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IQUW Re Bermuda Limited

Annual Financial Statements

For the year ended 31 December 2023

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Company information

Directors

Kevin H Kelley (Non-executive Director)
Robert Deutsch (Non-executive Director)
Peter A Bilsby (Executive Director)
Richard A Hextall (Executive Director)
Stephen Young (Executive Director)
Helen Thornton (Executive Director)
Daniel Flueckiger (Non-executive Director)
Francois-Xavier Bernard Boisseau (Alternate Non-executive director to Robert Deutsch)
Michael C Cummings (Non-executive Director Appointed 24 May 2023, Resigned 31 December 2023)
Brent Stone (Non-executive Director; Resigned 23 May 2023)

Company Secretary

Appleby Global Corporate Services (Bermuda) Ltd.
Cannon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Insurance Manager

Artex Insurance Management (Bermuda) Ltd.
3rd Floor Wessex House
45 Reid Street
Hamilton HM12
Bermuda

Independent Auditor

PricewaterhouseCoopers Ltd.
Washington House. 4th Floor
16 Church Street
Hamilton HM11
Bermuda

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Independent auditor's report

To the Board of Directors and Shareholder of IQUW Re Bermuda Limited

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of IQUW Re Bermuda Limited (the Company) as at 31 December 2023, and its financial performance for the year then ended in accordance with FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

What we have audited

The Company's financial statements comprise:

- the balance sheet as at 31 December 2023;
- the profit and loss account for the year then ended;
- the statement of other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to our audit of the financial statements in Bermuda. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the CPA Bermuda Rules.

Other information

Management is responsible for the other information. The other information comprises the Company information (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and FRS 103 “Insurance Contracts”, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or

conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants
Hamilton, Bermuda

26 April 2024

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Profit and loss account – technical account for general business
For the year ended 31 December 2023

	Note	Year ended 31 December 2023 $000	Year ended 31 December 2022 $000
Earned premium, net of reinsurance			
Gross premium written		684,114	558,115
Net premium written		684,114	558,115
Change in the provision for unearned premium:			
Gross amount		(69,340)	(104,481)
Change in the net provision for unearned premium		(69,340)	(104,481)
Earned premium, net of reinsurance		614,774	453,634
Allocated investment return transferred from the non-technical account		26,835	(2,010)
Total technical income		641,609	451,624
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(255,231)	(129,806)
Net claims paid		(255,231)	(129,806)
Change in the provision for claims:			
Gross amount		(86,009)	(198,814)
Change in the net provision for claims		(86,009)	(198,814)
Claims incurred, net of reinsurance		(341,240)	(328,620)
Changes in other technical provisions, net of reinsurance			
Net operating expenses	7	(214,848)	(147,996)
Total technical charges		(556,088)	(476,616)
Balance on the technical account for general business		85,521	(24,992)

The accompanying notes are an integral part of these financial statements.

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Profit and loss account – non-technical account
For the year ended 31 December 2023

	Note	Year ended 31 December 2023 $000	Year ended December 2022 $000
Balance on the technical account for general business		85,521	(24,992)
Investment income	8	36,757	4,904
Realised gain (loss) on investments	8	752	(444)
Unrealised gain (loss) on investments	8	9,933	(21,861)
Investment expenses and charges	8	(252)	(215)
Allocated investment return transferred to the technical account for general business	8	(26,835)	2,010
Foreign exchange (loss) gain		(961)	1,138
Other charges	9	(3,711)	(2,724)
Profit (loss) on ordinary activities		101,204	(42,184)
Profit (loss) for the financial year		101,204	(42,184)

All amounts related to continuing operations.

The accompanying notes are an integral part of these financial statements.

Statement of other comprehensive income
For the year ended 31 December 2023

	Note	Year ended 31 December 2023 $000	Year ended 31 December 2022 $000
Profit (loss) for the financial period		101,204	(42,184)
Total comprehensive income (loss) for the period		101,204	(42,184)

The accompanying notes are an integral part of these financial statements.

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Balance sheet – assets
As at 31 December 2023

	Note	2023 $000	2022 $000
Investments			
Other financial investments	11	350,064	277,400
		350,064	277,400
Debtors			
Debtors arising out of reinsurance operations	13	913,060	493,686
Other debtors		217	2,718
		913,277	496,404
Other assets			
Deferred acquisition costs	14	–	622
Cash at bank and in hand		18,287	54,695
Prepayments and accrued income			
Other prepayments and accrued income	12	2,470	3,059
		20,757	58,376
Total assets		1,284,098	832,180

The accompanying notes are an integral part of these financial statements

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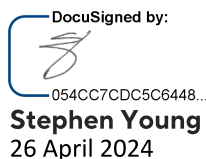
Balance sheet – equity and liabilities
As at 31 December 2023

	Note	2023 $000	2022 $000
Capital and reserves			
Called up share capital	18/19	120	120
Retained earnings		47,858	(53,346)
Contributed surplus	19	361,380	361,380
Total equity		409,358	308,154
Technical provisions			
Provision for unearned premium	15	328,951	254,308
Claims outstanding	15	516,375	262,487
		845,326	516,795
Creditors			
Creditors arising out of reinsurance operations	5	13,372	6,850
Other creditors	16	15,751	134
		29,123	6,984
Accruals and deferred income	5	291	247
Total equity and liabilities		1,284,098	832,180

