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Report and Accounts 31 December 2015

318

MSF Pritchard
Syndicate 318

Beaufort Underwriting Agency Limited

MSF Pritchard Syndicate 318 has traded continuously at Lloyd's for over thirty years. In that time the Syndicate has grown and evolved to meet the changing demands of its clients and is well positioned to take advantage of the opportunities seen in today's increasingly volatile marketplace. Over time, the Syndicate has built up longstanding relationships with, and offered continuity to, its brokers, clients and capital providers alike. The combination of its experienced team of underwriting, claims and support personnel, and the ability to make the best use of increasingly sophisticated statistical techniques in support of its decisions, maximises the offering it presents to each of its counterparties.

2015 Annual accounts

- 1 Financial highlights
- 2 Directors and administration
- 3 Report of the directors of the managing agent
- 15 Statement of managing agent's responsibilities
- 16 Independent auditor's report
- 18 Statement of profit and loss
- 20 Balance sheet
- 22 Statement of changes in members' balances
- 23 Statement of cash flows
- 25 Notes to the financial statements

2013 Underwriting year of account

- 59 Financial highlights
- 60 Managing agent's report
- 63 Statement of managing agent's responsibilities
- 64 Independent auditor's report
- 66 Profit and loss account
- 68 Balance sheet
- 70 Statement of changes in members' balances
- 71 Statement of cash flows
- 72 Notes to the accounts
- 86 Seven year summary

2015 calendar year

£136.6m (2014: £135.7m)
gross premiums written

£33.1m (2014: £33.5m)
profit for year

77.1% (2014: 76.5%)
Combined ratio including managing agency fee
and profit commission

0.5% (2014: 0.5%)
annual investment yield

£235m
2015 capacity

Directors and administration

MANAGING AGENCY:

DIRECTORS AND ADMINISTRATION

Beaufort Underwriting Agency Limited is the Lloyd's Managing Agent for MSF Pritchard Syndicate 318 and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Directors:

R.G. Carter (*non-executive chairman*)

M.J. Cox (*non-executive*)

C.J.W. Czapiewski (*non-executive*)

D.C. Eales

A. Hoffmann

M.A. Langston (*appointed 4 December 2015*)

C.A.A. Niebuhr (*non-executive*)

G.M. Tuck

Company secretary

P. Langridge (*resigned 9 February 2016*)

B. Arzur-Kean (*appointed 10 February 2016*)

The registered office of Beaufort Underwriting Agency Limited is One Minster Court, Mincing Lane, London EC3R 7AA. The registered number of Beaufort Underwriting Agency Limited is 4039137.

Syndicate:

Active underwriter

Derek Eales was appointed Active Underwriter of Syndicate 318 on 1 July 2013. He is also the Director of Underwriting at Beaufort Underwriting Agency Limited.

Bankers

Citibank, N.A.

Royal Bank of Canada

Lloyds Banking Group Plc

Investment managers

Amundi (UK) Ltd

Actuaries

Lane Clark & Peacock LLP

Syndicate auditors

KPMG LLP

Report of the directors of the managing agent for the year ended 31 December 2015

318

Introduction

The directors of the managing agent present their managing agent's report for the year ended 31 December 2015.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

However, since the Syndicate benefits from a capital base that includes traditional Names, as well as corporate members, where possible and appropriate, we have endeavoured to explain the events of the calendar year in the context of the underlying years of account.

Managing agents are also required to prepare a managing agent's report, financial statements and related notes, and supporting disclosure for members participating on the 2013 underwriting year of account, which closed at 31 December 2015. These are incorporated into this document on pages 59 to 85.

The directors would also like to bring to your attention that these are the first set of financial statements prepared by the Syndicate in accordance with FRS 102. In its transition to FRS 102 from old UK GAAP, the Syndicate has made measurement adjustments. In accordance with FRS 102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS 103 "Insurance Contracts". An explanation of how the transition to FRS 102 has affected the financial position and performance of the syndicate is provided in note 24.

Result for the 2015 Calendar Year

For the year ended 31 December 2015, Syndicate 318 has generated an overall profit of £33.1m (2014: profit of £33.5m), and a combined ratio of 77.1% (2014: 76.5%).

An analysis of the contribution to the overall result made by the individual underwriting years of account is as follows:

	2013 and Prior Years of Account £000	2014 Year of Account £000	2015 Year of Account £000	2015 Calendar Year Combined £000	2014 Calendar Year Combined £000
Gross Earned Premium	370	59,978	79,253	139,601	140,258
Reinsurer's Share	(845)	(3,632)	(14,209)	(18,686)	(19,829)
Net Earned Premium	(475)	56,346	65,044	120,915	120,429
Gross Claims Paid	(32,315)	(30,166)	(6,176)	(68,657)	(59,901)
Reinsurer's Share	6,588	692	200	7,480	6,803
Net Claims Paid	(25,727)	(29,474)	(5,976)	(61,177)	(53,098)
Change in provision for gross claims	55,038	(2,701)	(33,537)	18,800	5,347
Change in provision for reinsurer's share	(5,791)	(912)	412	(6,291)	(2,009)
Change in provision for net claims	49,247	(3,613)	(33,125)	12,509	3,338
Other technical income, net of reinsurance	(169)	272	122	225	510
Net Operating Expenses	(6,401)	(16,748)	(21,629)	(44,778)	(42,922)
Balance on Technical Account	16,475	6,783	4,436	27,694	28,257
Net Investment Income	526	330	(29)	827	838
Profit on exchange	3,080	1,040	451	4,571	4,449
Profit for the financial year	20,081	8,153	4,858	33,092	33,544

Report of the directors of the managing agent for the year ended 31 December 2015 *continued*

Principle Activities

The principal activity of Syndicate 318 is the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's. The Syndicate underwrites in two core business areas of International and US Property, and Aviation. International and US Property is sub divided into risks accepted under direct and facultative policies, and business written under binding authorities. The direct and facultative business covers international risks, although the largest proportion is domiciled in the US. The risks accepted under binding authorities are almost all from US coverholders, with a small amount in Canada.

The Aviation business is predominantly from smaller airlines, as well as some general aviation business. Aviation risks located in the US are generally avoided.

Business review – financial

The business review provides a commentary on the financial and non-financial performance of the Syndicate in 2015. The review discusses the business written and earned, as well as the rating environment in the year by major class of business. We have also provided an overview of the Syndicate's claims experience, including the performance and adequacy of technical provisions. The effect of non-underwriting transactions including operating expenses, rate of exchange movements, and returns from cash and investments are also detailed. Where appropriate, we have detailed the contribution to the result of each individual underwriting year. The Syndicate's key performance indicators are summarised in the table below:

KPI	2015	2014
Gross premiums written	136.6m	135.7m
Reinsurance premiums	18.2m	19.3m
Profit for the year	33.1m	33.5m
Gross loss ratio	35.7%	38.9%
Net loss ratio	40.2%	41.3%
Operating expense ratio	37.0%	35.6%
Combined ratio	77.1%	76.5%
Annual investment yield	0.5%	0.5%
Syndicate capacity	235m	235m

Underwriting and reinsurance

The level of gross written premiums has increased during the year to £136.6m in 2015 from £135.7m in 2014. The majority of premiums written by the Syndicate is denominated in US dollars, and therefore, the strengthening of the US dollar, relative to sterling, has increased gross premiums by around £9m on a like for like basis. In real terms, the gross premiums of the Syndicate have fallen by just over £8m.

	£000s
Gross premiums written 2014	135,721
Increase in premium income from rate of exchange	9,007
Reduction in premiums in the year	(8,156)
Gross premiums written in 2015	136,572

Around two thirds of this reduction in premiums has occurred on the Aviation account, where the environment has been increasingly competitive, in terms of signings as well as ratings. The Syndicate has also elected not to renew a number of accounts, owing to difficult market conditions.

The remaining fall in premium income has been on the International and US Property account, although a large portion of this reduction is

because the Syndicate received a reinsurance to close from Syndicate 1318 in 2014. Although, the direct and facultative part of the book has endured rate reductions in the year, the Syndicate has still been able to broadly maintain its income. The business written under binding authorities in the US has proven to be less price sensitive to rate reductions.

Gross earned premiums for the year are £139.6m, which is slightly below the £140.2m earned in 2014. Gross earned premiums have

followed a similar pattern to the written premium in terms of rating and rates of exchange movements.

The composition of the account has remained relatively consistent between 2015 and 2014. However, the Aviation account has shrunk in proportion to the others for the reasons discussed above. The table below illustrates the split of gross written premium between classes on business written and incepted in the year.

Gross written premiums	2015 %	2014 %
Aviation	8.3	11.4
Property – Direct and Facultative	68.3	65.1
Property – Binding Authorities	23.4	23.5
International and US Property	91.7	88.6
	100%	100%

The ceded reinsurance premium in the year have fallen to £18.2m from £19.3m in 2014. On a comparable basis, the overall spend has reduced by approximately £2.5m in the year, although, the US dollar strengthening has mitigated this decrease by around £1.5m. The bulk of this reduction has been generated on the International and US Property account's catastrophe programme, where reinsurance rates have continued to soften. The Syndicate also renewed its fifteen percent quota share reinsurance arrangements on almost all of its US property binding authorities.

The reinsurance premium earned in the year of £18.7m (£19.8m: 2014) closely tracks the reinsurance written, owing to the high proportion of reinsurance premium earned in the US windstorm season, and the continuity in the structure of the reinsurance programmes.

Technical Result

The calendar year technical result before investment return is comprised of profits on the open and closing years of account. The largest contribution to profit for the calendar year has come from the 2013 year of account, owing primarily to reserve improvements on prior year claims which have occurred on the International and US Property account. The level of incurred losses has fallen, and the reserves set at 31 December 2014 have proven to be robust.

The 2014 year of account has also proved to be profitable in 2015, although this was in some way mitigated by large losses on both the Property and Aviation accounts. There has also been a good underwriting result on the 2015 year of account to date, which has benefited from a low incidence of catastrophe losses in the year.

Report of the directors of the managing agent for the year ended 31 December 2015 *continued*

Contribution of 2015 year of account to the calendar year result

The 2015 year of account has contributed a profit for the calendar year, before investment income, of £4.9m. The result is an improvement on the 2014 year of account calendar result which produced a break even position, this time last year.

The 2015 calendar year has been a relatively benign year for natural catastrophes, with a low incidence of major windstorm losses. There were only a small number of risk losses on the 2015 underwriting year. The table below summarises the large property losses from catastrophe type events in the year:

Loss	Gross and Net £(m)
Hurricane Patricia	2.1
South Carolina Floods	1.6
Tornados US	1.4
Hurricane Joaquin	1.2
California Wildfire	1.1
Samarco Dam Brazil	1.0
Total	8.4

The Aviation account suffered one major hull loss on the 2015 year of account which has been fully reserved at £1.8m. This, combined with the fall in Aviation premium written in 2015, has put the account in an overall loss position.

The Syndicate continues to earn its acquisition costs in line with gross earned premium, whilst administration expenses, and Names expenses are earned as they are incurred. Managing agent's profit commission is 'earned' in line with cumulative profits to a year of account, after allowances for the potential impact of deficit clauses within the Agency Agreement.

Net operating expenses are £21.6m, which is an increase from £18.9m charged to the 2014 underwriting year at the same stage. The majority

of the increase has arisen from an increase in brokerage, and the accrual of profit commission on 2015, owing to the positive underwriting result. The increase in brokerage has been primarily driven from a strengthening of the US dollar.

There was no calendar year investment return attributable to the 2015 underwriting year, as investment manager's fees exceeded returns.

Profit on exchange in the year was £0.45m on the 2015 underwriting year.

Members' balances stand at an overall surplus of £4.9m.

Contribution of 2014 year of account to the calendar year result

The 2014 year of account has contributed a profit for the calendar year, before investment income of £7.8m. Although, the calendar year has been profitable, with a low incidence of catastrophe losses, there was a relatively high frequency of large risk losses in the early part of the year, as well as higher attritional losses. The table below summarises the large property losses from catastrophe type events in the year:

Loss	Gross and Net £(m)
Chile Floods	2.1
Hurricane Patricia	0.8
Total	2.9

The aggregate of large risks losses is £6.7m. There was one large claim on the Aviation account, which was from the Shoreham air disaster, which has been reserved at £2.2m.

