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Report and Accounts 31 December 2016

318

**MSF Pritchard**  
Syndicate 318

**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.

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2016 calendar year

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**£136.6m** (2015: £136.6m)  
gross premiums written

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**1.2%** (2015: 0.5%)  
annual investment yield

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**£4.6m** (2015: £33.1m)  
profit for year

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**£235m**  
2016 capacity

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**98.2%** (2015: 73.3%)  
Combined ratio including Managing Agency fee  
and profit commission

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## 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) (resigned 23 June 2016)*  
M.J. Cox *(non-executive) (resigned 23 June 2016)*  
C.J.W. Czapiewski *(non-executive)*  
D.C. Eales  
A. Hoffmann  
M.A. Langston *(appointed 4 December 2015)*  
R.J. Martin *(non-executive) (appointed 23 June 2016)*  
C.A.A. Niebuhr *(non-executive)*  
R.A. Pexton *(non-executive) (appointed 5 May 2016) (non-executive chairman) (appointed 24 June 2016)*  
G.M. Tuck

#### Company secretary

B. Arzur-Kean *(appointed 10 February 2016)*  
P. Langridge *(resigned 9 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

#### Bankers

Citibank, N.A.  
Royal Bank of Canada  
Lloyds Banking Group Plc

#### Investment manager

Amundi (UK) Ltd

#### Actuary

Lane Clark & Peacock LLP

#### Syndicate auditor

KPMG LLP

### Introduction

The directors of the Managing Agent present their Managing Agent's report for the year ended 31 December 2016.

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 2014 underwriting year of account, which closed at 31 December 2016. These are incorporated into this document on pages 59 to 87.

### Result for the 2016 Calendar Year

For the year ended 31 December 2016, Syndicate 318 has generated an overall profit of £4.6m (2015: £33.1m), and a combined ratio of 98.2% (2015: 73.3%).

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

	2014 and Prior Years of Account £000	2015 Year of Account £000	2016 Year of Account £000	2016 Calendar Year Combined £000	2015 Calendar Year Combined £000
Gross Earned Premium	517	61,531	78,734	140,782	139,601
Reinsurer's Share	180	(3,890)	(15,605)	(19,315)	(18,686)
<b>Net Earned Premium</b>	697	57,641	63,129	121,467	120,915
Gross Claims Paid	(30,094)	(29,445)	(13,113)	(72,652)	(68,657)
Reinsurer's Share	3,150	1,550	464	5,164	7,480
<b>Net Claims Paid</b>	(26,944)	(27,895)	(12,649)	(67,488)	(61,177)
Change in provision for gross claims	47,662	(10,042)	(52,709)	(15,089)	18,800
Change in provision for reinsurer's share	(1,992)	733	633	(626)	(6,291)
<b>Change in provision for net claims</b>	45,670	(9,309)	(52,076)	(15,715)	12,509
Other technical income, net of reinsurance	9	288	121	418	225
<b>Net Operating Expenses</b>	(6,077)	(17,283)	(21,059)	(44,419)	(44,778)
<b>Balance on Technical Account</b>	13,355	3,442	(22,534)	(5,737)	27,694
Net Investment Income	1,297	981	86	2,364	827
Profit on exchange	6,423	3,113	(1,577)	7,959	4,571
<b>Profit for the financial year</b>	21,075	7,536	(24,025)	4,586	33,092

## Report of the directors of the managing agent for the year ended 31 December 2016 *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 2016. 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	2016	2015
Gross premiums written	£136.6m	£136.6m
Reinsurance premiums	£19.3m	£18.2m
Profit for the year	£4.6m	£33.1m
Gross loss ratio	62.3%	35.7%
Net loss ratio	68.5%	40.2%
Operating expense ratio	36.6%	37.0%
Combined ratio	98.2%	73.3%
Annual investment yield	1.2%	0.5%
Syndicate capacity	£235m	£235m

### Underwriting and reinsurance

The level of gross written premiums of £136.6m is consistent with the £136.6m written in 2015 in converted Sterling. However, in underlying currencies the level of premium income has fallen quite steeply in the year. The weakening in Sterling in the months after the Brexit vote in the UK has somewhat masked the reduction in overall premium income. On a like for like basis after adjusting for the effect of exchange rates, the level of gross premiums is £16.8m lower than in 2015.