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 5 to 31 were approved by the Board of Directors on 26 April 2024 and were signed on its behalf by:



Stephen Young
26 April 2024

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Statement of changes in equity
For the year ended 31 December 2023

	Note	Called up share capital $000	Contributed surplus $000	Profit and loss account $000	Total Shareholders' funds $000
At 1 January 2023	19	120	361,380	(53,346)	308,154
Total comprehensive income for the financial year		–	–	101,204	101,204
At 31 December 2023		120	361,380	47,858	409,358

	Note	Called up share capital $000	Contributed surplus $000	Profit and loss account $000	Total Shareholders' funds $000
At 1 January 2022	19	120	301,380	(11,162)	290,338
Capital contribution		–	60,000	–	60,000
Total comprehensive loss for the financial year		–	–	(42,184)	(42,184)
At 31 December 2022		120	361,380	(53,346)	308,154

The accompanying notes are an integral part of these financial statements.

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Notes to the financial statements
For the year ended 31 December 2023

1. General information and business overview

IQUW Re (Bermuda) Limited (the "Company") was incorporated in Bermuda on 22 December 2020 and subsequently licenced in Bermuda as a Class 3B commercial insurer. The Company's registered office is Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12. The Company received capital funding on 27 May 2021 and a capital contribution on 17 May 2022 . These financial statements cover the year ended 31 December 2023 and 31 December 2022.

The Company is a wholly owned subsidiary of IQUW Midco Bermuda Limited ("Midco"), a company incorporated in Bermuda as a private company limited by shares. Midco's registered office is 22 Victoria Street, Hamilton, Bermuda, HM 12. The Company and its parent form part of a group of companies, of which the ultimate parent is IQUW Bermuda Holdings Limited (the "IQUW Group" or "the Group").

The Company was authorised by the Bermuda Monetary Authority, effective 4 June 2021, as a Class 3B commercial insurer to carry out the activities described below.

The Company underwrites a whole-account quota share reinsurance agreement ("QSA") with IQUW Corporate Member Limited, ("Corporate Member"). The principal activity of the Corporate Member is that of a corporate member at Lloyd's, investing in the underwriting capacity of syndicates in the Lloyd's market. The Corporate Member participates on Syndicate 218 and on Syndicate 1856 (together the "Syndicates'), which are managed by IQUW Syndicate Management Limited (the "managing agent" or "IQUW SML"). In January 2023 the Company entered into a catastrophe excess of loss reinsurance contract with Syndicate 1856. This contract was cancelled in May 2023.

The principal activity of Syndicate 218 is the transaction of general insurance business focussed on specialist motor insurance business. The principal activity of Syndicate 1856 is the transaction of general insurance and reinsurance business at Lloyd's and through the Lloyd's Brussels platform. Syndicate 1856 was remediated and repurposed in 2021 after its acquisition by the IQUW Group as part of the Group's strategy to expand from its core motor business and enter specialty commercial lines and reinsurance. Syndicate 1856 now underwrites a mixture of reinsurance, property, marine, energy and professional lines business, as well as a range of specialty lines including terrorism and political risks.

The Company entered into a QSA with the Corporate Member, in which the Corporate Member cedes 65% of its result of the 2021, 2022 and 2023 years of account to the Company. There is a 5% ceding commission on the 2021 year of account and a 10% profit commission on the total result of the 2022 and 2023 years of account, payable by the Company to the Corporate Member.

The QSA operates on a funds withheld basis. Under this arrangement all transactions are undertaken by the Syndicates, until closure of the year of account, when the declared result is remitted to members. Investment returns arising on the business is allocated to the funds withheld balance.

2. Basis of presentation

Basis of preparation

The financial statements of the Company 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' ('FRS 102'), and Financial Reporting Standard 103, 'Insurance Contracts' ('FRS 103').

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The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The financial statements are prepared in US Dollars which is the functional currency of the Company.

Legislation applied in the preparation of these financial statements is the Bermuda Companies Act 1981.

Disclosure exemptions

The Company has taken advantage of the disclosure exemptions provided by paragraph 1.12 of FRS 102. Accordingly, these financial statements do not include the following:

- A statement of cash flows
- A reconciliation of the number of shares outstanding at the beginning and end of the year
- Specific information relating to share-based payment included within equivalent disclosures for the Group
- Disclosure of key management personnel compensation
- Disclosure of related party transactions with entities that are part of the Group

The Company has been consolidated into the Group financial statements of IQUW Holdings Bermuda Limited. The IQUW Holdings Bermuda Limited consolidated financial statements and accompanying notes provide further detail in respect of these areas, copies of whose accounts can be obtained from Canon's Court, 22 Victoria Street, Hamilton, Bermuda.

3. Summary of significant accounting policies

The principal accounting policies are set out below.

Basis of presentation

The financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The financial statements are prepared in US Dollars which is the presentational currency of the Company and rounded to the nearest thousand.

