

CITY RE LIMITED

Directors' Report and Financial Statements

For the year ended 31 March 2023

CITY RE LIMITED

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CITY RE LIMITED

CORPORATE INFORMATION

DIRECTORS:

Mr G A Hollingsworth
Mr S A Le Prevost
Ms C Al-Beyerty
Mr H N A Colthurst (Appointed 28 September 2022)
Mr J Ingham-Clarke (Resigned 5 July 2022)

INSURANCE MANAGER:

Marsh Management Services Guernsey Limited
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

SECRETARY:

Marsh Management Services Guernsey Limited
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

REGISTERED OFFICE:

PO Box 155
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

AUDITOR:

Moore Stephens Audit and Assurance (Guernsey) Limited
Level 2, Park Place
Park Street
St Peter Port
Guernsey
GY1 3HZ

CITY RE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 March 2023.

INCORPORATION

The Company was incorporated in Guernsey, Channel Islands on 20 December 2010 with registered number 52816. It operates in accordance with the provisions of The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002 to carry out general insurance business, excluding domestic business.

ACTIVITIES

The principal activity of the Company during the year was to provide re-insurance protection to the RSA Group on the risks associated with material damage and loss of rent for the City of London's property portfolio.

RESULTS

The results for the year are shown on page 9.

DIVIDENDS

During the year a dividend was proposed and paid in the sum of £500,000 (2022: £1,000,000).

DIRECTORS

The directors of the Company who held office during the period are detailed on page 3.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITOR

The Auditor, Moore Stephens, has indicated its willingness to continue in office and offers itself for re-appointment at the forthcoming Annual General Meeting.

GOING CONCERN

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. of the Company. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Approved by the Board of Directors and signed on behalf of the Board



Director:



Director:

Date:



4 July 2023

CITY RE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts". Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of the affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY RE LIMITED

Opinion

We have audited the financial statements of City Re Limited ("the Company") for year ended 31 March 2023, which comprise the Statement of Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows, and notes to the financial statements, 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 Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "insurance Contracts" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)'). 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 are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, 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 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 we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by the law are not made; or
- we have not received all the information and explanations we require for our audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY RE LIMITED (Continued)

Matters on which we are required to report by exception (continued)

We have nothing to report in respect of the following matters where The Insurance Business (Bailiwick of Guernsey) Law, 2002 requires us to report to you if, in our opinion:

- the information given in the annual return prepared pursuant to section 33 is consistent with the financial statements; or
- there is any transaction outside of business which resulted in the statement of financial position showing a situation materially different from that of which would otherwise have obtained, and which is not adequately disclosed in the financial statements.

Responsibilities of directors

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine 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, the Directors are 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 the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 of 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 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 financial statements.

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

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

The objectives of our audit in respect of fraud are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those assessed risks; and to respond appropriately to instances of fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the company.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory requirements applicable to the company and considered that the most significant are UK Generally Accepted Accounting Practice, The Companies (Guernsey) Law, 2008, and The Insurance Business (Bailiwick of Guernsey) Law, 2002.
- We obtained an understanding of how the company complies with these requirements by discussions with management and examination of various statutory documentation such as the minutes and compliance reports.
- We assessed the risk of material misstatement of the financial statements, including the risk of material misstatement due to fraud and how it might occur, by holding discussions with management.
- We inquired of management as to any known instances of non-compliance or suspected non-compliance with laws and regulations and examined correspondence with the GFSC and legal advisors.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY RE LIMITED (Continued)

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

- We assessed the information to be submitted to the GFSC together with the audited financial statements on the annual Insurer's Return such as the Regulatory and Solvency Assessment and confirmed that the information was appropriate and materially correct.