	£000s
Gross premiums written 2015	136,572
Increase in premium income from rate of exchange	16,796
Reduction in premiums in the year	(16,779)
Gross premiums written in 2016	136,589

The majority of the decrease has been on the International and US Property account, predominantly on risks written on a direct and facultative basis. In the absence of major catastrophe events, particularly in the US, the rating environment has continued to be extremely competitive in 2016, with rating

generally down by around 5-10%. The erosion of rates did show some signs of slowing in the final months of the year, following Hurricane Matthew. However, the general trend has been down, and we anticipate market conditions will continue to be difficult in 2017. The rating on premiums written under binding authorities has remained comparatively stable during the year.

The Aviation market has also continued in its prolonged decline, with rates falling for another successive year. We have continued to be disciplined in our underwriting, and have not renewed risks where we have considered the pricing to be inadequate. We are hopeful that the rating environment for Aviation has reached somewhere near its nadir, as it is difficult to see how rate decreases can continue as they have been over the last few years.

Total gross earned premiums for the year are £140.8m, which is marginally higher than the £139.6m earned in 2015. 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 2016 and 2015. However, both Aviation and Property business received on a direct and facultative basis have decreased as a proportion of total premiums for the reasons discussed above. The table opposite illustrates the split of gross written premium between classes on business written and incepted in the year.

	2016 %	2015 %
Gross written premiums		
Aviation	7.3	8.3
Property – Direct and Facultative	66.0	68.3
Property – Binding Authorities	26.7	23.4
	100%	100%

The reinsurance premiums ceded in the year have risen to £19.3m from £18.2m in 2015. Almost all of this increase has been driven from rate of exchange differences. In real terms the cost of reinsurance in its constituent currencies has remained relatively flat.

The reinsurance premium earned in the year of £19.3m (£18.7m 2015) closely tracks the reinsurance ceded, 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 comprises of profits on the open and closing years of account. There have been positive reserve movements in the year, particularly on the 2014 and prior years of account, and to a lesser extent 2015. This has mostly been on Property reserves but we have also experienced some positive claims development on the Aviation account.



## Report of the directors of the managing agent for the year ended 31 December 2016 *continued*

However, it has been a difficult accident year as the Property account has experienced a relatively high incidence of catastrophe losses, as well as higher than expected large and attritional losses. When combined with the decline in premiums in real terms, this has eroded much of the profitability from the prior year releases. This has been particularly evident on the 2016 year of account which has contributed a substantial loss to the result.

To quite a large extent the strengthening of the US dollar against Sterling has had the effect of flattering the result for the year.

### Contribution of 2016 year of account to the calendar year result

The 2016 year of account has contributed a loss for the calendar year, before investment income, of £24.1m. This is significantly worse than the £4.9m profit posted for the 2015 year of account at the same point, in calendar year 2015. The main reason for this has been the higher loss experience in 2016 compared with 2015 which was relatively benign. This has been particularly true of catastrophe losses. The largest of these losses was Hurricane Matthew which was the most severe loss of the 2016 North Atlantic windstorm season. There have been smaller catastrophe losses in other areas of the Property account.

The table opposite summarises the large property losses from catastrophe type events in the year:

Loss	Gross £(m)	Net £(m)
Hurricane Matthew	19.1	18.7
Flooding in the State of Louisiana	2.8	2.8
Storms in Texas and Florida	0.8	0.8
Tropical Storm Hermine	0.7	0.7
Wildfire Fort McMurray	0.7	0.7
	24.1	23.7

There were also a number of large risk losses in the second half of the year, including GAP, Covestro, Smithfield Foods, and BASF SE which aggregated to approximately £5m.

There have been no major claims on the Aviation account on the 2016 year of account to date.