To support the going concern basis the Directors have made enquiries and a detailed review has been undertaken considering the Company's 2024 budget, medium- and long-term budget (which is at least, but not limited to, twelve months from the date when the financial statements are authorised for issue). Based on this review the Directors believe that, given the financial position of the Company at the balance sheet date, the Company has adequate resources to continue in operational existence for the foreseeable future.

(i) Insurance contract(s)

The Company issues contracts that transfer insurance risk or financial risk or both. Reinsurance contracts are those contracts that transfer significant (re) insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur. Currently the Company has a whole account quota share contract with the Corporate Member. There was a catastrophe excess of loss reinsurance contract with Syndicate 1856 which was cancelled in May 2023. These are classified as reinsurance contracts.

(ii) Gross premium written

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

Premium written includes an estimate of gross premium written during the year. For certain contracts, premium is initially recognised based on estimates of ultimate premium. This occurs where pricing is based

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on variables, which are not known with certainty at the point of binding the policy. In determining the estimated premium, use is made of information provided by brokers and coverholders, past underwriting experience, the contractual terms of the policy, and prevailing market conditions.

Subsequently, adjustments to those estimates arise as updated information relating to those pricing variables becomes available, for example due to declarations obtained on binding authority contracts, reinstatement premium on reinsurance contracts, or other policy amendments. Such adjustments are recorded in the period in which they are determined, and impact gross premium written in the income statements and premium received from insureds and cedants recorded on the balance sheet.

Due to the nature of the QSA entered into by the Company, which is acting as reinsurer, the net premium reported from the cedant are recorded as gross premium for the Company.

(iii) Unearned premium

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

(iv) Investment return

Investment return comprises interest, realised and unrealised gains and losses on assets held at fair value through profit or loss.
Fair value realised gains and losses are calculated as the difference between net sales proceeds and fair value at acquisition.

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

Investment return is initially recorded in the profit and loss account - non-technical account. A transfer is made from the profit and loss account - non-technical account to the profit and loss account - technical account for general business. Investment return has been transferred based on the return on investments supporting the insurance technical provisions.

(v) Foreign currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates. The Company's financial statements are presented in thousands of US Dollars, which is the Company’s presentation currency.

Foreign currency transactions are translated into the functional currency at average rates of exchange for the year where, for practical purposes, it is not possible to use the actual rate at the date of transaction.

At each year end, foreign currency monetary items are translated using the closing rate. For this purpose, all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at year-end exchange rates of non-monetary assets and liabilities denominated in foreign currencies are recognised in other comprehensive income for those items where the gain or loss is required to be recognised within other comprehensive income and in the non-technical account where the gain or loss is required to be recognised within profit or loss.

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(vi) Financial instruments
The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

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

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

Financial assets

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

Financial investments

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

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

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

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

Loans and receivables

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

Impairment of financial assets

For financial assets not at fair value through profit or loss, the Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment because of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following events:

- a significant financial difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation; and
- observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group for reasons such as (i) adverse changes in the payment status of debtors in the group; or (ii) national or local economic conditions that correlate with defaults on the assets in the Company.

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If there is objective evidence that an impairment loss has been incurred on loans and receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have been incurred). The carrying amount of the impaired loan and receivables asset is reduced and the amount of the loss is recognised in the profit and loss account - technical account for the year.

If in a subsequent year, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (e.g. improved credit rating), the previously recognised impairment loss is reversed through the profit and loss account for the year.

Financial liabilities

Financial liabilities include creditors recognised initially at fair value. Subsequent measurement is stated at amortised cost.

(vii) Cash and cash equivalents

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

(viii) Deferred acquisition costs

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

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

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

(ix) Funds withheld

The underlying premiums and claims are settled by the Syndicates with policy holders as they fall due. The QSA is accounted for on a funds withheld basis. Debtors and creditors arising on reinsurance operations are not settled until the year of account has closed. Claims outstanding together with other non-technical transactions are settled when the year of account closes.

Funds withheld include cash and investments allocated to the QSA. Investment income on the funds withheld is recognized on the profit and loss – technical account within allocated investment return.

(x) Claims provisions and related recoveries

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

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

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years,

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where a high degree of volatility arises from projections, estimates may be based in part on output from premium rating and other pricing models of business accepted, together with assessments of underwriting conditions.

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

Provisions for gross claims and related reinsurance recoveries are assessed for reasonableness based on the information currently available. However, given the uncertainty in establishing claims provisions, the ultimate liability will vary as a result of subsequent information and future events, and this may result in significant adjustments to the amounts provided. The methods used, and the estimates made, are reviewed regularly.

(xi) Unexpired risks provision

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

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

(xii) Bad debts

At the Syndicate level, a full bad debt general provision is made for doubtful debts when a debtor balance is more than 1 year outside credit terms; beginning with a 75% provision at 9 months overdue. In addition to the general provision, a top-up is made by way of a specific provision where specific information is available to suggest a debtor may be unable or unwilling to settle its debt.

At the Company level, bad debts are provided for only where specific information is available to suggest a debtor may be unable or unwilling to settle its debt to the Company.The provision is calculated on a case-by-case basis.