The technical provisions set at 31 December 2014 have proven to be robust, and there has been an improvement in reserves in the region of £2.9m in the calendar year.

Net operating expenses are £16.7m in 2015, against a comparative figure of £19.6m in calendar year 2014. Most of this decrease has arisen from the lower amount of profit commission accrued to the 2014 underwriting year of account, owing to lower profitability than the 2013 year of account at the same stage of development.

The investment return for the calendar year attributable to the 2014 underwriting year of account has been positive, producing net investment income of £0.33m.

Profit on exchange in the year was £1.04m on the 2014 underwriting year.

Members' balances currently stand at an overall surplus of £8.2m, after standard personal expenses. We remain positive about the result of the 2014 year of account, and are forecasting a profit in the range of 1.3% to 6.3% upon closure.

Operating Expenses

	2013 and Prior Years of Account £000	2014 Year of Account £000	2015 Year of Account £000	2015 Calendar Year Combined £000	2014 Calendar Year Combined £000
Acquisition Costs (Brokerage)	(227)	(12,908)	(12,209)	(25,344)	(24,690)
Acquisition Costs (Other)	(426)	(1,524)	(4,264)	(6,214)	(5,557)
Administrative Expenses	(733)	(252)	(1,307)	(2,292)	(2,233)
Standard Personal Expenses	–	(20)	(2,633)	(2,653)	(2,088)
Managing Agents Profit Commission	(5,015)	(2,044)	(1,216)	(8,275)	(8,354)
Net Operating Expenses	(6,401)	(16,748)	(21,629)	(44,778)	(42,922)

As in previous years, acquisition costs (brokerage) represent the largest single expense item in 2015. Other operating expenses under the control of the Managing

Contribution of 2013 year of account to the calendar year result

The 2013 year of account has contributed a profit for the calendar year, before investment income, of £19.6m. In 2015, there has been an improvement of £14.1m on closed years' reserves, which has been the most significant contributor to the calendar year result. The reserves set on the 2013 pure year of account at the end of last year have also proved to be robust, and we have experienced positive claims development.

Net operating expenses are £6.4m. The majority of this movement is generated from profit commission and related expenses.

The investment return for the year of £0.5m has increased the profit for the year to £20.1m

Profit on exchange in the year was £3.1m on the 2013 and prior underwriting year.

Agency have stayed relatively consistent in the calendar year.

Profit commission has been accrued on the 2013, 2014, and 2015 years of account, on the cumulative result to date.

Report of the directors of the managing agent for the year ended 31 December 2015 *continued*

Profit and loss on exchange

The profit on exchange for the year is £4.57m (£4.45m: 2014). This has largely arisen from currency translation differences from conversion of the opening balances and calendar year result from average to closing rates of exchange. The Syndicate has also realised profits and losses on exchange from transactions in the year, as well as having open currency positions at the year end. The table below provides a breakdown of the profit and loss on exchange during the year. The translation differences have resulted from the strengthening of the US dollar. The Syndicate also realised a profit on exchange in the year from the sale of US dollars to Sterling as part of the distribution of the 2012 year of account profits.

	2013 and Prior Years of Account £000	2014 Year of Account £000	2015 Year of Account £000	Total £000
Profit and loss on exchange				
Profit on currency translation of opening balances and calendar year profits	2,016	1,085	386	3,487
Profit/(loss) on other transactions in the year	1,064	(45)	65	1,084
Profit on exchange	3,080	1,040	451	4,571

Investment Performance

	2015 '000	%	2014 '000	%
Average Amount of Syndicate Funds	£199,323		£187,318	
Investment Return	£982	0.49%	£979	0.52%
By Currency:				
Sterling:*				
Average Funds	£17,541		£8,895	
Investment Return	£(58)	(0.33)%	£(33)	(0.37)%
US Dollar:				
Average Funds	US\$264,311		US\$278,874	
Investment Return	US\$1,253	0.47%	US\$1,259	0.45%
Canadian Dollar:				
Average Funds	Can\$17,770		Can\$17,241	
Investment Return	Can\$128	0.72%	Can\$196	1.14%

*Includes investment manager's fees of £155,255 (2014: £140,755).

The table above details the investment performance of the Syndicate based on average funds invested. The Syndicate uses third party managers to invest a large proportion of its US dollar funds. Our fund managers, Amundi, had funds under management of US\$251m at 31 December 2015 (US\$267m: 2014). The managed portfolio returned 53 (0.53%) basis points, against a one month LIBID benchmark of 9 (0.09%) basis points, and a 1-3 year US government bond benchmark of 54 (0.54%) basis points.

The portfolio at 31 December 2015 includes BBB rated bonds for Deutsche Bank, Goldman Sachs, Morgan Stanley, and Volkswagen which have been downgraded since they were purchased.

Investment Policy

The Investment objective is to invest the Premiums Trust Funds in a manner calculated to maximise return within agreed restraints and in line with policies approved by the Managing Agency. In consideration of this policy, portfolios are predominantly invested in short-term, high quality fixed income securities. The investment managers have been instructed to invest for the highest total return consistent with maintaining agreed levels of liquidity and security. They also have discretion to invest in private sector securities for a limited proportion of the portfolio and within diversity limits for individual credits. Limiting the target duration of the overall portfolio controls the exposure of the investments to adverse price conditions. An Investment Committee and formal procedures for monitoring investments exist in line with the guidance from Lloyd's.

Review for Calendar Year 2015

The investment portfolio continued to show steady performance despite bond market volatility witnessed around the decision by the Federal Reserve to raise rates for the first time since 2006. The portfolio beat the cash benchmark and matched the return of bond index comparator. Returns were in line with the central expectation provided at the start of the year.

US economic data continued to improve in 2015 with unemployment steadily falling and household spending growing. Although inflation remains low, early signs of wage growth are beginning to materialise. With unemployment close to the natural rate, and taking into account the lags of monetary policy to feed into the real economy, the Federal Reserve raised rates in December 25bp to 0.25-0.5% having

disappointed some commentators expecting the move at the September meeting. The Fed were clear to emphasise this was just the first step toward a normalisation of monetary policy and it remains accommodative after the hike, expecting inflation to return to the 2% target over the medium term. Gradual, measured rate rises are preferred to potentially destabilising sharp rate hikes at a later date. As the market began to price the hike with increased certainty in October-November government bond yields moved higher. Corporate bond spreads widened in the second half of the year as concerns grew on the viability of sectors exposed to lower oil and commodity prices.

The aggregate USD portfolio returned 0.53% during 2015, significantly above 0.09% for the Bank of America Merrill Lynch 1-month LIBID benchmark and in line with the 0.54% return from the Bank of America Merrill Lynch 1-3 year government bond comparator. Performance was driven by additional carry earned from the corporate bond holdings, offset by a defensive duration policy which was extended once yields began to rise at the end of Q1 and Q2.

Outlook for 2016

Although the start of the year has begun with a risk-off tone, nominal global growth is expected to surprise positively, led by the US. Faster hikes are expected from the Fed than are currently priced in which has the potential for further sell-offs in core bonds. The US election in Q4 is expected to deliver policy continuity. Consumption will continue to rise as wage growth and credit accelerate; with services pricing in particular to be strong. Chinese growth is expected to hold up, with no hard landing, and a trickle of corporate defaults will not upset markets. In the eurozone, growth will pick up and ratings agencies will continue with

Report of the directors of the managing agent for the year ended 31 December 2015 *continued*

grudging upgrades. Peripheral spreads therefore will tighten further. The eurozone has many challenges to face this year but the political risks are manageable. The Brexit referendum will be an increasing market focus which will keep sterling pinned back but UK growth will remain solid as housing firms further again (ex-London). In Japan, Abenomics will grind ahead, pushing up wages, capex, inflation, and eventually growth. BoJ buying will keep yields tightly contained and regional tensions will remain latent. Emerging markets will continue to struggle and remain under pressure all year. Risks to the outlook remain from potential further major commodity price falls; Mid-East unrest; political opposition which could stall Yen depreciation; and a Brexit referendum vote to leave.

Business review – non-financial

In reviewing the performance of the business in the year, we have also assessed non-financial metrics for underwriting, claims, human resources, and Solvency II. We have identified the following criteria as important measures of performance for those areas. These are detailed below.

Underwriting non-financial indicators

The Syndicate views the proportion of the business that it leads and renews as important non-financial measurements of its performance. The amount of business on which the Syndicate acts as the lead underwriter provides a useful measure of market position in relation to its peers. The level of renewal business by the Syndicate is a good indicator of the continuity of the respective book of business, as well as the retention of clients. This has been calculated based on the proportion of premiums written on the 2015 YOA in the year ended 31 December 2015. These are detailed for 2015 in the table below:

	Aviation	Property – Direct and Facultative	Property – Binding Authorities
Proportion of business written where the Syndicate is the lead underwriter	51%	47%	49%
Proportion of business written which has been renewed by the Syndicate	94%	75%	95%

The Board values experience in its underwriters. The table below details the experience of the Syndicate's senior underwriters in terms of the number of years they have worked at the Syndicate and the number of years they have been active in the Lloyd's market.

Name	Position	Years at Syndicate	Years in the Lloyd's Market
Derek Eales	<i>Active Underwriter</i>	31	31
Nick Chalk	<i>Class Underwriter Property – Direct and Facultative</i>	16	18
Steve Anderson	<i>Class Underwriter Property – Binding Authorities</i>	7	27
Simon Herring	<i>Class Underwriter Aviation</i>	14	32

Claims handling non-financial indicators

As part of the evaluation of the Syndicate's claims handling performance, various measurements are monitored on a quarterly basis. Management view responding to claims notifications, adjusting and settling them on a timely basis as key to the Syndicate's servicing of claims. It also places great importance on the accuracy of its case reserving within a prescribed range. The table below illustrates some of the KPIs used by the Board.

Claims Measurement	Average score in 2015
Percentage of claims responded to within target response time	100%
Percentage of claims meeting internal reserving accuracy target	98.1%
Percentage of claims meeting adjustment and settlement targets	99.4%

The overall performance against the agreed targets have been very good in 2015, with generally high average scores against the metrics set.

Human resources non-financial indicators

The Board views the retention of staff and vocational training as key to the long term success of the Syndicate. The staff turnover for the Syndicate has always been historically low, and the average length of service for employees tends to be longer than average. Beaufort Underwriting Agency Limited also remains committed to staff training, with a number of employees studying for professional qualifications in disciplines including accountancy, actuarial and insurance.

Key Risks

The Syndicate is exposed to a variety of risks when undertaking the activities associated with the running of the business. The Board has

policies and procedures in place to identify and manage the risks to the Syndicate. The key risks to the Syndicate are: Insurance risk; Finance risk; Credit risk; Liquidity risk; Market risk and Operational risk.

Definitions of these risks and further explanation on how they affect the Syndicate are detailed in Note 5 on page 31.

Corporate Governance and Risk Management

Reporting to the Board are a number of sub-committees each with written terms of reference which consider, monitor and report on aspects of the Managing Agency's business. The Board is represented on each committee and retains overall responsibility for the Syndicate's business.

The Managing Agency maintains a risk framework for the identification, assessment, management and monitoring of the risks to which it is exposed to across all aspects of its day-to-day business operations, and it maintains a risk register based on the output of this framework. The risk framework encompasses all core risk areas including insurance, credit, investment, liquidity, market, concentration and operational risk. Various controls operate in respect of these risk areas and their performance and continued suitability are monitored via the Managing Agency Board and/or the relevant sub-committee and through the use of key risk and control indicators.

Audit Committee

The Audit Committee has the delegated authority of the Board to consider all aspects and matters pertaining to the external audit and internal audit of the Managing Agency and managed syndicate. This includes an assessment of the performance, effectiveness and suitability of these functions.

Report of the directors of the managing agent for the year ended 31 December 2015 *continued*

Risk Committee

The Risk Committee has the delegated authority of the Board to consider all aspects and matters pertaining to the identification, assessment, monitoring and mitigation of risk within the Managing Agency and managed syndicate. This includes an assessment of the performance, effectiveness and suitability of the risk management function and risk framework. The Risk Committee is responsible for the consideration of operational risk issues and maintains the Managing Agency's risk register.

General Business Committee

The General Business Committee has the delegated authority of the Board to consider any matters that do not require consideration by the full Board. In general, the committee considers the more day-to-day administrative and operational issues relating to the Managing Agency and managed syndicate.