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 are 'recognised' 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 £21.1m, which is a decrease from £21.6m charged to the 2015 underwriting year at the same stage. The loss position on 2016 has meant that no profit commission has been accrued to date, which has reduced expenses on a line by line basis by around £1.2m for 2016, although brokerage is marginally higher, primarily owing to the strengthening of the US dollar against Sterling.

The investment return for the year was £85,599.

Loss on exchange in the year was £1.6m on the 2016 underwriting year, as the retranslation of US dollar losses to Sterling from average to closing rates of exchange have been increased by the weakening of Sterling.

Members' balances stand at an overall deficit of £24m.

#### 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 £6.6m. Whilst there has been a positive result in the calendar year, around £3.1m of the profit has arisen from currency retranslation gains. Overall, the claims experience has been higher than in recent years as the Property account has been affected by Hurricane Matthew and a number of other smaller catastrophe losses. The rising level of attritional losses continue to be a feature of a falling market and the erosion of terms and conditions.

The table opposite summarises the property losses from catastrophe type events in the year:

Loss	Gross £(m)	Net £(m)
Hurricane Matthew	1.8	1.5
Kumamoto Earthquake	1.6	1.6
Flooding in Chile	1.5	1.5
Tropical Cyclone Winston	1.2	1.2
Taiwan Earthquake	1.3	1.3
Wildfire – Fort McMurray	1.1	1.1
Storms in Texas and Florida	0.9	0.9
Flooding in the State of Louisiana	0.8	0.8
Tropical Storm Hermine	0.4	0.4
	10.6	10.3

The Aviation account, has incurred a major loss from a helicopter crash in Bergen, Norway. It also has some exposure to the Pakistan International Airlines loss.

The technical provisions set at 31 December 2015 have proven to be robust, and there has been an improvement in reserves of around £4.6m in the calendar year.

Net operating expenses are £17.3m, against a comparative figure of £16.7m in calendar year 2015. Most of this increase has come from an increase in acquisition costs. The other expenses classifications have remained relatively consistent.

## Report of the directors of the managing agent for the year ended 31 December 2016 *continued*

The investment return for the calendar year attributable to the 2015 underwriting year of account has been positive, producing net investment income of £1m.

Profit on exchange in the year was £3.1m on the 2015 underwriting year.

Members' balances currently stand at an overall surplus of £12.4m, after standard personal expenses. We remain positive about the result of the 2015 year of account, and are forecasting a profit in the range of 3.3%-8.3% upon closure.

### 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 £19.8m. In 2016 there has been an improvement of £10.3m on closed year reserves, which makes up the largest proportion of the result. The reserves set on the 2014 pure year of account at the end of last year have also proved robust, and we have experienced positive claims development. There is also a considerable exchange gain in the year of £6.4m, owing primarily to the strengthening of the US dollar against Sterling.

Net operating expenses are £6.1m, the majority of this movement is generated from profit commission and related expenses.

The investment return for the year of £1.3m has increased the profit for the year to £21.1m

### Operating Expenses

	2014 and Prior Years of Account £000	2015 Year of Account £000	2016 Year of Account £000	2016 Calendar Year Combined £000	2015 Calendar Year Combined £000
Acquisition Costs (Brokerage)	(371)	(13,600)	(12,766)	(26,737)	(25,344)
Acquisition Costs (Other)	32	(1,522)	(4,464)	(5,954)	(6,214)
Administrative Expenses	(468)	(272)	(1,421)	(2,161)	(2,292)
Standard Personal Expenses	–	(7)	(2,408)	(2,415)	(2,653)
Managing Agents Profit Commission	(5,270)	(1,882)	–	(7,152)	(8,275)
<b>Net Operating Expenses</b>	<b>(6,077)</b>	<b>(17,283)</b>	<b>(21,059)</b>	<b>(44,419)</b>	<b>(44,778)</b>

As in previous years, acquisition costs (brokerage) represent the largest single expense item in 2016. Other operating expenses under the control of the Managing Agency have stayed relatively consistent in the calendar year.