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

(xiii) Deposit component of reinsurance contracts

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

(xiv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

(xv) Distributions to equity holder

Dividends and other distributions to the Company's shareholder are recognised in the financial statements in the year in which the dividends and other distributions are approved by the board of directors. These amounts are recognised in the statement of changes in equity.

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4. Judgements and key sources of estimation uncertainty

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

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

(i) Valuation of general reinsurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the gross liability is disclosed in note 15. For general insurance contracts, estimates are made for the expected ultimate cost of claims notified as at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.
The estimation of these claims is based on historical experience projected forward. The Company's estimate of claims and of related claims handling costs is mainly achieved through the application of several commonly accepted actuarial projection methodologies based on the estimation of the following:

- paid claims development, where payments to date are extrapolated based upon market data and observed development of earlier years;
- estimates based on a projection of claims numbers and average burning cost, which is calculated by dividing incurred claims by exposure;
- the development of claims based on seasonally adjusted exposure curves;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years;
- expected ultimate loss ratios, which are estimated using an average of (developed) years, the averaging period varies depending on reserving subclass, but is based on historic claims trends and risk characteristics;
- Quarterly underwriter updates on expected premium and associated rating assumptions; and
- Inflationary assumptions are set so as to allow for both exposure inflation and claims inflation, the former is set for economic inflation, and the latter with additional excess inflation and social inflation.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from any reinsurance arrangements in place, having due regard to collectability. Claims provisions are subject to regular review.

The Company considers that the provisions for claims are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and future events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provision established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(ii) Premium and earnings patterns

Due to the nature of the QSA entered into by the Company, premiums written and earning patterns directly mirror those of the Syndicates.

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

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signed premium and regular reviews that coverholder income is coming through as expected. Gross premium written also includes an estimation for reinstatement premium which is determined based on incurred losses held in the technical provisions.

5. Management of reinsurance risk

The Company is part of the IQUW Group. The Board has developed a governance framework and set risk management policies and procedures which cover specific areas such as risk identification, risk management and mitigation, and risk reporting. The overall appetite for accepting and managing varying classes of risk is defined by the Boards responsible for overseeing the risk.

The Company's key risk exposure lies with the risks of Corporate Member with which it has quota share agreements for the 2021, 2022 and 2023 underwriting years. At present, the Corporate Member participates on two Syndicates, Syndicate 218 and Syndicate 1856 ("the Syndicates"). Syndicate 218 is a specialist insurer which only writes motor business. Syndicate 1856 writes specialty commercial lines and reinsurance.

The Company therefore places significant reliance on the Syndicates to manage these risks and only risks exclusive to the Company as a stand-alone entity are actively managed by the Company.

The Board exercises oversight of the development and operational implementation of its risk management policies and procedures through the Audit, Risk and Compliance Committee ("ARCC"). Ongoing compliance is monitored through the Internal Audit function, which is shared with other IQUW entities, and which has operational independence, a charter and clear upwards reporting structure back into the Company's Board. The Risk Management Function ("RMF") under the stewardship of the Chief Risk Officer ("CRO"), coordinates the risk management policies and procedures and supports the Board and the ARCC. The Executive Committee operate regular oversight of the RMF activities and outcomes.

The Board is ultimately responsible for ensuring that the RMF is in place and adhered to. Responsibilities are then delegated through the Three Lines of Defence Model across IQUW, summarised as follows:

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

The Company's cash flows are funded mainly through the net proceeds from the QSA and the timing of such net inflows is reasonably predictable.

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

5.1 Insurance risk

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

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5.1(a) Underwriting risk

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

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

The Company aims to manage underwriting risk:

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

5.1(b) Reserving risk

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

The Company aims to manage reserving risk:

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

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

The Company engages a Loss Reserve Specialist to independently verify claim provisions being held on the Company's Balance Sheet.

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

Sources of uncertainty in the estimation of future claim payments

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

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

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Development of claims provision

The tables below reflect the estimated ultimate cumulative claims, being incurred claims plus incurred but not reported ("IBNR") and claims handling costs, for each successive underwriting year at each balance sheet date.

The Company seeks to set robust reserves and to minimise volatility in those reserves over time to mitigate the risk that reserves will be insufficient to meet future claims payments and related expenses. The tables below show the development of the estimated ultimate claims costs over an extended period to provide an illustration of the Company's ability to accurately estimate the ultimate level of claims.

The Company has a quota share contract for the 2021, 2022 and 2023 underwriting years and one excess of loss contract, which was cancelled in May 2023. There are no claims on the excess of loss contract.

While the information in the tables below provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

Analysis of claims development – net of reinsurance

Underwriting year	2021 $000	2022 $000	2023 $000	Total $000
At end of reporting year	113,141	211,535	182,396	507,072
One year later	222,083	383,824		605,907
Two years later	376,516			376,516
Current estimate of cumulative claims	376,516	383,824	182,396	942,736
Cumulative payments to date	191,138	195,022	40,201	426,361
Liability recognized for 2021 to 2023 underwriting years	185,378	188,802	142,195	516,375
Net outstanding claims	185,378	188,802	142,195	516,375

Sensitivity analysis

Assumptions about future developments, outcomes or events underpin the setting of the Company's booked reserves. The sources of estimation uncertainty are discussed in note 5.1(b). Sensitivity analysis of the key assumptions provides an illustration of the inherent uncertainty in the reserves as shown below.