Investment Committee

The Investment Committee has the delegated authority of the Board to recommend, implement and monitor an appropriate investment policy, investment guidelines and performance measures for the managed syndicate; for assessing the performance, effectiveness and continued suitability of the investment managers; and for ensuring compliance with relevant prudential rules. The Investment Committee has specific responsibility for the consideration of the market, liquidity and concentration risk relating to the investment of managed syndicate assets.

Claims and Reserving Committee

The Claims and Reserving Committee has responsibility for reviewing and monitoring all aspects of the managed syndicate's claims performance and claims service delivery.

Underwriting Committee

The Underwriting Committee has the delegated authority of the Board to consider, monitor and review all aspects of the underwriting strategy, management and performance of the managed syndicate. The Underwriting Committee has specific responsibility for the consideration of insurance and reinsurance and claims risk.

To assist it in fulfilling its obligations, the Underwriting Committee has constituted a sub-committee which addresses specific areas of managed syndicate operations in more detail:

Reinsurance Operations Group

The Reinsurance Operations Group is a sub-committee of the Underwriting Committee and has responsibility for reviewing and monitoring all aspects of the managed syndicate's reinsurance arrangements and for ensuring effective communication between the underwriting, claims and reinsurance areas.

Remuneration Committee

The Remuneration Committee has the delegated authority of the Board to support and assist the Agency in its objective to determine and maintain an appropriate policy and

framework which can attract and retain the right talents. As such, the Remuneration Committee is responsible for the determination of the remuneration, benefits and bonus arrangements of the senior executives and officers of the Managing Agency and managed syndicate; for the review and approval of the general level of remuneration and benefits for other staff and for ensuring that remuneration arrangements are consistent with principles of sound risk management and corporate governance.

Future Developments

The prolonged softening of market conditions across all lines of business is expected to continue in 2016. The absence of major catastrophe losses in recent years, as well as the robustness of the Syndicate's prior year reserves, have somewhat glossed over what is a very difficult market for property business.

The downward spiral of rates in aviation has been well publicised in the market, and shows little sign of abating. The level of market premium as a proportion of overall aggregate exposure is at an historic low for airline business.

We expect competition to remain fierce in 2016 in the Lloyd's Market, but will endeavour to use our knowledge and experience to steer the business through this difficult stage in the market. The Syndicate will continue to purchase reinsurance to mitigate underwriting risks, where we see economic benefit.

The Syndicate's capacity for 2016 is to remain at £235m.

Solvency II

The Syndicate has a green rating from Lloyd's for its Solvency II process, and continues to be on course to meet day 1 reporting requirements.

Directors

The directors and officers of the managing agent who held office during the year were as follows:

Directors:

R.G. Carter (non-executive chairman)
M.J. Cox (non-executive)
C.J.W. Czapiewski (non-executive)
D.C. Eales
A. Hoffmann
M.A. Langston (appointed 4 December 2015)
C.A.A. Niebuhr (non-executive)
G.M. Tuck

Company secretary

P. Langridge (resigned 9 February 2016)

B. Arzur-Kean was appointed as the company secretary on 10 February 2016.

Syndicate annual general meeting

The managing agent does not propose holding an annual meeting for the Syndicate.

Auditors

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Report of the directors of the managing agent for the year ended 31 December 2015 *continued*

Statement as to disclosure of information to auditors

The directors of the Managing Agent at the date of this report have individually taken all the necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the Syndicate auditors are aware of that information. As far as the directors are aware, there is no relevant audit information of which the Syndicate auditors are unaware.

G. M. Tuck

Finance Director

Beaufort Underwriting Agency Limited
One Minster Court
London EC3R 7AA

Approved by the Board of Beaufort Underwriting
Agency Limited on 15 March 2016

Statement of managing agent's responsibilities for the year ended 31 December 2015

318

The managing agent is responsible for preparing the syndicate annual report and accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate financial statements at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Syndicate Annual Accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate financial statements, the managing agent is required to:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- 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 syndicate financial statements; and
- prepare the syndicate financial statements on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the syndicate financial statements comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of syndicate financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the Members of Syndicate 318

We have audited the financial statements of Syndicate 318 for the year ended 31 December 2015, as set out on pages 18 to 57. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of the managing agent and auditors

As explained more fully in the statement of managing agent's responsibilities set out on page 15 the managing agent is responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the syndicate's financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Report of the Directors of the Managing Agent for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Mark Taylor (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London, E14 5GL

15 March 2016

Statement of profit or loss for the year ended 31 December 2015

Technical account – general business

	Note	2015 £000	2014 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	136,572	135,721
Outward reinsurance premiums		(18,249)	(19,322)
Change in the provision for unearned premiums			
Gross amount		3,029	4,537
Reinsurers' share		(437)	(507)
		120,915	120,429
Allocated investment return transferred from the non-technical account		827	838
Other technical income, net of reinsurance		225	510
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(68,657)	(59,901)
Reinsurers' share		7,480	6,803
		(61,177)	(53,098)
Change in the provision for claims			
Gross amount		18,800	5,347
Reinsurers' share		(6,291)	(2,009)
		12,509	3,338
		(48,668)	(49,760)
Net operating expenses	8	(44,778)	(42,922)
Balance on the technical account – for general business		28,521	29,095

All items relate only to continuing operations.

The notes on pages 25 to 57 form part of these accounts.

Non-technical account

	Note	2015 £000	2014 £000
Balance on the general business technical account		28,521	29,095
Investment income		2,016	2,063
Realised gains on investments		—	—
Unrealised gains on investments		—	—
Realised losses on investments		(324)	(656)
Unrealised losses on investments		(710)	(428)
Investment expenses and charges		(155)	(141)
Allocated investment return transferred to general business technical account		(827)	(838)
Profit on foreign exchange		4,571	4,449
Profit for the financial year		33,092	33,544

There were no recognised gains and losses in the year other than those reported in the Statement of Profit or Loss and hence no Statement of Other Comprehensive Income has been presented.

The notes on pages 25 to 57 form part of these accounts.

Balance sheet as at 31 December 2015

	Note	2015 £000	2014 £000
Assets			
Investments			
Other financial investments	12	203,121	200,237
Reinsurers' share of technical provisions			
Provision for unearned premiums		3,109	3,363
Claims outstanding		8,502	14,321
		11,611	17,684
		214,732	217,921
Debtors			
Debtors arising out of direct insurance operations	13	29,888	29,180
Debtors arising out of reinsurance operations	14	4,636	8,728
Other debtors		791	801
		35,315	38,709
Other assets			
Cash at bank and in hand	20	1,518	505
		1,518	505
Prepayments and accrued income			
Deferred acquisition costs	15	13,151	12,902
Other prepayments and accrued income		919	1,752
		14,070	14,654
Total assets		265,635	271,789

The notes on pages 25 to 57 form part of these accounts.

	Note	2015 £000	2014 £000
Liabilities			
Capital and reserves			
Members' balances		49,146	44,725
Technical provisions			
Provision for unearned premiums		59,235	59,571
Claims outstanding		135,946	149,101
		195,181	208,672
Creditors			
Creditors arising out of direct insurance operations	19	526	1,009
Creditors arising out of reinsurance operations	19	4,393	5,567
Other creditors including taxation and social security	19	3,978	506
Accruals and deferred income		12,411	11,310
		21,308	18,392
Total liabilities		265,635	271,789

The financial statements on pages 18 to 57 were approved by the Board of Beaufort Underwriting Agency Limited on 15 March 2016 and were signed on its behalf by

D. C. Eales

*Active Underwriter and
Director of Underwriting*

G. M. Tuck

Finance Director

15 March 2016

The notes on pages 25 to 57 form part of these accounts.

Statement of changes in members' balances for the year ended 31 December 2015

	2015 £000	2014 £000
Members' balances brought forward at 1 January	44,725	32,087
Profit for the year	33,092	33,544
Members' agents fees	(160)	(158)
Payments of profit to members' personal reserve fund	(28,511)	(20,748)
Members' balances carried forward at 31 December	49,146	44,725

Members participate on Syndicates by reference to years of account (YOA) and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Members' balances brought forward at 1 January 2015 now include Members' agent fees of £507,303 which were previously included in other debtors. The comparative Members' balances brought forward at 1 January 2014 also include the corresponding Members' agent fees of £620,219, which had also previously been disclosed in other debtors.

The notes on pages 25 to 57 form part of these accounts.

Statement of cash flows for the year ended 31 December 2015

318

	Note	2015 £000	2014 £000
Cash flows from operating activities			
Profit for the year		33,092	33,544
Adjustments:			
Net losses on other financial instruments		1,023	1,104
Net unrealised foreign exchange gains		(10,545)	(8,507)
Net interest and dividends receivable		827	838
Interest received		(827)	(838)
Movements in operating assets and liabilities:			
Acquisitions of other financial instruments		(124,207)	(99,759)
Proceeds from sale of other financial instruments		130,844	88,696
Decrease in reinsurers share of technical provisions		6,073	1,629
(Decrease)/increase in deferred acquisition costs		(249)	838
Increase in debtors, subrogation and salvage and prepayments		4,227	3,000
Decrease in technical provisions		(13,491)	(116)
Increase/(decrease) in creditors		1,815	(2,808)
Decrease in accruals and deferred income		1,102	2,956
Net cash inflow from operating activities		29,684	20,577

The notes on pages 25 to 57 form part of these accounts.

Statement of cash flows for the year ended 31 December 2015 *continued*

	Note	2015 £000	2014 £000
Net cash flow from financing activities:			
Transfer to members in respect of underwriting participations		(28,511)	(20,748)
Members' agents' fees paid on behalf of members		(160)	(158)
Net cash outflow from financing activities		(28,671)	(20,906)
Net increase/(decrease) in cash and cash equivalents			
		1,013	(329)
Cash and cash equivalents at 1 January		505	834
Effect of exchange rate changes on cash and cash equivalents		—	—
Cash and cash equivalents at 31 December		1,518	505

The notes on pages 25 to 57 form part of these accounts.

1 Basis of preparation

Syndicate 318 ("The Syndicate") comprises a group of members of the Society of Lloyds that underwrites insurance business in the London Market. The address of the syndicate's managing agent is Beaufort Underwriting Agency Limited, Third Floor, One Minster Court, Mincing Lane, London, EC3R 7AA.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in March 2014.

2 Change to accounting policies

These are the first set of financial statements prepared by the Syndicate in accordance with FRS 102. In its transition to FRS 102 from old UK GAAP, the Syndicate has made measurement adjustments. An explanation of how the transition to FRS 102 has affected the financial position and performance of the syndicate is provided in note 24.

3 Use of judgments and estimates

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

3 Use of judgments and estimates *continued*

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 5.

4 Accounting policies

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(a) Premiums written

Premiums written comprise premiums on contracts which inceptioned during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified, as well as adjustments made in the year to premiums written in prior accounting periods.

(b) Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(c) Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(d) Claims Incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end.

(e) Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques and underwriting judgements applied by the Managing Agency's management and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of 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. The provision for claims also includes amounts in respect of internal and external claims handling costs.

4 Accounting policies *continued*

(e) Claims provisions and related recoveries *continued*

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

It is considered that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amount of claims provisions 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.

(f) Unexpired risks provision

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are written together, after taking into account relevant investment return.

(g) Acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new and renewal insurance and reinsurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(h) Foreign currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to insurance operations are included in the non-technical account.

4 Accounting policies *continued*

(h) Foreign currencies *continued*

Syndicate assets and liabilities are translated into Sterling at the rates of exchange at the balance sheet dates. Differences arising on translation of foreign currency amounts are included in the non-technical account.

(i) Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit or loss and other comprehensive Income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

The Syndicate does not hold financial assets or financial liabilities for trading purposes although derivatives (assets or liabilities) held by the Syndicate are categorised as held for trading.

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

Measurement

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Identification and measurement of impairment

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(j) Investment return

Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

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

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

(k) Cash and cash equivalents

Cash and cash equivalents comprise of cash balances held in current accounts at year end, and are used by the Syndicate in the management of its short term commitments.

(l) Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings.

No provision has been made for any other overseas tax payable by members on underwriting results.

(m) Pension costs

The intermediate parent company of the Managing Agent operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses.

4 Accounting policies *continued*

(n) Operating lease rentals

Amounts recharged by the Managing Agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the charge relates.