Profit commission has been accrued on the 2014 and 2015 years of account on the cumulative results to date. No profit commission has been accrued on the 2016 year of account as it is currently in a loss position.

### Profit and loss on exchange

The profit on exchange for the year is £7.96m (£4.57m: 2015). 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 against Sterling. 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 2013 year of account profits.

	2014 and Prior Years of Account £000	2015 Year of Account £000	2016 Year of Account £000	Total £000
Profit and loss on exchange				
Profit/(loss) on currency translation of opening balances and calendar year profits	5,630	2,915	(1,648)	6,897
Profit on other transactions in the year	793	198	71	1,062
Profit/(loss) on exchange	6,423	3,113	(1,577)	7,959

### Investment Performance

	2016 '000	%	2015 '000	%
Average Amount of Syndicate Funds	£204,049		£199,323	
Investment Return	£2,518	1.23%	£982	0.49%
<b>By Currency:</b>				
<b>Sterling:*</b>				
Average Funds	£11,352		£17,541	
Investment Return	£69	0.61%	£(58)	(0.33)%
<b>US Dollar:</b>				
Average Funds	US\$246,072		US\$264,311	
Investment Return	US\$3,012	1.22%	US\$1,253	0.47%
<b>Canadian Dollar:</b>				
Average Funds	Can\$18,722		Can\$17,770	
Investment Return	Can\$113	0.60%	Can\$128	0.72%

\*Includes investment manager's fees of £154,315 (2015: £155,255).

## Report of the directors of the managing agent for the year ended 31 December 2016 *continued*

### 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 manager has been instructed to achieve a return above the agreed benchmark, whilst 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 2016 (Provided by Amundi UK Ltd)

The investment portfolio showed resilience in a politically tricky year with the UK's EU referendum and US election both providing surprises to financial markets.

Despite the political turbulence, and concerns early in the year on China and oil prices, 2016 showed improved global growth prospects led by the US. Consumption in the US remains strong, with consumer confidence high, against a backdrop of falling unemployment and rising equity markets. Investment is rising, and forward looking indicators such as Purchasing managers' index indices are surging with Donald Trump igniting the animal spirits of

consumers and businessmen. This improved outlook, and increased prospects for inflation, gave confidence to the Federal Reserve to raise rates the second time in December.

With higher rates, US yields rose over the year. Treasury yields in maturities sub-10 years rose approximately 0.15% and the 2-year Treasury ended the year at 1.19%. Yield changes were volatile, however, with the 2-year hitting a low of 0.55% in July and rising 0.27% in November alone, the largest monthly rise since 2009. Credit spreads widened in quarter one as oil prices collapsed to US\$28 a barrel, raising concerns on oil producers, related services and banks with significant loans to the sector. Spread widening was short-lived as prices rebound to US\$50 a barrel by May and credit spreads tightened, particularly in BBB rated bonds.

The aggregate USD portfolio returned 1.34% during 2016, beating the benchmark 1.02% by 0.32%. Returns were above the mid-point of the range of expectations provided at the start of the year. The benchmark was amended for 2016 to a blend of Bank of America Merrill Lynch Indices more closely representing portfolio positioning of Treasuries, A-AAA rated corporate bonds and AAA rated asset backed securities. Performance was driven by the additional yield on corporate bond holdings and through spread tightening of these securities. Short duration positioning saw some underperformance at the start of the year but added to relative performance in the second half of the year and was extended to take advantage of higher yields.

### Outlook for 2017

Donald Trump has signalled determination to deliver on his campaign promises. The most important of which are tax and spending changes, but he may squander much of his honeymoon repealing Obamacare. On fiscal policy, Trump will get a good proportion of the stimulus he seeks. The promise of fiscal stimulus at a time when the economy is already standing on its own feet means the Federal Reserve will need to carefully plot a course to wind back policy accommodation without stoking sharply higher rates which could jeopardise the recovery. Inflation is moving up solidly with food, housing, medical and labour-intensive services contributing positively as energy base effects drop out. Higher wages will feed through to higher services prices, and core personal consumption expenditures PCE will soon be close to the Federal Reserve's target. The Federal Open Market Committee is turning hawkish and could increase rates up to three times in 2017 as wage growth picks up.