The following illustrates the sensitivity of key assumptions for Syndicate 218 business and the impact on the Company through the quota share agreement:

- Ogden discount rate change – A 0.5 percentage point decrease from -0.25% to -0.75% in the Ogden discount rate would result in a $1.9m increase in the Company's net reserves. A 0.75% increase from -0.25% to +0.5% in the Ogden discount rate would result in a $1.9m decrease in the Company's net reserves. Note that there is uncertainty over the reporting, timing, and claimant behaviour of large loss settlements prior to the rate review;

- Large loss injury awards comprise either a lump-sum payment, which is calculated as the present value of the claimant's loss and expense, or as a structured settlement, typically under a Periodic Payment Order ("PPO") awarded by the courts or agreed with the claimant. Propensity for PPOs – A 5 percentage point decrease/increase in the propensity for claims to settle as a PPO would result in a 0.3m decrease/increase to the Company's net reserves;

- inflation in future care costs - A 1 percentage point decrease/increase in long term rate of wage inflation underlying PPO claims would result in a $1.1m decrease/increase to the Company's net reserves;

- inflation in repair costs – A 5 percentage point decrease/increase in property damage severity would result in a $2.2m decrease/increase to the Company's net reserves;

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- current underwriting year loss ratio – A 1 percentage reduction/improvement in the loss ratio for the current underwriting year would result in a +/-$2.2m decrease/increase to the Company's net reserves; and
- previous two underwriting years' loss ratios – A 1 percentage reduction/improvement in the loss ratios for each of the last two underwriting years would result in a +/-$3.9m decrease/increase to net reserves.

The following illustrates the sensitivity of some of the key assumptions for Syndicate 1856 and the impact on the Company through the quota share agreement.

Syndicate 1856 has material exposure to Hurricane Ian on a gross basis and modest exposure on a net basis. Hurricane Ian was the largest catastrophe loss in the syndicate in 2022 calendar year, however in 2023 uncertainty was reduced due to the claims developing in the year.

The Syndicate also has material exposure to a series of Midwest storms. If a 25% deterioration on the current selected gross ultimate loss pick was assumed the net impact to the Company would be $0.8m deterioration. This increases the uncertainty of the Company's total reserves, but not beyond the normal range of uncertainty for insurance liabilities at this stage of development.

Syndicate 1856, through its reinsurance and insurance portfolios, has exposure relating to Russia-Ukraine for war on land and contingent war coverage for aircraft lessors. Various scenarios have been proposed based on splits between Hull and War as well as cancellation clause impacts. The gross exposures are fully in the reinsurance programme so future volatility will likely be borne by reinsurers with consequent increases to reinstatement premiums being borne by the syndicate.

5.2 Financial risk

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

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

5.2 (a) Credit risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Company are indirectly through the quota share agreement:

- brokers and intermediaries – The risk of delayed payment or inability to settle outstanding funds owed to the Syndicates by all counterparties, which would in turn impact the Company through its quota share arrangement;
- reinsurers – The risk that reinsurance counterparties fail to meet their financial obligations to the Syndicates, which in turn would impact the Company through the quota share arrangement; and
- investments – The risk of an issuer default which results in the Company losing all or part of the value of a financial instrument.

The core business is to accept significant insurance risk through the quota share agreement, the appetite for other risks is low. Acceptable levels of credit risk are maintained by the Company due to each Syndicate and therefore the Corporate Member placing limits on exposure to singular counterparties and to geographical and industry segments. Such risk limits are subject to regular review.

Investments

The Company is exposed to counterparty risk with respect to cash and cash equivalents, and investments and other deposits. This exposure is from its quota share agreement with the Corporate Member and underlying participations on Syndicate 218 and Syndicate 1856 but also the Company's own assets.

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

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

Analysis of counterparty credit risk

The following tables summarise the Company's significant credit risk:

2023	AAA $000	AA $000	A $000	BBB $000	BBB or less $000	Not rated $000	Total $000
Financial investments	94,840	71,212	101,054	37,121	—	45,837	350,064
Premium receivable	—	—	73,506	—	—	—	73,506
Funds withheld	—	—	839,554	—	—	—	839,554
Cash at bank and in hand	—	—	18,287	—	—	—	18,287
Total	**94,840**	**71,212**	**1,032,401**	**37,121**	**—**	**45,837**	**1,281,411**

2022	AAA $000	AA $000	A $000	BBB $000	BBB or less $000	Not rated $000	Total $000
Financial investments	74,700	64,836	82,739	29,142	—	25,983	277,400
Premium receivable	—	—	44,912	—	—	—	44,912
Funds withheld	—	—	448,774	—	—	—	448,774
Cash at bank and in hand	—	—	54,695	—	—	—	54,695
Total	**74,700**	**64,836**	**631,120**	**29,142**	**—**	**25,983**	**825,781**

The Company has no reinsurance receivables that are past due at the balance sheet date.