Based on this understanding, we designed specific appropriate audit procedures to identify instances of non-compliance with laws and regulations. This included making enquiries of management and obtaining additional corroborative evidence as required.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: 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 company's members, as a body, in accordance with Section 36 of the Insurance Business (Bailiwick of Guernsey) Law, 2002. Our audit work has been undertaken so that we might state to the company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



MOORE STEPHENS AUDIT AND ASSURANCE (GUERNSEY) LIMITED

Level 2 , Park Place
Park Street
St Peter Port
Guernsey, GY1 3HZ

Date 4 July 2023

CITY RE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2023

CONTINUING OPERATIONS	Notes	31 Mar 2023 £	31 Mar 2022 £
REVENUE			
Gross premiums written	2	2,629,637	2,299,729
Change in unearned premium provision	2	<u>(223,818)</u>	<u>302,561</u>
Premium earned for the year		2,405,819	2,602,290
UNDERWRITING EXPENSES			
Claims charge	2	(2,564,883)	(1,819,285)
Claims reserve movement - outstanding loss reserves	2	293,464	(370,087)
IBNR reserve movement		(125,000)	-
Commission	2	<u>(72,174)</u>	<u>(78,079)</u>
Total underwriting expenses		(2,468,593)	(2,267,451)
UNDERWRITING RESULT FOR THE YEAR		(62,774)	334,839
Interest income	2	80,522	5,194
Administrative expenses	6	(78,178)	(77,419)
(LOSS)/PROFIT BEFORE TAXATION AND COMMISSION		(60,430)	262,614
Profit commission payable	2	-	(3,939)
(LOSS) /PROFIT BEFORE TAXATION		(60,430)	258,675
Taxation	5	-	-
RETAINED (LOSS)/ PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(60,430)	258,675

The notes on pages 13 to 20 form part of these financial statements.

CITY RE LIMITED

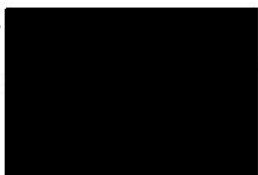
STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2023

	<i>Notes</i>	31 Mar 2023	31 Mar 2022
		£	£
CURRENT ASSETS			
Deferred commission		57,803	51,091
Insurance receivables		96,711	-
Prepaid expenses		7,176	8,928
Cash and cash equivalents		<u>6,072,208</u>	<u>6,782,407</u>
TOTAL ASSETS		<u>6,233,898</u>	<u>6,842,426</u>
EQUITY AND LIABILITIES			
Issued capital	7	750,000	750,000
Retained earnings		<u>109,912</u>	<u>670,342</u>
TOTAL EQUITY		<u>859,912</u>	<u>1,420,342</u>
LIABILITIES			
Trade and other payables	8	279,372	382,824
TECHNICAL RESERVES			
Unearned premium reserve	2	1,926,761	1,702,943
Claims reserves	9	3,167,853	3,336,317
TOTAL EQUITY AND LIABILITIES		<u>6,233,898</u>	<u>6,842,426</u>

These financial statements were approved by the Board of Directors at a meeting on 4 July 2023

Signed on behalf of the Board of Directors

Director



Director



The notes on pages 13 to 20 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2023

	Share Capital	Retained Earnings £	Total £
Balance at the 1 April 2021	750,000	1,411,667	2,161,667
Dividend paid during the year	-	(1,000,000)	(1,000,000)
Total comprehensive income	-	258,675	258,675
Balance at the 31 March 2022	750,000	670,342	1,420,342
Dividend paid during the year	-	(500,000)	(500,000)
Total comprehensive loss	-	(60,430)	(60,430)
Balance at the 31 March 2023	750,000	109,912	859,912

The notes on pages 13 to 20 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2023

	31 Mar 2023	31 Mar 2022
	£	£
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) /profit for the year	(60,430)	258,675
Less interest income	(80,522)	(5,194)
Increase /(decrease) in unearned premiums	223,818	(302,561)
(Increase)/decrease in insurance receivables	(96,711)	5,291
Decrease in prepaid expenses	1,752	6,923
(Decrease)/Increase in trade and other payables	(103,452)	162,994
(Decrease)/increase in claims reserves	(168,464)	370,087
(Increase)/decrease in deferred income	(6,712)	9,074
Net cash (outflow)/ inflow from operating activities	(290,721)	505,289
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	80,522	5,194
Net cash inflow from investing activities	80,522	5,194
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid during the year	(500,000)	(1,000,000)
Net cash outflow from financing activities	(500,000)	(1,000,000)
Net decrease in cash and cash equivalents	(710,199)	(489,517)
Cash and cash equivalents brought forward	6,782,407	7,271,924
Cash and cash equivalents carried forward	6,072,208	6,782,407

The notes on pages 13 to 20 form part of these financial statements.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2023

1. BASIS OF PREPARATION

The company is a limited company, limited by shares and is incorporated in Guernsey. The address of its registered office is PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET.