It will be Europe's turn to face the rising populism witnessed in the UK and US with elections in the Netherlands, France and Germany. The politics will bring volatility and an increase in French spreads in the first half of 2017. Le Pen poses an existential threat to the Eurozone but is expected to lose in the second round in May, and the Dutch may forge a broad coalition including Wilders' extreme right

party. Once the election risks have passed focus will return to the positive economic momentum in Europe. In the second half of 2017, pressure will increase on the European Central Bank (ECB) to tighten policy. Continued QE purchases have helped contain the rise in German yields, but eventually stronger growth, higher inflation, and ECB taper could force them higher.

In the UK, economic data has so far held up better than Bank of England (BOE) expectations. Cracks are likely to appear as consumers face a squeeze in real incomes under higher import prices due to the weakening of Sterling, and businesses could continue to hold off investment projects due to Brexit uncertainty. Gilt yields will remain low as the BoE will "look through" rises in inflation as temporary and base rates remain on hold.

The US dollar portfolio is positioned slightly short duration to the benchmark with a mix of fixed and floating rate notes coupons to hedge against further rises in yields. Corporate bond and asset backed securities allocations will be maximised to enhance yield. 2017 will likely require greater portfolio turnover with value generated from switching securities within asset classes. The portfolios retain an ample buffer of government and sovereign-related bonds should liquidity be required.

## Report of the directors of the managing agent for the year ended 31 December 2016 *continued*

### 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 the 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 that the Syndicate is the lead underwriter on 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 retention of clients. These are detailed for 2016 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%	46%
Proportion of business written which has been renewed by the Syndicate	94%	79%	96%

The Board values experience in its underwriters. The table below details the experience of the Syndicate's senior underwriters in terms of the numbers 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
<b>Derek Eales</b>	<i>Active Underwriter</i>	32	32
<b>Nick Chalk</b>	<i>Class Underwriter Property – Direct and Facultative</i>	17	19
<b>Steve Anderson</b>	<i>Class Underwriter Property – Binding Authorities</i>	8	28
<b>Simon Herring</b>	<i>Class Underwriter Aviation</i>	15	33



### 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 views 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 2016
Percentage of claims responded to within target response time	100.0%
Percentage of claims meeting internal reserving accuracy target	97.1%
Percentage of claims meeting adjustment and settlement targets	97.4%

The overall performance against the agreed targets has been very good in 2016, with generally high average scores against the metrics set.

### Human resources non-financial indicators

The Board view retention of staff and vocational training as key to the long term success of the Syndicate. The staff turnover for the Syndicate has been historically low. 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.

### Solvency II

The Solvency II regime has become embedded into the Syndicate's day to day business and reporting. The Syndicate's agreed Solvency Capital Requirement (SCR) for 2017 is

£145.6m, and the Economic Capital Assessment (ECA) is £196.6m, after applying the Lloyd's 35% uplift.

### Brexit

On 23 June 2016 the United Kingdom voted in favour of leaving the European Union. The full impact of this decision is likely to be seen in the coming years. The most visible impact of the Brexit vote on the Syndicate to date has been to weaken Sterling against the US dollar and other currencies. This has had the short term effect of improving the reported results in these financial statements, as the Syndicate writes a high proportion of its business in US dollars.

Although only a small proportion of the Syndicate's business is written in the European Union, we recognise the importance of being aware of the potential risks that the outcome of Brexit may pose to our business. The Board is committed to monitoring these issues, and making the best possible decisions for our capital providers and policyholders alike.

### 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 4 on page 33.



### **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 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 Risk Function and are overseen by the relevant sub-committee, or the board 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 internal and external audit of the Managing Agency and the managed Syndicate. This includes an assessment of the performance, effectiveness and suitability of these functions.