(o) Net operating expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of the Syndicate, the amounts in question are apportioned using varying methods depending on the expense type. Expenses which are incurred jointly for the Managing Agent and Syndicate are apportioned depending on the amount of work performed, resources used and the volume of business transacted. Net operating expenses are allocated to the year of account for which they are incurred.

5 Risk and capital management

Introduction and overview

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Syndicate's capital.

Risk management framework

The Board of Directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has established a Risk Committee to oversee the operation of the Syndicate's risk management framework and to review and monitor the management of the risks to which the Syndicate is exposed. The Risk Committee has delegated oversight of the management of aspects of insurance risks to the Underwriting Committee, which is responsible for developing and monitoring insurance risk management policies; and the management of aspects of financial risks to the Investment Committee, which is responsible for developing and monitoring financial risk management policies.

The Risk Committee, Underwriting Committee, and the Investment Committee report regularly to the Board of Directors on their activities.

The risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

5 Risk and capital management *continued*

Insurance Risk

Management of insurance risk

A key component of the management of underwriting risk for the Syndicate is a disciplined underwriting strategy that is focused on writing quality business and not writing for volume. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes underwriting limits on the Syndicate's total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well diversified book is maintained with no excessive exposure in any one geographical region.

Contracts can contain a number of features which help to manage the underwriting risk, such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements).

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event, including excess of loss and catastrophe reinsurance. Where an individual exposure is deemed surplus to the Syndicate's appetite additional facultative reinsurance is also purchased. The Syndicate also purchases quota share reinsurance at selected sub account levels.

The Reserving Committee oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

The Syndicate Managing Agent's in house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is reviewed by external consulting actuaries.

The Reserving Committee performs a comprehensive review of the projections, both gross and net of reinsurance. Following this review, the Reserving Committee makes recommendations to the Risk Committee and the Managing Agent's Board of Directors of the claims provisions to be established.

5 Risk and capital management *continued*

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its written premiums by class of business.

2015

	Motor	Marine, aviation and transport £000	Fire and other damage to property £000	Total £000
UK	–	860	1,180	2,040
Other Europe	–	2,208	3,568	5,776
US	344	22	84,234	84,600
Canada	–	806	5,216	6,022
Rest of World	–	7,082	31,052	38,134
Total	344	10,978	125,250	136,572

2014

	Motor	Marine, aviation and transport £000	Fire and other damage to property £000	Total £000
UK	–	1,359	957	2,316
Other Europe	–	2,790	3,171	5,961
US	252	6	81,664	81,922
Canada	–	1,677	4,528	6,205
Rest of World	–	9,587	29,730	39,317
Total	252	15,419	120,050	135,721

Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be not unreasonable at the reporting date.

5 Risk and capital management *continued*

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

	2015		2014	
	5 per cent increase	5 per cent decrease	5 per cent increase	5 per cent decrease
Marine, aviation and transport	(926)	926	(981)	981
Fire and other damage to property	(5,510)	5,510	(6,095)	6,095
Motor	(5)	5	(6)	6
Total	(6,441)	6,441	(7,082)	7,082

Financial risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- debt securities and derivative financial instruments;
- reinsurers' share of insurance liabilities;
- amounts due from intermediaries;
- amounts due from reinsurers in respect of settled claims;
- cash and cash equivalents; and
- other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's. The Syndicate has a policy of investing mainly in government issued and government backed debts. The Syndicate does not currently invest new monies in speculative grade assets (i.e. those rated below BBB).

5 Risk and capital management *continued*

The Syndicate limits the amount of cash and cash equivalents that can be deposited with a single counterparty, and maintains an authorised list of acceptable cash counterparties.

The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored by the individual business units as part of their credit control processes.

All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed and managed accordingly.

Exposure to credit risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
Debt securities and other fixed income securities	57,700	87,329	34,860	11,483	3,733	195,105
Deposits with credit institutions	4,909	907	1,052	1,078	70	8,016
	62,609	88,236	35,912	12,561	3,803	203,121
Reinsurers' share of technical provisions	–	1,928	6,113	461	–	8,502
Direct insurance debtors	–	–	–	–	23,878	23,878
Other debtors	–	–	–	–	790	790
Cash at bank and in hand	–	–	1,518	–	–	1,518
Total	62,609	90,164	43,543	13,022	28,471	237,809

Notes to the financial statements for the year ended 31 December 2015 *continued*

5 Risk and capital management *continued*

2014	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
Debt securities and other fixed income securities	97,946	45,789	44,658	–	3,648	192,041
Deposits with credit institutions	2,372	3,712	1,587	396	129	8,196
	100,318	49,501	46,245	396	3,777	200,237
Reinsurers' share of technical provisions	–	3,631	10,016	670	4	14,321
Direct insurance debtors	–	–	–	–	21,250	21,250
Other debtors	–	–	–	–	801	801
Cash at bank and in hand	–	–	505	–	–	505
Total	100,318	53,132	56,766	1,066	25,832	237,114

At 31 December 2015 and 2014, the largest concentration of credit risk in the Syndicate's debt security portfolio was in corporate securities. At 31 December 2015, the Syndicate's credit risk exposure to Eurozone governments, government agencies and financial institutions amounted to £20.2m (2014: £17.7m).

The Syndicate has concentrations in its debt securities portfolio through its holdings of structured securities (mortgage and asset-backed securities). Although the credit risks of the underlying securities are diverse in nature, the Syndicate also considers impacts that may affect sub-categories of the underlying securities in its credit assessments.

Financial assets that are past due or impaired

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate does not consider these debtors to be impaired on the basis of stage of collection of amounts owed to the Syndicate.

5 Risk and capital management *continued*

An analysis of the carrying amounts of past due or impaired debtors is presented in the table below.

2015	Current	0-3 months	3-6 months	6-12 months	> 12 months	Impaired	Total £000
Receivables from direct insurance	23,878	4,149	860	967	34	–	29,888
Receivables from reinsurance	–	397	18	(19)	25	–	421
Other debtors	791	–	–	–	–	–	791

2014	Current	0-3 months	3-6 months	6-12 months	> 12 months	Impaired	Total £000
Receivables from direct insurance	21,250	3,440	909	1,016	2,565	–	29,180
Receivables from reinsurance	–	2,580	–	–	–	–	2,580
Other debtors	801	–	–	–	–	–	801

Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

The syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term;
- The Syndicate purchases assets with durations not greater than its estimated insurance contract outflows;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts;
- The Syndicate holds significant committed borrowing facilities from a range of highly rated banks to enable cash to be raised in a relatively short time-span; and
- The Syndicate regularly updates its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

Notes to the financial statements for the year ended 31 December 2015 *continued*

5 Risk and capital management *continued*

The maturity analysis presented in the table below shows the remaining contractual maturities for the Syndicate's insurance contracts and financial instruments. For insurance contracts, the contractual maturity is the estimated date when the gross undiscounted contractually required cash flows will occur. For financial assets and liabilities, it is the earliest date on which the gross undiscounted cash flows (including contractual interest payments) could be paid assuming conditions are consistent with those at the reporting date.

2015	Undiscounted net cash flows					
	Carrying amount £000	Total cash flows £000	Less than 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Financial investments:						
Shares and other variable yield securities						
and units in unit trusts	24,198	24,198	24,198	—	—	—
Debt securities	170,455	175,983	67,154	63,754	39,116	5,959
Deposits with credit institutions	8,016	8,016	8,016	—	—	—
Reinsurers share of technical provisions	11,611	11,611	5,758	3,067	1,993	793
Debtors and accrued interest	35,767	35,767	35,767	—	—	—
Cash at bank and in hand	1,518	1,518	1,518	—	—	—
Total assets	251,565	257,093	142,411	66,821	41,109	6,752
Technical provisions	195,181	195,181	61,250	61,959	64,620	7,352
Creditors	8,897	8,897	8,897	—	—	—
Total liabilities	204,078	204,078	70,147	61,959	64,620	7,352

5 Risk and capital management *continued*

2014

2014	Undiscounted net cash flows					
	Carrying amount £000	Total cash flows £000	Less than 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	20,740	20,740	20,740	—	—	—
Debt securities	170,882	173,740	53,685	76,525	36,439	7,091
Deposits with credit institutions	8,196	8,196	8,196	—	—	—
Reinsurers share of technical provisions	17,685	17,685	4,664	10,006	2,195	820
Debtors and accrued interest	39,127	39,127	39,127	—	—	—
Cash at bank and in hand	505	505	505	—	—	—
Total assets	257,135	259,993	126,917	86,531	38,634	7,911
Technical provisions	208,672	208,672	68,399	64,899	67,635	7,739
Creditors	7,082	7,082	7,082	—	—	—
Total liabilities	215,754	215,754	75,481	64,899	67,635	7,739

Cash can be realised through the sale of the syndicate's investments in debt securities, the majority of which are actively traded. The disclosure does not take account of premiums received from new business written which can be used to pay claims arising.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risks

For each of the major components of market risk, the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of market risk and the exposure of the Syndicate at the reporting date to each major risk are addressed below.

Notes to the financial statements for the year ended 31 December 2015 *continued*

5 Risk and capital management *continued*

Interest rate risk

Interest rate risk arises primarily from the syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis.

Currency risk

The Syndicate writes business primarily in Sterling, US dollar and Canadian dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to hedge the currency risk inherent in these contracts. In addition, the syndicate will from time to time enter into currency forward contracts which materially hedge the long position on US dollars. At 31 December 2015 there were no forward contracts in place.

The table below summarises the carrying value of the syndicate's assets and liabilities, at the reporting date.

2015	Sterling £000	US dollar £000	Canadian dollar £000	Other £000	Total £000
Financial investments					
Shares and other variable yield					
securities and units in unit trusts	1,639	15,250	7,309	–	24,198
Debt securities and other fixed					
income securities	–	170,907	–	–	170,907
Deposits with credit institutions	44	3,589	1,683	2,700	8,016
	1,683	189,746	8,992	2,700	203,121
Reinsurers' share of technical provisions	2,293	9,318	–	–	11,611
Debtors	4,233	29,328	1,754	–	35,315
Other assets	1,518	–	–	–	1,518
Prepayments and accrued income	3,189	10,366	515	–	14,070
Total assets	12,916	238,758	11,261	2,700	265,635
Technical provisions	30,103	157,401	7,677	–	195,181
Creditors	4,643	4,251	3	–	8,897
Accruals and deferred income	12,411	–	–	–	12,411
Total liabilities	47,157	161,652	7,680	–	216,489
Net assets	(34,241)	77,106	3,581	2,700	49,146

5 Risk and capital management *continued*

2014	Sterling £000	US dollar £000	Canadian dollar £000	Other £000	Total £000
Financial investments					
Shares and other variable yield					
securities and units in unit trusts	1,106	13,009	6,625	–	20,740
Debt securities and other fixed					
income securities	–	171,301	–	–	171,301
Deposits with credit institutions	12	3,862	1,721	2,601	8,196
Derivative financial assets	–	–	–	–	–
	1,118	188,172	8,346	2,601	200,237
Reinsurers' share of technical provisions	2,922	14,762	–	–	17,684
Debtors	6,373	30,530	1,806	–	38,709
Other assets	505	–	–	–	505
Prepayments and accrued income	3,896	10,321	437	–	14,654
Total assets	14,814	243,785	10,589	2,601	271,789
Technical provisions	33,613	165,505	9,554	–	208,672
Creditors	2,032	5,003	47	–	7,082
Accruals and deferred income	11,310	–	–	–	11,310
Total liabilities	46,955	170,508	9,601	–	227,064
Net assets	(32,141)	73,277	988	2,601	44,725

Equity price risk

The Syndicate does not hold any equities which are subject to other price risk.

Sensitivity analysis to market risks for financial instruments

An analysis of the syndicate's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

Notes to the financial statements for the year ended 31 December 2015 *continued*

5 Risk and capital management *continued*

	2015 Profit or loss for the year £000	2014 Profit or loss for the year £000
Interest rate risk		
+ 50 basis points shift in yield curves	(829)	(604)
– 50 basis points shift in yield curves	829	604
Currency risk		
10 percent increase in GBP/US dollar exchange rate	(7,712)	(7,328)
10 percent decrease in GBP/US dollar exchange rate	7,712	7,328

The impact of the reasonably possible changes in the risk variables on Members' balances would be the same, since the Syndicate recognises all changes in recognised assets and liabilities in profit or loss.