The principal activity of the company is to provide reinsurance protection to the RSA Group on the risks associated with the material damage and loss of rent insurance programmes of the City of London property investment portfolio.

The financial statements have been prepared in accordance with The Insurance Business (Bailiwick of Guernsey) Law, 2002, FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements are prepared under the historical cost convention.

The preparation of financial statements in compliance with FRS102 and FRS103 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies.

(a) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

(b) Gross premiums written

Gross premiums written is in respect of the provision of reinsurance protection to RSA Insurance Group Plc on the risks associated with material damage and loss of rent insurance programmes of the City of London portfolio.

(c) Unearned premiums

Unearned premium represents the proportion of premium which has been pre-paid for the following financial period.

(d) Claims

Claims are accounted for on an accruals basis. Provisions made for the cost of outstanding claims reported at the reporting date are included in the outstanding loss reserve. The estimate for the cost of claims incurred but not reported ("IBNR") is included in the IBNR reserve. The current IBNR is in the sum of £250,000 (2022: £125,000) is determined by the Board of Directors using both historical data and any data available up to the approval of the financial statements, in relation to the provision of new claims and deterioration of existing claims.

(e) Commission

Fronting fees calculated as 3% of gross premiums written is payable to RSA Insurance Group Plc and are earned over the related policy period.

Profit commission calculated as 1.5% of the profit before tax in the financial period is payable to Marsh Management Services Guernsey Limited.

(f) Interest income

Interest income is accounted for on an accruals basis.

(g) Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term fixed deposits and short term notice accounts.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2023

3. FINANCIAL INSTRUMENTS

Financial Assets

Basic financial assets, including debtors and cash and cash equivalents, are initially recognised at transaction price, and are subsequently carried at amortised cost.

Debtors arising out of insurance operations

Debtors arising out of insurance operations consist of balances due from the insurer in respect of outstanding premiums.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. None of the financial assets at the year end are deemed to be impaired.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

All financial liabilities are initially recognised at transaction price and are subsequently carried at amortised cost.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Company does not hold or issue derivative financial instruments.

Creditors arising out of insurance operations

Creditors arising out of insurance operations consist of balances due to the insurer in respect of outstanding claims payable.

Offsetting

Financial assets and liabilities are not offset in the accounts and the gross amounts are shown in the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of the applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2023

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made.

Outstanding loss reserves.

The carrying amount of the reserve is £2,917,853 (2022: £3,211,317). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and on the advice of expert loss adjusters where appropriate.

IBNR

The current IBNR is in the sum of £250,000 (2022: £125,000) is determined by the Board of Directors using both historical data and any data available up to the date of approval of the financial statements, in relation to the provision of new claims and deterioration of existing claims.

5. TAXATION

The Company is taxed at the standard rate of income tax for Guernsey companies of 0%.

6. ADMINISTRATIVE EXPENSES

	31 Mar 2023	31 Mar 2022
	£	£
Management fees (note 14)	51,793	51,975
Audit fees	6,900	6,100
Directors' fees (note 14)	7,500	7,521
Company registration fees	6,823	6,873
Directors and officers insurance premium	4,370	4,400
Sundry expenses	792	550
	<u>78,178</u>	<u>77,419</u>

7. SHARE CAPITAL

	31 Mar 2023	31 Mar 2022
	£	£
ISSUED SHARE CAPITAL		
750,000 GBP1 Ordinary Shares	<u>750,000</u>	<u>750,000</u>

Dividends

Shareholders of ordinary shares are entitled to receive dividends declared by the Company.

Capital

On winding up of the assets of the Company, the holder of ordinary shares is entitled to repayment of the nominal amount paid thereon. Any surplus is attributable to holders of ordinary shares pro rata in proportion to the number of ordinary shares.

