided at cost by CSL, which is owned by Canopus Holdings UK Ltd ("CHUKL"). Expenses during 2022 totalling £2,556k (2021: £12,486k) were recharged to the Syndicate by CSL. As at 31 December 2022 an amount of £2,528k was due to CSL from the Syndicate (2021: £6,126kk).

Excelsa Re Ltd ("Excelsa")

Excelsa Re Ltd ("Excelsa"), a Bermudan based special purpose insurer writing property treaty and direct and facultative business, accepted £133k of ceded premium from the Syndicate during the year (2021: £2,940k). At 31 December 2022, an amounts of £319k (2021: £1,102k) was due from the Syndicate to Excelsa.

Canopus Reinsurance Limited ("CRe")

Canopus Reinsurance Limited ("CRe") is a reinsurance company based in Bermuda. During the year the Syndicate entered into an adverse development cover contract, ceding £7,330k of premium (2021: £nil). At 31 December, an amount of £7,330k was due from the Syndicate to CRe relating to ceded premiums (2021: £nil). Additionally, reinsurance recoveries of £5,208k were due from CRe to the Syndicate (2021: £nil).

Notes to the Financial Statements

for the year ended 31 December 2022

27. Related parties

Canopus Underwriting Bermuda Limited ("CUBL")

Canopus Underwriting Bermuda Limited ("CUBL") is an insurance service company that underwrites property insurance and reinsurance business on behalf of the Syndicate. Premiums written during 2022 totalled £nil (2021: £nil). At 31 December 2022, an amount of £39k was due from the Syndicate to CUBL (2021: £14k).

Canopus Asia Pte. Ltd ("CAPL")

Canopus Asia Pte. Ltd ("CAPL") trades as part of the Lloyd's Asia platform. CAPL underwrites Insurance and reinsurance lines, including and most notably, property, marine, energy and engineering, accident & health and treaty reinsurance business, on behalf of the Syndicate. Premiums written during 2022 totalled £nil (2021: £nil). At 31 December 2022, an amount of £320k was due from the Syndicate to CAPL (2021: £94k).

Canopus Underwriting Agency Inc. ("CUAI")

Canopus Underwriting Agency Inc. ("CUAI") is an insurance service company that underwrites direct and facultative property, marine, financial and professional insurance. It also underwrites property treaty reinsurance business on behalf of the Syndicate. Premiums written during 2022 totalled £nil (2021: £nil). At 31 December 2022, an amount of £53k was due from the Syndicate to CUA I (2021: £70k).

CMA, CUBL, CAPL and CUA I are all indirect 100% subsidiaries of the same ultimate parent undertaking – refer to note 28.

2020 Year of Account "split stamp"

The 2020 year of account of the Syndicate was written on a split stamp basis with Syndicate 4444, another syndicate managed by CMA. Under this arrangement Syndicate 1861 underwrote 35% of each risk and Syndicate 4444 65%. The Syndicates similarly share the reinsurance programme protecting the 2020 year of account. No commissions or fees are payable between the syndicates under this arrangement.

Capital

The 2020 year of account capital provider is Canopus Corporate Capital Ltd ("CCCL"). CCCL is a subsidiary of CHUKL.

Directors' interests

None of the directors nor the active underwriter participate on the Syndicate.

28. Immediate and ultimate parent undertaking and controlling party

As at 31 December 2022 Syndicate 1861 was managed by CMA. CMA's immediate UK parent is CHUKL, which is registered in England and Wales. CHUKL is part of CGL which is registered in Jersey.

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, CCP III Cayman GP Limited and CCP III SBS Cayman GP Limited.

29. Funds at Lloyd's

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 participating members' underwriting liabilities.

The level of FAL that a member is required to maintain is determined by CMA and Lloyd's based on compliance with PRA requirements. The determination of the FAL requirement has regard to a number of factors including the nature and amount of insurance contracts to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since the assets in FAL are not owned by the syndicate, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

Notes to the Financial Statements

for the year ended 31 December 2022

30. Part VII Transfer of Liabilities to Lloyd's Brussels

Following the UK's departure from the European Union, and the sanctioning of the scheme by the High Court on 25 November 2020, insurance policies (and related liabilities) underwritten in the European Economic Area ('EEA') by the Members and former Members of the Syndicate, as comprised for each of the relevant years of account between 1993 and April 2019 (or October 2020 in the case of German reinsurance), were transferred to Lloyd's Insurance Company S.A. ('Lloyd's Brussels') together with cash of \$63.7m on 30 December 2020 in accordance with Part VII of the Financial Services and Markets Act 2000. On the same date, the Members of the Syndicate entered into a 100% Quota Share Reinsurance Agreement whereby all risks on the same policies were reinsured back from Lloyd's Brussels to the relevant open years of account of the Syndicate which wrote the transferring policies, and/or inherited liabilities on transferring policies through Reinsurance to Close of earlier years of account, together with an equal amount of cash of \$63.7m.

The combined effect of the two transactions had no economic impact for the Syndicate, and accordingly there was no impact on the Syndicate's income statement, members' balance or total assets and total liabilities. Both the cash transferred for the Part VII transfer and the premium subsequently received back from Lloyd's Brussels were included in the 'gross written premiums' line of the income statement. This treatment reflects the connection between both the Part VII transfer and the associated reinsurance arrangement, and the resulting economic substance of the combined transactions.

On 4 January 2021, the Syndicate advanced funds to Lloyd's Brussels under the reinsurance agreement into segregated Part VII settlement bank accounts. These accounts remain an asset of the Syndicate and are reported as deposits with ceding undertakings. The accounts are managed by CMA on behalf of Lloyd's Brussels to settle Part VII claims.

The underwriting results for the transferred policies in both the current and prior year are reported under the inwards reinsurance class of business, reflecting the contractual arrangement with Lloyd's Brussels.