A 10% increase (or decrease) in exchange rates and a 50 basis point increase in yield curves and an 50 basis point decrease in yield curves have been selected on the basis that these are considered to be not unreasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Syndicate's financial investments are actively managed. Additionally, the sensitivity analysis is based on the Syndicate's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, action would be taken which would alter the Syndicate's position.

Capital management

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use capital obligations set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital

5 Risk and capital management *continued*

requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 318 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operate on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 21, represent resources available to meet members' and Lloyd's capital requirements.

Notes to the financial statements for the year ended 31 December 2015 *continued*

6 Analysis of underwriting result

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

2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Motor (other classes)	344	361	(94)	(128)	1	140
Marine aviation and transport	3,886	5,048	(2,998)	(1,708)	(1,539)	(1,197)
Fire and other damage to property	77,037	77,083	(40,393)	(24,446)	(9,293)	2,951
	81,267	82,492	(43,485)	(26,282)	(10,831)	1,894
Reinsurance acceptances	55,305	57,109	(6,372)	(18,496)	(6,666)	25,575
Total	136,572	139,601	(49,857)	(44,778)	(17,497)	27,469

2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Motor (other classes)	252	264	(230)	(75)	77	36
Marine aviation and transport	6,635	6,096	454	(1,954)	(838)	3,758
Fire and other damage to property	76,292	78,510	(32,348)	(22,709)	(9,824)	13,629
	83,179	84,870	(32,124)	(24,738)	(10,585)	17,423
Reinsurance acceptances	52,542	55,388	(22,430)	(18,184)	(4,450)	10,324
Total	135,721	140,258	(54,554)	(42,922)	(15,035)	27,747

All premiums were written in the UK. All net assets and profits are derived from UK business.

Geographical analysis by destination

	2015 Gross premiums written £000	2014 Gross premiums written £000
UK	11,990	8,580
US	78,397	78,527
Other	46,185	48,614
Total	136,572	135,721

7 Claims

Favourable movements of £25.4 million, (2014: £17.8 million), in the past year's provision for claims outstanding, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance.

8 Net operating expenses

	2015 £000	2014 £000
Acquisition costs:		
Brokerage and commissions	25,058	23,267
Other acquisition costs	6,215	5,558
	31,273	28,825
Change in deferred acquisition costs	285	1,422
Administrative expenses	2,292	2,233
Members' standard personal expenses	10,928	10,442
Net operating expenses	44,778	42,922

Administrative expenses include:

	2015 £000	2014 £000
Auditors' remuneration:		
– fees payable to the Syndicate auditor for the audit of the syndicate annual account	110	108
– audit related assurance services	61	59
	171	167

Notes to the financial statements for the year ended 31 December 2015 *continued*

9 Key management personnel compensation

The directors of Beaufort Underwriting Agency Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2015 £000	2014 £000
Directors' emoluments	583	844
Pension contributions	62	84
	645	928

Directors' emoluments include severance payments of £100,000 in 2015 (2014: £185,432).

No other compensation was payable to key management personnel.

The active underwriter received the following aggregate remuneration charged to the Syndicate and included within directors' emoluments above.

	2015 £000	2014 £000
Emoluments	270	274
Pension contributions	45	44
	315	318

10 Staff numbers and costs

All staff are employed by the intermediate parent company of the Managing Agency. The following amounts were recharged to the Syndicate in respect of salary costs:

	2015 £000	2014 £000
Wages and salaries	4,435	4,270
Social security costs	553	518
Other pension costs	554	534
	5,542	5,322

The average number of employees employed by the intermediate parent company of the Managing Agency but working for the Syndicate during the year was as follows:

	2015 No	2014 No
Administration and finance	20	19
Underwriting	16	16
Claims	10	10
	46	45

11 Investment return

The investment return transferred from the non-technical account to the technical account comprises the following:

	2015 £000	2014 £000
Investment income:		
Interest and dividend income	2,016	2,063
Realised gains	–	–
Unrealised gains on investments	–	–
Investment expenses and charges:		
Investment management expenses, including interest	(155)	(141)
Losses on the realisation of investments	(324)	(656)
Unrealised losses on investments	(710)	(428)
Total investment return	827	838

The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2015 £000	2014 £000
Financial assets at fair value through profit or loss	982	979
Investment management expenses, excluding interest	(155)	(141)
Total investment return	827	838

The table below presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

	2015 £000	2014 £000
Average amount of syndicate funds available for investment during the year		
Sterling	17,541	8,895
US dollar	179,803	178,765
Canadian dollar	8,668	9,525
Total funds available for investment, in sterling	206,012	197,185
Total investment return	827	838
Annual investment yield		
Sterling	(0.33%)	(0.37%)
US dollar	0.47%	0.45%
Canadian dollar	0.72%	1.14%
Total annual investment yield, in sterling	0.49%	0.52%

Notes to the financial statements for the year ended 31 December 2015 *continued*

12 Financial investments

	Carrying value		Cost	
	2015 £000	2014 £000	2015 £000	2014 £000
Shares and other variable yield securities and units in unit trusts	24,198	20,740	24,198	20,740
Debt securities and other fixed income securities	170,907	171,301	171,644	171,746
<i>Government and supranational securities</i>	63,189	70,873	63,574	71,152
<i>Asset backed securities</i>	20,604	19,725	20,643	19,725
<i>Mortgage backed instruments</i>	3,547	7,791	3,547	7,788
<i>Corporate bonds</i>	83,567	72,912	83,880	73,081
Deposits with credit institutions	8,016	8,196	8,016	8,196
Total financial investments	203,121	200,237	203,858	200,682

The amount ascribable to listed investments is £124.9 million (2014: £115.6 million). All financial assets measured at fair value through profit or loss.

The Syndicate classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Prices based on recent transactions in identical assets (either unadjusted or adjusted)
- Level 3 – Prices determined using a valuation technique

2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	–	24,198	–	24,198
Debt securities and other fixed income securities	58,487	112,420	–	170,907
Deposits with credit institutions	6,062	1,954	–	8,016
Total	64,549	138,572	–	203,121

2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	–	20,740	–	20,740
Debt securities and other fixed income securities	65,142	106,159	–	171,301
Deposits with credit institutions	5,889	2,307	–	8,196
Total	71,031	129,206	–	200,237

12 Financial investments *continued*

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Shares and other variable securities and units in unit trusts are generally categorised as level 1 in the fair value hierarchy except where they are not actively traded, in which case they are generally measured on prices of recent transactions in the same instrument. The syndicate has no exposure to hedge funds.

Debt securities and derivative financial assets are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Corporate bonds, including asset backed securities, that are not listed on a recognised exchange or are traded in an established over-the-counter market are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

13 Debtors arising out of direct insurance operations

	2015 £000	2014 £000
Amounts due from intermediaries:		
Due within one year	29,888	29,180
	29,888	29,180

14 Debtors arising out of reinsurance operations

	2015 £000	2014 £000
Amounts due within one year	4,636	8,728
	4,636	8,728

Notes to the financial statements for the year ended 31 December 2015 *continued*

15 Deferred acquisition costs

The table below shows changes in deferred acquisition costs assets from the beginning of the period to the end of the period.

	2015 £000	2014 £000
Balance at 1 January	12,902	13,741
Incurred costs deferred	12,780	12,359
Amortisation	(13,065)	(13,781)
Effect of movements in exchange rates	534	583
Balance at 31 December	13,151	12,902

16 Year of account development

Year of Account	2010 £000	2011 £000	2012 £000	2013 £000	2014 £000	Profit before members' 2015 agents fees £000	£000
2010	(7,409)	(1,583)	18,252				9,260
2011		(8,170)	21,851	7,338			21,019
2012			(7,300)	19,109	16,893		28,702
2013				(122)	16,626	20,081	36,585
2014					25	8,153	
2015						4,858	
Calendar year result			32,803	26,325	33,544	33,092	

A distribution of £36.4 million to members will be proposed in relation to the 2013 year of account (2014: £28.5 million in relation to the 2012 year of account).

17 Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2015 in all cases.

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
<hr/>						
Estimate of ultimate gross claims						
at end of underwriting year	62,748	64,966	48,899	47,611	41,070	
one year later	92,524	97,614	76,267	81,391		
two years later	92,623	92,316	67,533			
three years later	89,218	90,009				
four years later	86,281					
Less gross claims paid	79,928	79,202	50,015	39,681	6,378	
Gross ultimate claims reserve	6,353	10,807	17,518	41,710	34,692	111,080
Gross ultimate claims reserve for 2010 and prior years						24,866
Gross unearned portion of ultimate claims						(37,841)
Gross claims reserves						98,105

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
<hr/>						
Estimate of ultimate net claims						
at end of underwriting year	61,515	63,545	46,777	45,649	40,434	
one year later	88,442	93,471	72,930	79,657		
two years later	88,116	87,196	64,283			
three years later	84,305	84,549				
four years later	81,228					
Less net claims paid	74,963	75,163	48,052	38,773	6,169	
Net ultimate claims reserve	6,265	9,386	16,231	40,884	34,264	107,030
Net ultimate claims reserve for 2010 and prior years						20,414
Net unearned portion of ultimate claims						(33,451)
Net claims reserves						93,993

Notes to the financial statements for the year ended 31 December 2015 *continued*

18 Technical provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	2015			2014		
	Gross provisions £000	Reinsurance assets £000	Net £000	Gross provisions £000	Reinsurance assets £000	Net £000
Incurred claims outstanding:						
Claims notified	95,117	(12,071)	83,046	87,449	(13,646)	73,803
Claims incurred but not reported	53,984	(2,250)	51,734	60,236	(1,996)	58,240
Balance at 1 January	149,101	(14,321)	134,780	147,685	(15,642)	132,043
Change in prior year provisions	(73,108)	6,997	(66,111)	(59,757)	4,374	(55,383)
Expected cost of current year claims	122,965	(8,186)	114,779	114,312	(9,166)	105,146
Claims paid during the year	(68,657)	7,480	(61,177)	(59,901)	6,803	(53,098)
Effect of movements in exchange rates	5,645	(472)	5,173	6,762	(690)	6,072
Balance at 31 December	135,946	(8,502)	127,444	149,101	(14,321)	134,780
Claims notified	79,404	(7,984)	71,420	95,117	(12,071)	83,046
Claims incurred but not reported	56,542	(518)	56,024	53,984	(2,250)	51,734
Balance at 31 December	135,946	(8,502)	127,444	149,101	(14,321)	134,780
Unearned premiums						
Balance at 1 January	59,571	(3,363)	56,208	61,102	(3,671)	57,431
Premiums written during the year	136,572	(18,249)	118,323	135,721	(19,322)	116,399
Premiums earned during the year	(139,601)	18,686	(120,915)	(140,258)	19,829	(120,429)
Effect of movements in exchange rate	2,693	(183)	2,510	3,006	(199)	2,807
Balance at 31 December	59,235	(3,109)	56,126	59,571	(3,363)	56,208

19 Financial liabilities at amortised cost

	2015 £000	2014 £000
Creditors arising out of direct insurance operations	526	1,009
Creditors arising out of reinsurance operations	4,393	5,567
Other creditors	3,978	506
Total financial liabilities at amortised cost	8,897	7,082

Other creditors include £3.9 million (2014: £0.5 million) due to related undertakings.

20 Cash and cash equivalents

	2015 £000	2014 £000
Cash at bank and in hand	1,518	505
Total cash and cash equivalents	1,518	505

21 Related parties

Beaufort Underwriting Agency Limited – Ultimate holding company

The ultimate parent company of Beaufort Underwriting Agency Limited (“BUAL”) is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (“Munich Re”). Munich Re is incorporated in Germany, and acquired the entire issued share capital of MSP Underwriting Limited (“MSP”), the previous ultimate holding company of BUAL, in November 2007. MSP is the intermediate holding company of BUAL.

Group accounts for Munich Re are available from the Company Secretary of BUAL, One Minster Court, London EC3R 7AA, or at www.munichre.com/publications, selecting investor relations.

Beaufort Underwriting Agency Limited directors’ interests in Munich Re

C.A.A. Niebuhr held 20 shares and A. Hoffmann held 50 shares in Munich Re. None of the other directors of BUAL or their families held shares in Munich Re at 31 December 2015.