5.2 (b) Market risk

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

Investment Managers are engaged to actively manage the market risk associated with financial investments. Detailed guidelines for the Investment Managers are in place and the Board and its Investment Committee regularly monitor performance and risk metrics. Financial investments represent a significant proportion of the Company's assets and the Board's management monitors various performance and risk metrics.

Foreign currency risk

Most of Syndicate 218 gross premium written is in UK Pound Sterling which is the functional currency of the Syndicate. Most of Syndicate 1856 gross premium written is in US Dollars which is the functional currency of the Syndicate. Consequently, movements in the UK Pound Sterling against US Dollar exchange rate may have a material impact on the Company's financial performance and position.

Sensitivity analysis is carried out on the underwriting and investment portfolios in relation to the presentational currency parameter which is exchange rates. The sensitivity analysis performed on a 10% and 20% strengthening or weakening of the US Dollar against the UK Pound Sterling. This analysis assumes that all other variables, in particular interest rates, remain constant and that the underlying valuation of assets and liabilities in their base currency is unchanged. The process of deriving the undernoted estimates takes account of the linear retranslation movements of foreign currency monetary assets and liabilities.

A 10% and 20% strengthening (weakening) of the US Dollar against the UK Pound Sterling at 31 December would have increased (decreased) shareholders' funds for the financial year by the amounts shown below:

At 31 December 2023, the company used the closing rate of exchange of £1: $1.27

Increase/(decrease) on income/(loss)	2023 Impact on income and equity	2022 Impact on loss and equity
	$000	$000
10% weakening of the US dollar	10,120	(4,218)
20% weakening of the US dollar	20,241	(8,437)
10% strengthening of the US dollar	(9,200)	3,835
20% strengthening of the US dollar	(16,867)	7,031

Sensitivity analysis on market risk

Shares, other variable yield securities and units in unit trusts that are recognised on the balance sheet at their fair values are susceptible to losses due to adverse changes in price. This is referred to as price risk and forms part of market risk.

These investments are well diversified within high quality, liquid securities. Guidelines are imposed on the investment managers that set out minimum credit ratings, maximum durations, diversification requirements across industry sectors, and concentration limits in any one industrial sector or counterparty.

Listed investments are recognised on the balance sheet at the quoted bid price. If a current price from an active market or from a recent transaction of an identical asset is not available, then a fair valuation technique using observable and unobservable market data is used. This includes using discounted cash flow models and other valuation techniques that are commonly used by investment managers and custodians.

Interest rate risk

The majority of the Company's investments comprise fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the Company's fixed interest investments would tend to rise and vice versa.

Fixed income assets are predominantly invested in high quality corporate, government, supranational and residential mortgage-backed securities. The investments typically have relatively short durations and terms to maturity. The fair value of the Company's fixed income assets as at 31 December 2023 was $350m (2022: $277m).

The table below shows the results of sensitivity testing on the Company's pre-tax profit (loss) and shareholders' funds. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Company's financial assets and liabilities:

	2023 Impact on income and equity	2022 Impact on loss and equity
	$000	$000
Interest rate risk		
50 basis points increase in yield curve	(1,750)	(1,387)
50 basis points decrease in yield curve	1,750	1,387
100 basis points increase in yield curve	(3,501)	(2,774)
100 basis points increase in yield curve	3,501	2,774

No sensitivity analysis has been presented for equity price risk as the Company currently has no investments exposed to equity price risk.

5.2(c) Liquidity risk

Liquidity risk arises where cash may not be available at a reasonable cost to pay obligations when due. The Company is exposed to daily cash outflows for payment of expenses and annually when the year of account is settled. A sizeable proportion of the Company's investments is in highly liquid assets that can be converted to cash at short notice without any significant capital loss or material expense. These funds are monitored by management daily.

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The table below analyses the maturity of the Company's impacted liabilities. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows.

2023	No contractual maturity date	Up to 1 year	Between 1 year and 3 years	Between 3 years and 5 years	>5 years	Total
Claims outstanding	–	185,378	330,997	–	–	516,375
Reinsurance creditors	–	6,717	6,655	–	–	13,372
Other creditors	–	15,751	–	–	–	15,751
Accruals and deferred income	–	291	–	–	–	291
Financial liabilities and outstanding claims	–	208,137	337,652	–	–	545,789

2022	No contractual maturity date	Up to 1 year	Between 1 year and 3 years	Between 3 years and 5 years	>5 years	Total
Claims outstanding	–	–	262,487	–	–	262,487
Reinsurance creditors	–	–	6,850	–	–	6,850
Other creditors	–	134	–	–	–	134
Accruals and deferred income	–	247	–	–	–	247
Financial liabilities and outstanding claims	–	381	269,337	–	–	269,718

5.2(d) Operational risk

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

Key activities to manage operational risk across the Company include:

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

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5.2(e) Climate change risk

The Syndicates are exposed to climate change risk as follows:

For Syndicate 1856, the Syndicate's underwriting performance is exposed to the physical risk of climate change from an increased frequency or severity of physical hazards because of global temperature increases of 1.5 degrees or more. Further, there are elements of the portfolio that may be exposed to transition risk from the resulting economic transition following regulatory or government intervention, and liability risk from increased litigation raising the issue of climate change in investment management practices.