Voting rights

Ordinary shares carry one vote per shareholder at general meetings.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2023

8. TRADE AND OTHER PAYABLES	31 Mar 2023	31 Mar 2022
	£	£
Claims payable	256,607	243,030
Profit commission	-	14,332
Audit fees	6,450	6,000
Insurance balances payable	-	102,965
Management fees (note 14)	14,240	14,422
Directors' fees	2,075	2,075
	<u>279,372</u>	<u>382,824</u>

9. CLAIMS RESERVES	31 Mar 2023	31 Mar 2022
	£	£
IBNR reserve	250,000	125,000
Outstanding loss reserves	2,917,853	3,211,317
	<u>3,167,853</u>	<u>3,336,317</u>

10. FINANCIAL RISK MANAGEMENT

The Company is exposed to a range of financial risks through its financial assets, financial liabilities and policyholder liabilities. The most important components of these financial risks are market risk (interest rate risk), credit risk, currency risk and liquidity risk. The risk management policies employed by the Company to manage these risks are discussed below.

a) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company manages the levels of credit risk it accepts by limiting its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review by the Board of Directors.

The assets bearing credit risk and their associated S&P credit ratings are shown below:

	31 Mar 2023	31 Mar 2022
	£	£
<i>Assets bearing credit risk</i>		
Cash and cash equivalents	6,072,208	6,782,407
<i>By Rating</i>		
A+ rated	6,072,208	6,782,407

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

b) Liquidity risk

Liquidity risk is the risk that the company cannot meet its obligations associated with financial liabilities as they fall due. The company has adopted an appropriate liquidity risk management framework for the management of the company's liquidity requirements. The company manages liquidity risk by maintaining banking facilities and monitoring premiums due and by continuously monitoring the forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The company is exposed to liquidity risk arising from its insurance activities. Liquidity management ensures that the company has sufficient access to funds necessary to cover insurance liabilities and expenses. All financial liabilities are due to be settled within the next twelve months.

There were no significant changes to the company's liquidity risk exposure in the financial year nor the objectives, policies and processes for managing liquidity risk.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2023

10. FINANCIAL RISK MANAGEMENT (Continued)

c) Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its bank deposits, cash and cash equivalents and cash flows. At 31 March 2022 the Company had various interest bearing accounts bearing interest rates ranging from 0.45% to 3.85% (2022: 0.10% to 0.45%).

During the year to 31 March 2023, if Bank of England interest rates had been 50 basis points higher with all other variables held constant, the loss for the year would have decreased by £30,361 (2022: Profit increased by £33,912), as a result of interest received on cash and cash equivalents. However if Bank of England interest rates had been 50 basis points lower with all other variables held constant, no interest would have been received therefore a increase to the loss for the year by £30,164 (2022: Decrease to the profit of £5,194).

The following are the underlying assumptions made in the model used to calculate the effect on profits and other components of equity:

- The bank balances at 31 March 2023 formed the basis of the calculation.
- A 50 basis point charge on these principal balances reflects the absolute increase or decrease in profit that could arise with such an interest rate movement. The directors have chosen the estimate of 50 basis points as this reflects the directors best estimate of the change in interest rates which could reasonably be expected to occur.

d) Currency risk

The company manages their foreign exchange risk by currently ensuring all commercial transactions or recognised assets and liabilities are denominated in its functional currency.

e) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Board does not feel that the company is exposed to significant concentration risk at the current time.

11. MANAGEMENT OF INSURANCE RISK

The principal risk that the Company faces under its insurance contracts is that the actual claims are significantly different to the amounts included in the technical reserves. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amounts of claims may vary from year to year from the estimate established.

The Company provides re-insurance protection to the RSA Insurance Group Plc on the risks associated with material damage and loss of rent for the City of London's property portfolio. The re-insurance protection is limited to a maximum liability of £250,000 for each and every loss with an aggregate limit equal to £250,000 in excess of net written premium.

All risks covered under the insurance policy are within the United Kingdom.

Claims development tables

The claims development table that follows shows claims reported per underwriting year which remain open in the respective policy year.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2023