For the 2014, 2015 and 2016 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2014	214,357	91.2
2015	214,357	91.2
2016	214,357	91.2

Other disclosures

M.J. Cox is a director of Independent Services Group Limited (“ISG”) and associated Group companies ISG Advisory Services Limited and ISG-IT Limited of which he is also chairman. ISG also owns Independent Broking Services Limited (“IBS”), which is a Lloyd’s broker. Mr Cox is not involved in the day to day operations of IBS, or has any involvement in the placement of such business with Syndicate 318 which is written on normal market terms arm’s length. For the period covered by these reports and accounts, business was placed by IBS with Syndicate 318. Until 23 May 2014 Mr Cox was also a director of Ace European Group Limited (“Ace”) and Ace Underwriting Agencies Limited, which manages Lloyd’s Syndicate 2488. None of BUAL’s managed Syndicates purchases reinsurance protection from either Ace or Syndicate 2488. However, Syndicate 318 participates in certain facultative reinsurances of both Ace and Syndicate 2488. Mr Cox is not involved in the negotiation of any of these contracts, which are written on normal market terms at arm’s length.

21 Related parties *continued*

Bell and Clements Limited

Bell and Clements Limited ("BCL") a fellow subsidiary and related party of Munich Re is an intermediary authorised and regulated by the Financial Conduct Authority, and is a Lloyd's broker. Syndicate 318 has underwritten a number of contracts of insurance and reinsurance, and binding authorities, placed by BCL. For 2015, Gross Written Premiums under these contracts amounted to £520,959 (2014: £542,657) with acquisition costs on Gross Written Premiums amounting to £145,942 (2014: £150,022).

Munich Re Syndicate Limited

Munich Re Syndicate Limited ("MRSL") is a Lloyd's managing agency which manages Munich Re Syndicate 457, underwriting predominately marine and energy business and is a wholly owned subsidiary of Munich Re Holding Company (UK) Limited. Its ultimate parent company is also Munich Re. None of the Directors of Munich Re Syndicate Limited participates directly as an underwriting member of Syndicate 318.

Münchener Rückversicherungs-Gesellschaft ("Munich Reinsurance Company")

The Syndicate purchases reinsurance protection from Munich Re. Total premiums ceded in respect of these contracts amounted to £68,208 (2014: £72,484). Actual and anticipated recoveries under these arrangements amount to £6,871 as at 31 December 2015 (2014: £2,099).

All contracts are written on normal market terms at arm's length.

Great Lakes Reinsurance (UK) SE ("GLUK")

From the 2010 year of account, BUAL entered into an agreement with GLUK whereby the Syndicate would underwrite certain Airline business on behalf of GLUK, a wholly owned subsidiary of Munich Re. The agreement was conditional on a number of factors including that, for new and renewal business, the Syndicate would underwrite for its own account in accordance with its line structure in the first instance, and only those risks where the Syndicate participates would be accepted on GLUK's behalf.

In April 2012, members of the Syndicate were consulted on an extension to the agreement to cover General Aviation business. This was for the purposes of allowing the Syndicate to manage (but not participate in) a specific facility on GLUK's behalf. At the renewal anniversary, the Syndicate would have the right to review its decision whether to participate or not for the forthcoming year.

In each case, an over-rider is payable by GLUK to the Syndicate equivalent to 4% of gross premiums (after brokerage) which is credited against Syndicate expenses. At 31 December 2015, the following amounts have been accrued and are payable to the Syndicate:

2014:	£325,323 and US\$264,229
2015:	£78,837 and US\$66,798

In respect of the 2013 year of account, the syndicate received £357,307 and US\$364,306 in the calendar year.

21 Related parties *continued*

Inter-syndicate transactions

During the period to which these reports relate, the Syndicate underwrote reinsurances of Syndicate 457, managed by MRSL.

Beaufort Underwriting Services Limited (formerly Evergreen Underwriting Services Limited)

Beaufort Underwriting Services Limited ("BUSL") acted solely as a service company for the introduction of UK/Eire commercial, homeowners' property and liability and aviation risks to Syndicate 318. BUSL is an appointed representative of BUAL under the requirements of the Financial Conduct Authority. During the year, there were no cash transactions between BUSL and the Syndicate, or any amounts due to or from the Syndicate at 31 December 2015 in respect of BUSL.

The Syndicate ceased accepting new or renewal business via BUSL on 31 December 2009.

Beaufort Underwriting Agency Limited

Amounts payable to BUAL at 31 December 2015 totalled £3,941,063 (2014: £476,393). These amounts are included in "Other creditors".

In aggregate, total fees payable to BUAL in respect of services provided to the Syndicate for the three open years amounted to £4,581,895 (2014: £4,581,539). Profit commission of £9,146,231 is due in respect of the 2013 year of account (2012: £7,175,579). Profit commission of £2,043,817 has been accrued on the 2014 year of account (2013: £4,131,699). Profit commission of £1,216,422 has been accrued on the 2015 year of account (2014: £nil). The 2014 year of account will normally close at 31 December 2016 and the 2015 year of account at 31 December 2017.

Expenses totalling £9,148,956 (2014: £8,862,960) were recharged to the Syndicate by BUAL. Where expenses were incurred jointly by the Managing Agent and the Syndicate, they were apportioned as follows:

Salaries and related costs	– according to time of each individual spent on Syndicate matters
Accommodation costs	– according to number of personnel
Other costs	– as appropriate

The reinsurance premium paid to close the 2013 year of account at 31 December 2015 was agreed by the Board of the Managing Agency on the 9 February 2016. Consequently the technical provisions at 31 December 2015 have been presented in the balance sheet under the headings "reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account" and "reinsurance to close premiums payable to close the account – gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw.

Notes to the financial statements for the year ended 31 December 2015 *continued*

22 Post balance sheet events

A total of £36,427,630 will be transferred to members' personal reserve funds on 11 April 2016 in respect of the 2013 year of account.

23 Foreign exchange rates

	2015		2014	
	Year-end rate	Average rate	Year-end rate	Average rate
US dollar	1.47	1.53	1.56	1.65
Canadian dollar	2.05	1.95	1.81	1.82

24 Explanation of transition to FRS 102 from old UK GAAP

As stated in note 2, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 4 have been applied consistently in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the Syndicate has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (old UK GAAP). An explanation of how the transition from old UK GAAP to FRS 102 has affected the Syndicate's financial position and financial performance is set out in the table below and the narrative that accompanies the table.

	Profit for the year ended 31 December 2014 £000	Equity as at 31 December 2014 £000	Equity as at 1 January 2014 £000
Reconciliation of profit and equity from old UK GAAP to FRS 102			
Amount under old UK GAAP	29,451	44,725	32,087
Currency translation differences on foreign exchange	4,093		
Amount under FRS 102	33,544	44,725	32,087

In addition to the transition adjustments identified above, which effect profit for the year and member's balance, the following adjustments have arisen. They have had no effect on the member's balance or the profit or loss, but have affected the presentation of items in the profit and loss account, and on the balance sheet.

Profit and loss account: Override commissions of £224,705 (2014: £509,998) are disclosed as 'Other technical income, net of reinsurance'. They were previously included in 'Net operating expenses'.

Balance sheet: Overseas deposits of £8,016,488 (2014: £8,195,555) are included in 'Investments – Other financial investments'. They were previously disclosed as 'Other assets – other'.

25 Funds at Lloyd's

In case Syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL).

The Syndicate takes into account a variety of risks when calculating its Solvency Capital Requirement to arrive at its capital for the forthcoming year, in accordance with the Solvency II guidelines. This is reviewed and approved by Lloyd's.

The level of required FAL each member has to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten. FAL is not hypothecated to any specific syndicate participation by a member. Therefore, there are no specific funds available to a syndicate which can be precisely identified as its capital.

2013 Underwriting Year of Account

Financial highlights

318

2013 underwriting account

£235m

syndicate capacity

£155.5m

gross premium written (including brokerage)

£36.6m

profit for closed year (before non-standard personal expenses)

73.2%

combined ratio

23.5%

return on gross premium

15.6%

return on capacity

2013 Underwriting Year of Account

Managing agent's report

The Managing agent presents its report on the 2013 Year of Account (YoA) of Syndicate 318 closed at 31 December 2015 together with an overview of the 2014 YoA to be closed 31 December 2016 and the 2015 YoA to be closed at 31 December 2017.

The directors would also like to bring to your attention that these financial statements were prepared by the Syndicate in accordance with FRS 102. In accordance with FRS 102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS 103 "Insurance Contracts".

2013 Year of Account

We are delighted to report that the 2013 YoA has closed on a three year basis with a record profit of £36.6m, which equates to an overall profit on allocated share after all personal expenses (other than Members' agency fees), of 15.6%. This represents an improvement against the mid-point forecast this time last year of a profit of 7.5% of capacity. The results on an annual accounting basis are shown in the main body of the report and accounts; this commentary is applicable to the closing and open years on a conventional year of account basis only.

The Syndicate has maintained its capacity for the year at £235m for the 2013 YoA. For the 2013 pure underwriting year, the Syndicate continued to underwrite two main classes being International and US Property and Aviation. Gross Premiums after brokerage at closing rates of exchange are £128.3m, £9.6m lower than the premium income for the 2012 YoA. The capacity utilisation for YoA 2013 equates to 54.6% The majority of the decrease

in premium was on the Property account, and in particular on policies underwritten on direct and facultative business, where the competition has been most intense. The premium income on the Aviation account also reduced significantly, as the market continued to soften quite dramatically.

The Syndicate continued to be conservative in its investment policy, with the investment return only contributing £0.9m to the overall result, in what continues to be a challenging investment environment.

Syndicate operating expenses were £8m.

As in the previous year, the Syndicate was able to purchase a similar reinsurance programme to 2012, however at better terms. The year has benefited from strong underwriting performance, particularly on the Property account. The loss experience for the 2013 year of account was extremely positive. While routine claims ran a little higher than expected, it was the distinct lack of sizeable large and catastrophe claims on the property book which has led to an excellent result. The reserving of prior years of account continued to be robust and we have seen reserve improvements on both classes of business.

International and US Property

For YoA 2013, the premium income of the Property account declined further to £113.7m from £117.6m on the 2012 YoA. The majority of this decrease was on the direct and facultative side caused by the competitive nature of the market putting pressure on the line sizes the underwriters were able to put down.

As mentioned above, YoA 2013's lack of large loss and catastrophe experience proved exceptionally favourable for the Syndicate. The most costly events to the Syndicate are summarised in the table below:

Loss	Gross US\$
Hurricane Manuel, west coast of Mexico	6.0
Chemical Facility in Geismer, Louisiana	3.1
Landslide at Bingham Canyon Mine, Utah	2.5

Overall, at a gross level, the account has a projected ultimate loss ratio of 48% which equates to 55% at a net level considering the cost of reinsurance (for the combined direct and facultative and binder lines).

Aviation

Continued over capacity and falling rates in the Aviation market put additional pressure on the Syndicate's book during 2013. In light of the difficult trading conditions and unsustainable margins, the account was further trimmed back with premium falling from £18.2m (USD 27.8m) to £14.8m (USD 21.8m).

There were a number of losses on the Aviation account in the year, most notably a Lao Airlines which crashed while attempting to land killing all 49 people on board; a Super Puma helicopter which crashed into the sea just off the Shetland Islands with the loss of four of the 16 persons on board and a Police helicopter which crashed into a Glasgow pub following an engine failure with the loss of 10 lives. The total estimated

cost to the Syndicate of those three events is £4.1m (USD 6.1m). Overall, the account has a projected ultimate net loss ratio of 88%.

Prior year surplus

The reserves established at last year end in respect of 2013 YoA and prior years have developed favourably during 2015. This has resulted in a release of £14.1m which has contributed to the overall result.

2014 Year of Account

The Syndicate maintained its capacity for the 2014 YoA at £235m. The current estimate of gross premium income for the year, excluding brokerage, is £120.3m. Compared to last year's report this constitutes a slight increase in premium which, however, is largely driven by exchange rate movements. In dollar terms, we saw in fact a decrease of 10% on the direct and facultative business written in the Property account, where rate reductions, as well as intense competition have continued to be a feature of the market.

The Syndicate has been able to obtain better value on its outward reinsurance programme for both the Property and Aviation accounts, as the reinsurance market has continued to soften in the absence of major catastrophe events. The reinsurance market has also been affected by the emergence of alternative capital, which has significantly increased competition in the sector.