Syndicate 218 is not materially exposed to the physical risk of climate change. The frequency or severity of road traffic accidents or other motor insurance loss events are not likely to be impacted by a rise in global temperatures, although poor weather may lead to more hazardous driving conditions.

The Company's exposure to climate change risk is through the quota share agreement.

6. Capital risk management

As a Class 3B insurer, the Company must at all times maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of The Insurance Act 1978 as amended. Each year the Company is required to file a capital and solvency return within four months of its relevant financial year end with the Bermuda Monetary Authority.

The prescribed form of capital and solvency return comprises the insurer's Bermuda Solvency Capital Requirement ("BSCR") model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premium written by line of business, a schedule of risk management and a schedule of fixed income securities by security type. The BSCR includes a standardized model used to measure the risk associated with an insurer's assets, liabilities and premium, and a formula to take account of catastrophe risk exposure. The Authority requires all Class 3B insurers to maintain their capital at a target level which is 120% of the amount calculated in accordance with the BSCR (the Enhanced Capital Requirement or "ECR"). In addition, the Company is required to maintain a minimum solvency margin. As at 31 December 2023 and 2022, the Company met both requirements.

Statutory capital and surplus as at December 31, 2023 and 2022 was $409 million and $308 million, respectively. At December 31, 2023 the Company's minimum capital requirement was $103 million (2022: $84 million) and was met. The BSCR will not be filed with the BMA until April 2024. As a result, the 2023 Enhanced Capital Requirement (ECR) is not available at the date the financial statements were available to be issued. The ECR at 31 December 2022 was $153 million and was met.

7. Net operating expenses

	2023 $000	2022 $000
Administrative expenses	107,542	78,854
Lloyd's expenses	84,763	55,449
Other expenses	15,399	8,367
Profit/ceding commission	7,144	5,326
Net operating expenses	214,848	147,996

8. Investment return

	2023 $000	2022 $000
Investment income		
Income from financial assets at fair value through profit and loss	9,922	6,914
	9,922	6,914
Investment expenses and charges		
Other investment management expenses	(252)	(215)
Net realised gain (loss) on investments	752	(444)
Net unrealised gain (loss) on investments	9,933	(21,861)
Total investment return	20,355	(15,606)
Analysed as:		
Allocated investment return transferred to the general business technical account	(26,835)	2,010
Net investment return included in the non-technical account	47,190	(17,616)
Total investment return	20,355	(15,606)

9. Other charges

	2023 $000	2022 $000
Licensing fees	315	315
Other charges	3,396	2,409
Other charges	3,711	2,724

10. Restricted assets

The Company is required to provide Funds at Lloyd's ("FAL") in respect of its Quota Share Agreement with the Corporate Member. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulation Authority (PRA) requirements and resources criteria.
FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten.

As at 31 December 2023, restricted cash and cash equivalents held in FAL amounted to $0.7 million (2022- $37.3 million) and restricted investments held in FAL amounted to $350.1 million (2022- $256.9 million).

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11. Other financial investments

Fair value hierarchy

The Company has classified its financial investments using the fair value hierarchy in accordance with the FRS 102 amendments on "Fair value hierarchy disclosures" issued by the Financial Reporting Council on 8 March 2016. The fair value of the Company's financial assets is based on prices provided by custodians and asset managers who follow the practice as outlined in the level structure further down.

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

- Level 1 – Quoted price for an identical asset in an active market. This includes securities and financial investments that are priced based on unadjusted quoted prices in an active market for identical assets that can be accessed at the measurement date.
- Level 2 – Price of a recent transaction for an identical asset and valuation technique using observable market data. This includes securities and financial investments that are priced using valuation techniques based on direct or indirect observable market data, including market prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors.
- Level 3 – Valuation technique using unobservable market data. This includes securities which are not actively traded, the pricing service uses common market valuation pricing models. Observable inputs used in common market valuation pricing models including, but are not limited to, broker quotes, credit ratings, interest rates, and yield curves, prepayment speeds, default rates, and other such inputs which are available from market sources.

The following table presents the Company's financial assets measured at fair value at 31 December 2023 and 2022, there are no financial liabilities measured at fair value for the periods presented:

2023	Fair value Level 1	Fair value Level 2	Fair value Level 3	Total
	$000	$000	$000	$000
Collateralised loan obligations	–	33,037	–	33,037
Corporate debt	–	223,468	–	223,468
Covered bonds	–	3,657	–	3,657
Asset back securities	–	1,643	–	1,643
Mortgage back securities	–	35,534	–	35,534
Treasury bills	–	19,805	–	19,805
Senior secured credit fund	–	–	32,920	32,920
Total investments and cash and cash equivalents	–	317,144	32,920	350,064