11. MANAGEMENT OF INSURANCE RISK (Continued)

Claims development table at 31 March 2023

<u>Underwriting year</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Total</u>
accounting period end	188,840	233,724	837,927	495,995	189,228	360,520	502,866	173,399	2,982,499
one year later	1,543,888	1,436,816	2,172,013	1,511,546	1,897,176	2,330,911	2,498,002	-	13,390,352
two years later	1,643,108	1,603,168	2,240,475	1,431,278	1,871,543	2,770,148	-	-	11,559,720
three years later	1,858,804	1,525,342	2,281,671	1,400,675	1,796,195	-	-	-	8,862,687
four years later	2,085,243	1,531,492	2,224,412	1,390,470	-	-	-	-	7,231,617
five years later	1,906,249	1,405,066	2,223,612	-	-	-	-	-	5,534,927
six years later	1,906,249	1,405,066	-	-	-	-	-	-	3,311,315
seven years later	1,906,249	-	-	-	-	-	-	-	1,906,249
Current estimate of cumulative claims	1,906,249	1,405,066	2,223,612	1,390,470	1,796,195	2,770,148	2,498,002	173,399	14,163,141
Cumulative payments to	(1,906,249)	(1,312,331)	(1,595,824)	(1,383,077)	(1,698,209)	(1,965,164)	(1,134,434)	-	(10,995,288)
Statement of Financial Position Reserves	-	92,735	627,788	7,393	97,986	804,984	1,363,568	173,399	3,167,853

The Company has currently provided for an Incurred but not Reported Reserve in the sum of £250,000 (2022: £125,000) which has been agreed by the Board.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2023

12. CAPITAL MANAGEMENT

The Company defines capital in accordance with regulations prescribed by the Guernsey Financial Services Commission ("GFSC"). The Company's capital consists of:-

	31 Mar 2023	31 Mar 2022
	£	£
Share Capital	750,000	750,000
Retained earnings	109,912	670,342
Capital to meet Minimum Capital Requirements	859,912	1,420,342
Adjustments	-	-
Capital to meet Prescribed Capital Requirements	<u>859,912</u>	<u>1,420,342</u>

Its objectives when managing capital are:

- to comply with legal and statutory obligations and maintain capital resources commensurate with the nature, scale and risk profile of its business;
- to provide a framework for monitoring the financial and capital position of the Company, including the procedures to be followed during periods of general financial distress, either due to internal or external events; and
- to safeguard the Company's ability to continue as a going concern.

Under the rules prescribed by the GFSC, the Company must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance and that there is a suitable matching of assets and liabilities.

Under the current regulations, the GFSC rules require the Company to maintain a surplus of admissible assets over its liabilities which is at all times at least higher than both its MCR and PCR. The MCR represents the point at which the regulator would invoke the strongest action, while the PCR is the level of capital above which no action is required, with varying degree of action required if capital lies between MCR and PCR.

As at 31 March 2023, the Company held a surplus of £248,558 above its MCR requirement of £611,354 and a surplus of £14,219 above its PCR requirement of £845,693.

Management information to monitor the Company's capital requirements and solvency position is produced and presented to the Board on a regular basis ensuring that the Company meets its capital requirements at all times.

13. TECHNICAL PROVISIONS

Technical provisions arising from insurance contracts are included in these financial statements as follows:

	31 Mar 2023	31 Mar 2022
	£	£
Gross		
Unearned premium reserve	1,926,761	1,702,943
IBNR provision	250,000	125,000
Outstanding loss reserves	2,917,853	3,211,317
Total technical provisions, gross	<u>5,094,614</u>	<u>5,039,260</u>

Provisions for claims reported are estimated using the latest available information which comprises up to date reports from the claims handlers, loss adjusters and fronting insurers, on that basis there are no significant assumptions impacting on the level of the claims other than the assumption that the information used is complete and accurate.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2023

14. RELATED PARTY DISCLOSURE

The parent Company and ultimate controlling party which has interests in 100% (2022: 100%) of the issued share capital of the company is the City of London Corporation, the municipal body of the City of London, acting in its City's Cash capacity.

Key management personnel of the company

Key management personnel include all directors who together have authority and responsibility for planning, directing and controlling the activities of the company. The total compensation paid to key management personnel for services provided to the company was £7,500 (2022: £7,521).

For the year ended 31 March 2023, management fees of £51,973 (2022: £51,975) were charged by Marsh Management Services Guernsey Limited, of which £14,240 (2022: £14,422) was outstanding as at 31 March 2023.

15. LETTER OF CREDIT

The City of London Corporation as the parent Company have arranged a Letter of Credit on behalf of the Company in favour of Royal Sun Alliance Insurance Limited in the sum of £2,955,000 for the policy period to 24 December 2023 (2022 Policy Period: £1,875,000).