Regarding claims, 2014 was a year devoid of any large US headline claims activity. The crucial US windstorm season failed to produce any meaningful land-falling hurricanes during

2013 Underwriting Year of Account

Managing agent's report *continued*

the year. The Syndicate did suffer a sizeable loss from Hurricane Odile which struck the tourist area of Los Cabos in Mexico.

In addition, there were 7 large property losses. On the aviation account, the calendar year 2014 saw a number of high profile aviation losses, although luckily the Syndicate did not have involvement in any of these. The Syndicate's largest YoA claim stems from the Shoreham Airshow where on 22 August 2015, a vintage jet aircraft crashed during a display, killing 11 people and injuring 16 others. This claim remains at an early stage but the current estimate is in the region of £2.2m.

Overall, at 24 months the loss experience for the Syndicate has been positive and we remain optimistic about the outcome for the 2014 YoA. We are pleased to report that the Syndicate is currently forecasting a profit in the range of 1.3% to 6.3%.

2015 Year of Account

The Syndicate has maintained its capacity for the year at £235m for the 2015 YoA. The gross premium income after brokerage is forecast at £119.7m and thus approximately the same level as 2014 YoA. In fact, 2015 YoA is performing better than the 2014 YoA at the same stage of development. The market remains highly competitive in most areas the Syndicate operates in and this is putting further downward pressure on rates. Unlike 2014, however, premium volumes for the property portfolios are more consistent with the original plan expectations. The same cannot be said for the Aviation account, which has seen premium volumes fall below plan. The Aviation market continues in the patterns that seem to have become almost the norm. The pressure on ratings has been on-going for almost a decade and there are no signs to an end.

The claims environment for the 2015 YoA has been relatively benign with no significant large claims and the lack of a major US hurricane. The aviation account was hit by one large claim resulting from an aircraft overrunning the runway on landing in Indonesia.

Given the continued soft market conditions in the reinsurance sector, the Syndicate's reinsurance programmes were placed at a reduced cost (an 8.5% reduction compared to the total cost for last year) and with more coverage than 2014.

We are optimistic that the outcome of the 2015 YoA will also be profitable.

Statement as to disclosure of information to auditors

The Directors who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

A. Hoffman

Managing Director

Beaufort Underwriting Agency Limited
Third Floor
One Minster Court
London EC3R 7AA

15 March 2016

The Managing Agent is responsible for preparing Syndicate underwriting year accounts in accordance with applicable law and the Lloyd's Syndicate Accounting Byelaw.

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 (the "Lloyd's Regulations") require the Managing Agent to prepare Syndicate underwriting year accounts for Syndicate 318 in respect of any underwriting year which is being closed by reinsurance to close at 31 December. These syndicate underwriting year accounts must give a true and fair view of the result of the closed year of account.

In preparing these Syndicate underwriting year accounts, the Managing Agent is required to:

- a) select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, to ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

- b) take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- c) make judgements and estimates that are reasonable and prudent; and
- d) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these accounts.

The Managing Agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate underwriting year accounts comply with the Lloyd's Regulations and Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business website. Legislation in the UK governing the preparation and dissemination of syndicate financial statements may differ from legislation in other jurisdictions.

2013 Underwriting Year of Account

Independent auditor's report to the Members of Syndicate 318 – 2013 closed year of account

We have audited the Syndicate underwriting year accounts for the 2013 year of account of Syndicate 318 for the three years ended 31 December 2015, as set out on pages 66 to 85. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 63, the Managing Agent is responsible for the preparation of the syndicate's underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate underwriting year accounts in accordance with applicable law

and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the Syndicate underwriting year accounts

A description of the scope of an audit of accounts is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on Syndicate underwriting year accounts

In our opinion the Syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2013 closed year of account;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the Syndicate underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Mark Taylor (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor,
Chartered Accountants

15 Canada Square
London, E14 5GL
15 March 2016

2013 Underwriting Year of Account

Profit and loss account technical account – general business for the 2013 closed year of account for the three years ended 31 December 2015

Technical account – general business

	Note	£000	£000
Earned premiums, net of reinsurance			
Gross premiums written	4	155,456	
Outward reinsurance premiums		(24,666)	
			130,790
Reinsurance to close premiums received, net of reinsurance	4		60,804
Allocated investment return transferred from the non-technical account			921
Other technical income, net of reinsurance			457
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(65,534)	
Reinsurers' share		8,344	
		(57,190)	
Reinsurance to close premium payable, net of reinsurance	5	(52,296)	
			(109,486)
Net operating expenses	7		(47,542)
Balance on the technical account – for general business			35,944

The underwriting year has closed: all items therefore relate to discontinued operations.

The notes on pages 72 to 85 form part of these accounts.

Profit and loss account non-technical account – general business for the 2013 closed year of account for the three years ended 31 December 2015

318

Non-technical account

	£000
Balance on the general business technical account	35,944
Income from investments	2,240
Realised gains on investments	–
Unrealised gains on investments	–
Realised losses on investments	(536)
Unrealised losses on investments	(631)
Investment expenses and charges	(152)
Allocated investment return transferred to general business technical account	(921)
Profit on exchange	641
Profit for the closed year of account	36,585

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts, therefore no statement of total recognised gains and losses has been presented.

The notes on pages 72 to 85 form part of these accounts.

2013 Underwriting Year of Account

Balance sheet as at 31 December 2015

	Note	£000	£000
Assets			
Investments			
Other financial investments	8		96,680
			96,680
Debtors			
Debtors arising out of direct insurance operations	9	29	
Debtors arising out of reinsurance operations	10	371	
Other debtors		764	
			1,164
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account			
	5		7,248
Other assets			
Cash at bank and in hand		1,518	
			1,518
Prepayments and accrued income			(15)
Total assets			106,595

The notes on pages 72 to 85 form part of these accounts.

	Note	£000	£000
Liabilities			
Capital and reserves			
Amounts due to members			36,428
Reinsurance to close premiums payable to close the account – gross amount	5		59,544
Creditors			
Creditors arising out of direct insurance operations	11	51	
Creditors arising out of reinsurance operations	12	453	
Other creditors including taxation and social security		973	
			1,477
Accruals and deferred income			9,146
Total liabilities			106,595

The financial statements on pages 66 to 85 were approved by the Board of Beaufort Underwriting Agency Limited on 15 March 2016 and were signed on its behalf by

D. C. Eales

*Active Underwriter and
Director of Underwriting*

G. M. Tuck

Finance Director

15 March 2016

The notes on pages 72 to 85 form part of these accounts.

2013 Underwriting Year of Account

Statement of members' balances for the 36 months ended 31 December 2015

	£000
Members' balances brought forward at 1 January	—
Profit for closed year of account	36,585
Members' agents fees	(157)
Members' balances carried forward at 31 December 2015	36,428

The notes on pages 72 to 85 form part of these accounts.

Statement of cash flows for the 36 months ended 31 December 2015

318

	Note	£000
Closed year cash flow		
Cash flows from operating activities		
Profit for the year		36,585
Adjustments:		
Unrealised losses on investments		631
Net realised foreign exchange gains		(2,681)
Net cash consideration received as part of RITC received	15	(86,961)
RITC premium payable net of reinsurance		52,296
Movements in operating assets and liabilities:		
Acquisitions of other financial instruments		(116,004)
Proceeds from sale of other financial instruments		112,940
Decrease in debtors, subrogation and salvage and prepayments		2,478
Increase in creditors		2,391
Net cash inflow from operating activities		1,675
Net cash flow from financing activities:		
Members' agents' fees paid on behalf of members		(157)
Net cash outflow from financing activities		(157)
Net increase in cash and cash equivalents		1,518
Cash and cash equivalents at 1 January		–
Effect of exchange rate changes on cash and cash equivalents		–
Cash and cash equivalents at 31 December	16	1,518

The notes on pages 72 to 85 form part of these accounts.

2013 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2015

1 Basis of preparation

The Syndicate underwriting year accounts have been prepared under the Insurance Accounts Directive ("Lloyd's Syndicates and Aggregate Accounts") Regulations 2008 ("the Lloyd's Regulations") the Syndicate Accounting Byelaw, and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in March 2014.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2013 year of account which has been closed by reinsurance to close at 31 December 2015; consequently the balance sheet represents the assets and liabilities of the 2013 year of account and the profit and loss account and cash flow statement reflect the transactions for that year of account during the 36 months period until closure.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

2. Accounting policies

Underwriting transactions

- (a) The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

Reinsurance to close premium received

- (b) The reinsurance to close premium received was closed into the 2013 year of account at 31 December 2014.

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported ("IBNR").

The amount included in respect of IBNR is based on statistical techniques and underwriting judgements applied by the Managing Agent's management and reviewed by external

2 Accounting policies *continued*

Reinsurance to close premium received *continued*

consulting actuaries. These techniques generally involve projecting from past experience of 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. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

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

Premiums written and earned

- (c) Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due but not yet notified to the Syndicate year of account.

Written premium is earned according to the risk profile of the policy.

Outwards reinsurance premiums ceded are attributed to the same year as the original risk being protected.

Claims paid

- (d) Gross claims paid are allocated to the same year of account as that to which the corresponding premiums are allocated and include internal and external claims settlement expenses. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

2013 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2015 *continued*

2 Accounting policies *continued*

Reinsurance to close premium payable

- (e) The reinsurance to close premium paid was closed into the 2014 year of account at 31 December 2015.

The reinsurance to close premium is determined by reference to the outstanding technical provisions (including those for outstanding claims, unearned premiums, net of deferred acquisition costs, and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities is considered to be fair and reasonable, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the premium so determined. The reinsurance to close premium transfers the liability in respect of all claims, reinsurance premiums, return premiums and other payments in respect of the closing year (and previous closed years reinsured therein) to the members of the successor year of account and gives them the benefit of refunds, recoveries, premiums due and other income in respect of those years in so far as they have not been credited in these accounts.

The provision for claims comprises amounts set aside for claims notified and claims IBNR.

The amount included in respect of IBNR is based on statistical techniques and underwriting judgements applied by the Managing Agent's management and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of 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. The provision for claims also includes amounts in respect of internal and external claims handling costs.

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2 Accounting policies *continued*

Acquisition costs

- (f) Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.
- (g) Financial assets and liabilities
In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit or loss and other comprehensive Income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

The Syndicate does not hold financial assets or financial liabilities for trading purposes although derivatives (assets or liabilities) held by the Syndicate are categorised as held for trading.

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Regular way purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

2013 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2015 *continued*

Measurement

A financial asset or financial liability is measured initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Identification and measurement of impairment

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(h) Investment return

Investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year on all the Syndicate's investments is allocated to open years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the end of the previous calendar year, together with the reversal of unrealised gains and losses recognised in earlier calendar years in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Net operating expenses

- (i) Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent in relation to the administration of the Syndicate, the amounts in question are apportioned using varying methods depending on the expense type. Expenses which are incurred jointly for the Managing Agent and Syndicate are apportioned depending on the amount of work performed, resources used and the volume of business transacted. Net operating expenses are allocated to the year of account for which they are incurred.

The parent company of the Managing Agent operates a defined contribution pension scheme. It recharges salaries and related costs to the Syndicate which includes an element for pension costs. These pension costs are recognised in full in the period to which the recharge relates.

Amounts recharged by the Managing Agent include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

(j) Cash and cash equivalents

Cash and cash equivalents comprise of cash balances held in the current accounts at the year end, and are used by the Syndicate in the management of its short term commitments.

2013 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2015 *continued*

2 Accounting policies *continued*

Taxation

- (k) Under Schedule 19 of the Finance Act 1993, Managing Agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from syndicate investment income is recoverable by Managing Agents and consequently the distribution made to members or their Members' Agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings.

Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

- (l) Transactions in US dollars and Canadian dollars are translated at the rate of exchange at the balance sheet date. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are re-translated into Sterling at the rate of exchange at the balance sheet date.

Differences arising on the re-translation of foreign currency amounts are included in the non-technical account.

3. Risk and capital management

The board of directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk and capital management. An overview of the Managing Agent's key risks, and risk management structure are detailed on page 11, and more detailed definitions of these risks and further explanation on how they affect the Syndicate are detailed in notes on page 31.