2022	Fair value Level 1	Fair value Level 2	Fair value Level 3	Total
	$000	$000	$000	$000
Collateralised loan obligations	–	30,656	–	30,656
Corporate debt	–	190,531	–	190,531
Covered bonds	–	3,504	–	3,504
Asset back securities	–	1,614	–	1,614
Mortgage back securities	–	25,112	–	25,112
Senior secured credit fund	–	–	25,983	25,983
Total investments and cash and cash equivalents	–	251,417	25,983	277,400

12. Other prepayments and accrued income

	2023	2022
	$000	$000
Prepaid administrative expenses	158	12
Accrued interest income	2,312	3,047
Other prepayments and accrued income	2,470	3,059

13. Debtors arising out of reinsurance operations

	2023	2022
	$000	$000
Premium receivable*	73,506	44,912
Funds withheld	839,554	448,774
Debtors arising out of reinsurance operations	913,060	493,686

*Premiums receivable represents the Company's share of the net receivables of the Corporate Member and will ultimately be settled commensurate with Funds withheld.

14. Deferred acquisition costs

	2023	2022
	$000	$000
At 1 January	622	7,325
Adjustment to prior year acquisition cost	–	(1,378)
Amortisation charged to profit and loss	(622)	(5,325)
Ending balance	–	622

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15. Reinsurance contract provisions

Technical provisions consist of:

	2023 $000	2022 $000
Provision for unearned premium	328,951	254,308
Claims outstanding	516,375	262,487
Ending balance	845,326	516,795

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

	2023 $000	2022 $000
Opening balance	254,308	162,056
Premium written	684,114	558,115
Premium earned	(614,774)	(453,634)
Impact of foreign exchange	5,303	(12,229)
Ending balance	328,951	254,308

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

	2023 $000	2022 $000
Opening balance	262,487	71,816
Claims incurred related to current year	182,396	213,473
Claims incurred related to prior year	323,432	115,147
Claims paid related to current year	(40,201)	(57,280)
Claims paid related to prior year	(215,030)	(72,527)
Impact of foreign exchange	3,291	(8,142)
Ending balance	516,375	262,487

16. Other creditors

	2023 $000	2022 $000
Amounts due to IQUW group companies (due within one year)	15,751	134
Total	15,751	134

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17. Related party transactions

The Company forms part of IQUW Group, including its immediate parent, Midco, and ultimate controlling entity, IQUW Holdings Bermuda Limited, and may enter into intercompany transactions within the Group. The Company receives services from members employed within the Group.

The IQUW Corporate Member forms part of the wider Group and therefore financial information reported within these financial statements in relation to the QSAs and excess of loss contracts are related party transactions.

18. Controlling parties

The Company has issued 120,000 fully paid $1 shares to IQUW Midco Bermuda Limited, which is ultimately owned by IQUW Holdings Bermuda Limited. The shares have attached to them full voting, dividend and capital distribution (including winding up) rights. The shares do not confer any rights of redemption.

19. Share capital

The Company has issued 120,000 fully paid $1 shares to IQUW Midco Bermuda Limited. The shares have attached to them full voting, dividend and capital distribution (including winding up) rights. The shares do not confer any rights of redemption.

The remaining capital consists of $361,380,000 contributed surplus, $60,000,000 of which was contributed during 2022.

The reserve within equity consists entirely of retained earnings.

20. Tax on profit (loss) on ordinary activities

The Company is registered in Bermuda and is subject to Bermuda law with respect to taxation. Under current Bermuda law, the Company is not taxed on any Bermuda income or capital gains taxes. However, on 27 December 2023, the Corporate Income Tax Act of 2023 was enacted. As a result, certain Bermuda businesses which are part of large multinational groups will be subject to a 15% corporate income tax in Bermuda for fiscal years beginning on or after January 1, 2025, regardless of any assurance given pursuant to the Exempted Undertakings Tax Protection Act 1966.

The Company will be in scope for the Bermuda corporate income tax regime; however, it is expected to be exempt for up to five years until 2030 due to the exclusion for groups with a limited international footprint. Consequently, we expect our Bermuda operations to be subject to Bermuda corporate income tax starting in 2030.

The tax legislation includes a provision referred to as the economic transition adjustment ("ETA"), which is intended to provide a fair and equitable transition into the tax regime. At 31 December 2023, the Company had an unrecognised deferred tax asset of $28.3m in relation to the ETA.

The legislation also includes a five-year look-back to bring net operating losses ("NOLs") into the tax regime. For groups qualifying for the five-year exemption, the look-back period will cover 1 January 2025 to 31 December 2029, such that these losses should be brought into the regime as an opening carryforward balance.

The Company expects to incur increased taxes in Bermuda beginning in 2030 and utilise the deferred tax asset recognised in relation to the ETA to reduce taxes paid. Based on the legislation, the ETA 10-year amortisation period commences on 1 January 2025, even if the group qualifies for the five-year exemption. As such, amortisation deductions for years in which the Company qualifies for the five-year exemption but calculates its NOLs, should still be taken into account.

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21. Post balance sheet events

On 20 March 2024, the Company repaid $14.5m of the amount due to IQUW group companies as at 31 December 2023.

The Company has completed its post balance sheet events evaluation for the period subsequent to the balance sheet date of 31 December 2023 through 26 April 2024 the date the financial statements were available to be issued.