Effective from the 31 December 2015, the RITC process means that the Insurance, Financial, Credit, Liquidity, Market and Capital risks are transferred to the accepting 2014 Year of account of the Syndicate. Accordingly, these Underwriting Year accounts do not have any associated disclosures as required by section 34 of FRS 102.

Full disclosures relating to these risks are provided in the main Annual Accounts of the Syndicate.

4 Analysis of underwriting result

	Gross premiums written and earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Marine aviation and transport	6,538	(4,487)	(1,985)	(1,187)	(1,121)
Fire and other damage to property	81,818	(25,681)	(25,752)	(12,064)	18,321
Third party liability	–	(1,040)	–	4	(1,036)
Reinsurance acceptances	139,308	(93,869)	(19,805)	(7,232)	18,402
Total	227,664	(125,077)	(47,542)	(20,479)	34,566

All premiums were written in the UK. All net assets and profit are derived from UK business.

Total gross premium written and earned arise from gross premiums written on the underwriting year of account, and the reinsurance to close premium accepted from the 2012 and prior years of account.

Geographical analysis by destination

	Gross premiums written £000
UK	72,302
US	84,879
Other	70,483
Total	227,664

5 Reinsurance to close premium payable net of reinsurance

	Reported £000	IBNR £000	Total £000
Gross outstandings	38,554	20,990	59,544
Reinsurance recoveries anticipated	(7,171)	(77)	(7,248)
Net	31,383	20,913	52,296

2013 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2015 *continued*

6 Analysis of result by year of account

	2012 & prior years of account £000	2013 pure year of account £000	Total £000
Technical account balance before allocated investment return and net operating expenses	14,091	68,018	82,109
Brokerage and commission on gross premium	–	(27,165)	(27,165)
	14,091	40,853	54,944

7 Net operating expenses

	£000
Acquisition costs	33,465
Administrative expenses	14,077
	47,542

The closed year profit is stated after charging:

	£000
Auditors' remuneration	
Audit – Mazars LLP	156
– KPMG LLP	9
Operating lease rentals	
Property	314

8 Financial investments

	Market value £000	Cost £000
Holdings in collective investment schemes	13,169	13,169
Debt securities and other fixed income securities	78,958	79,299
Overseas deposits as investments	4,553	4,553
Total investments	96,680	97,021

9 Debtors arising out of direct insurance operations

	£000
Due within one year	29
	29

10 Debtors arising out of reinsurance operations

	£000
Due within one year	371
	371

11 Creditors arising out of direct insurance operations

	£000
Due within one year	51
	51

12 Creditors arising out of reinsurance operations

	£000
Due within one year	453
	453

13 Post balance sheet events

The reinsurance premium paid to close the 2013 year of account at 31 December 2015 was agreed by the Board of the Managing Agency on the 9 February 2016. Consequently the technical provisions at 31 December 2015 have been presented in the balance sheet under the headings “reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account” and “reinsurance to close premiums payable to close the account – gross amount” in accordance with the format prescribed by the Syndicate Accounting Byelaw.

A total of £36,427,630 will be transferred to members’ personal reserve funds on 10 April 2016 in respect of the 2013 year of account.

2013 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2015 *continued*

14 Related parties

Beaufort Underwriting Agency Limited – Ultimate holding company

The ultimate parent company of Beaufort Underwriting Agency Limited (“BUAL”) is Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München (“Munich Re”). Munich Re is incorporated in Germany, and acquired the entire issued share capital of MSP Underwriting Ltd (“MSP”), the previous ultimate holding company of BUAL, in November 2007. MSP is the intermediate holding company of BUAL.

Group accounts for Munich Re are available from the Company Secretary of BUAL, One Minster Court, London EC3R 7AA, or at www.munichre.com/publications, selecting investor relations.

Beaufort Underwriting Agency Limited directors’ interests in Munich Re

C.A.A. Niebuhr held 20 shares and A. Hoffmann held 50 shares in Munich Re. None of the other directors of BUAL or their families held shares in Munich Re at 31 December 2015.

For the 2014, 2015 and 2016 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2014	214,357	91.2
2015	214,357	91.2
2016	214,357	91.2

Other disclosures

M.J. Cox is a director of Independent Services Group Limited (“ISG”) and associated Group companies ISG Advisory Services Limited and ISG-IT Limited of which he is also chairman. ISG also owns Independent Broking Services Limited (“IBS”), which is a Lloyd’s broker. Mr Cox is not involved in the day to day operations of IBS, or has any involvement in the placement of such business with Syndicate 318 which is written on normal market terms at arm’s length. For the period covered by these reports and accounts, no business was placed by IBS with Syndicate 318. Until 23 May 2014 Mr Cox was also a director of Ace European Group Limited (“Ace”) and Ace Underwriting Agencies Limited, which manages Lloyd’s Syndicate 2488. None of BUAL’s managed Syndicates purchases reinsurance protection from either Ace or Syndicate 2488. However, Syndicate 318 participates in certain facultative reinsurances of both Ace and Syndicate 2488. Mr Cox is not involved in the negotiation of any of these contracts, which are written on normal market terms at arm’s length.

Bell and Clements Limited

Bell and Clements Limited (“BCL”) a fellow subsidiary and related party of Munich Re is an intermediary authorised and regulated by the Financial Conduct Authority and is a Lloyd’s broker. Syndicate 318 has underwritten a number of contracts of insurance and reinsurance and binding authorities placed by BCL. For the 2013 year of account, Gross Written Premiums under these contracts amounted to £489,386. Brokerage paid to BCL amounted to £128,939.

14 Related parties *continued*

Munich Re Syndicate Limited

Munich Re Syndicate Limited ("MRSL") is a Lloyd's managing agency which manages Munich Re Syndicate 457, underwriting predominately marine and energy business and is a wholly owned subsidiary of Munich Re Holding Company (UK) Limited. Its ultimate parent company is also Munich Re. None of the Directors of Munich Re Syndicate Limited participates directly as an underwriting member of Syndicate 318.

Münchener Rückversicherungs-Gesellschaft ("Munich Reinsurance Company")

The Syndicate purchases reinsurance protection from Munich Re. Total premiums ceded in respect of these contracts was £414,671 for the 2013 year. Actual and anticipated recoveries under these arrangements amount to £8,091 as at 31 December 2015.

All contracts are written on normal market terms at arm's length.

Great Lakes Reinsurance (UK) SE ("GLUK")

For the 2013 year of account, Syndicate 318 entered into an agreement with GLUK whereby the Syndicate would underwrite certain Airline business on behalf of GLUK, a wholly owned subsidiary of Munich Re. The agreement was conditional on a number of factors including that, for new and renewal business, the Syndicate would underwrite for its own account in accordance with its line structure in the first instance, and only those risks where the Syndicate participates would be accepted on GLUK's behalf.

In April 2014, members of the Syndicate were consulted on an extension to the agreement to cover General Aviation business. This was for the purposes of allowing the Syndicate to manage (but not participate in) a specific facility on GLUK's behalf. At the renewal anniversary, the Syndicate would have the right to review its decision whether to participate or not for the forthcoming year.

In each case, an over-rider is payable by GLUK to the Syndicate equivalent to 4% of gross premiums (after brokerage) which is credited against Syndicate expenses.

In respect of the 2013 year of account, the Syndicate received £357,547 and US\$364,306 in the calendar year.

Inter-syndicate transactions

All contracts are written on normal market terms at arm's length.

It was agreed by the Board of the Managing Agency on 6 February 2014, that Syndicate 1318 and Syndicate 2318, would pay a reinsurance to close premium to Syndicate 318 in respect of the 2011 year of account. The reinsurance to close premium received in respect of Syndicate 1318 was £2,579,932, at closing rates of exchange, and for Syndicate 2318 was £25,000.

2013 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2015 *continued*

14 Related parties *continued*

Beaufort Underwriting Services Limited (formerly Evergreen Underwriting Services Limited)

Beaufort Underwriting Services Limited ("BUSL") acted solely as a service company for the introduction of UK/Eire commercial, homeowners' property and liability and aviation risks to Syndicate 318. BUSL is an appointed representative of BUAL. During the year, there were no cash transactions between BUSL and the Syndicate, or any amounts due to or from the Syndicate at 31 December 2014 in respect of BUSL.

The Syndicate ceased accepting new or renewal business via BUSL on 31 December 2009.

Beaufort Underwriting Agency Limited

Total fees payable to BUAL in respect of services provided to the Syndicate and chargeable to the 2013 year of account amounted to £1,526,371.

Profit commission of £9,146,231 has been accrued in respect of the 2013 year of account.

Expenses totalling £8,385,770 were recharged to the Syndicate in 2013 year of account by BUAL.

Where expenses were incurred jointly by the Managing Agent and the Syndicate, they were apportioned as follows:

Salaries and related costs	– according to time of each individual spent on Syndicate matters
Accommodation costs	– according to number of personnel
Other costs	– as appropriate

15 Consideration for RITC received

	£000
Non cash consideration received for the net RITC comprised of:	
Portfolio investments	91,566
Debtors	3,627
Creditors	(8,232)
Non cash consideration received	86,961
Cash	505
Total cash and non cash consideration for RITC received	87,466
Amounts payable to members' on closure of the 2012 year of account	(28,702)
Reinsurance to close premiums received, net of reinsurance	58,764

16 Movement in opening and closing portfolio investments net of financing

	At 1 January 2013 £000	Received within RITC premium £000	Cash flow £000	Change in fair value and foreign exchange £000		At 31 December 2015 £000
Cash	–	505	1,013	–	–	1,518
Portfolio investments	–	91,566	3,064	2,050	–	96,680
Total portfolio investments	–	92,071	4,077	2,050	–	98,198

Seven year summary of results for a traditional Name (unaudited)

An unaudited seven year summary prepared from the results of the Syndicate for a traditional Name with a £10,000 share is shown below.

This has not been prepared in accordance with UK financial reporting standards, or the accounting policies disclosed. Gross premiums, and net operating expenses are stated net of brokerage, and overrider commissions receivable.

Personal expenses have been stated at the amount which would be incurred pro rata by individual members writing the illustrative premium income in the Syndicate irrespective of any minimum charge applicable. Corporate members may be charged at different rates. Foreign tax, which may be treated as a credit for personal tax purposes has been excluded.

	2007	2008	2009	2010	2011	2012	2013
Syndicate allocated capacity	£201.58m	£201.51m	£201.83m	£225.04m	£224.89m	£234.98m	£234.83m
Capacity utilised	65.3%	74.4%	73.7%	55.3%	56.7%	58.7%	54.6%

Results for an illustrative share of £10,000

	£	£	£	£	£	£	£
Gross premiums (net of brokerage)	6,528	7,438	7,367	5,527	5,674	5,872	5,463
Net premiums	4,748	5,660	5,613	4,392	4,618	4,937	4,413
Reinsurance to close from an earlier account	3,584	3,899	4,425	3,910	3,397	2,779	2,589
Net claims	(4,469)	(5,656)	(3,931)	(4,019)	(3,725)	(3,362)	(2,435)
Reinsurance to close	(3,832)	(4,400)	(4,502)	(3,446)	(2,788)	(2,501)	(2,227)
Profit/(loss) on exchange	10	145	1	(10)	(4)	23	27
Net operating expenses	(219)	(264)	(285)	(257)	(281)	(295)	(341)
Balance on technical account	(178)	(616)	1,321	570	1,217	1,581	2,026
Investment income and gains less losses, less expenses and charges	166	99	82	66	75	45	39
Profit/(loss) before personal expenses	(12)	(517)	1,403	636	1,292	1,626	2,065
Illustrative personal expenses for a traditional Name							
Managing agent's salary	(65)	(65)	(65)	(65)	(65)	(65)	(65)
Central Fund contributions	(100)	(33)	(36)	(29)	(29)	(10)	(26)
Profit commission	–	–	(147)	(103)	(234)	(305)	(389)
Lloyd's subscription	(50)	(33)	(36)	(29)	(29)	(24)	(26)
	(215)	(131)	(284)	(226)	(357)	(404)	(506)
Profit/(loss) after illustrative profit commission and illustrative personal expenses	(227)	(648)	1,119	410	935	1,222	1,559

For the 2013 year of account, an illustrative share of £10,000 represents 0.00426% of allocated capacity.

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Beaufort Underwriting Agency Limited is the Lloyd's Managing Agent for MSF Pritchard Syndicate 318 and is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

318