### **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 the managed Syndicate. This includes an assessment of the performance, effectiveness and suitability of the risk management function and the 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 matters defined by the Board or 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 the managed Syndicate.

### **Investment Committee**

The Investment Committee has the delegated authority of the Board to recommend, monitor and oversee the appropriateness of 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 the managed Syndicate's assets.

### **Claims Committee**

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

### Reserving Committee

The Reserving Committee assists the Board in reviewing and approving the quarterly reserves of the Syndicate for UK GAAP and Solvency II.

### 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, reinsurance and claims risks.

To assist it in fulfilling its obligations, the Underwriting Committee has constituted a sub-committee which addresses specific areas of the managed Syndicate's 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 operations and to promote 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 oversee the appropriateness of policy and framework which can attract and retain the right talents. As such, the Remuneration Committee oversees the determination of the remuneration, benefits and bonus

arrangements of the senior executives and officers of the Managing Agency and the 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

As we noted in last year's report, market conditions continued to be difficult in 2016, with rate reductions in many areas of the book.

Whilst we don't anticipate wholesale improvements in the rating environment, there is a growing feeling that the market is approaching the bottom of the cycle. The accumulation of a number of small to medium catastrophe events in the current accident year has exposed that margins are relatively slim. This is particularly true of direct and facultative risks written on the Property account. We are cautiously optimistic that we will see a flattening in Property rates, and increases on accounts that have been affected by losses in 2016. However, we remain aware of the pressures in the market on insurers to defend top line income, as well as the growth expectations of new entrants into the Lloyd's Market.

The Aviation market is extremely difficult to predict, as it continues to be a class of business which is cross subsidised by insurers. It is likely to take a market changing airline loss to have a significant effect on rates which are already at historically low levels.

The Syndicate's capacity for 2017 is to remain at £235m.

## Report of the directors of the managing agent for the year ended 31 December 2016 *continued*

### Directors

The directors and officers of the Managing Agent who held office during the year were as follows:

#### *Directors:*

R.G. Carter	<i>(non-executive chairman) (resigned 23 June 2016)</i>
M.J. Cox	<i>(non-executive) (resigned 23 June 2016)</i>
C.J.W. Czapiewski	<i>(non-executive)</i>
D.C. Eales	
A. Hoffmann	
M.A. Langston	<i>(appointed 4 December 2015)</i>
R.J. Martin	<i>(non-executive) (appointed 23 June 2016)</i>
C.A.A. Niebuhr	<i>(non-executive)</i>
R.A. Pexton	<i>(non-executive) (appointed 5 May 2016), (non-executive chairman) (appointed 24 June 2016)</i>
G.M. Tuck	

#### *Company secretary*

B. Arzur-Kean	<i>(appointed 10 February 2016)</i>
P. Langridge	<i>(resigned 9 February 2016)</i>

### Syndicate annual general meeting

The Managing Agent does not propose holding an annual general 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.

### 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 16 March 2017

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 2016, as set out on pages 20 to 58. 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 17, the managing agent's directors are 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](http://www.frc.org.uk/auditscopeukprivate).

### Opinion on 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 2016 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 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

20 March 2017

## Statement of profit or loss for the year ended 31 December 2016

### Technical account – general business

	Note	2016 £000	2015 £000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	5	136,589	136,572
Outward reinsurance premiums		(19,264)	(18,249)
Change in the provision for unearned premiums			
Gross amount		4,193	3,029
Reinsurers' share		(51)	(437)
		121,467	120,915
<b>Allocated investment return transferred from the non-technical account</b>			
		2,364	827
<b>Other technical income, net of reinsurance</b>			
		418	225
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(72,652)	(68,657)
Reinsurers' share		5,164	7,480
		(67,488)	(61,177)
Change in the provision for claims			
Gross amount		(15,089)	18,800
Reinsurers' share		(626)	(6,291)
		(15,715)	12,509
		(83,203)	(48,668)
<b>Net operating expenses</b>	7	(44,419)	(44,778)
<b>Balance on the technical account – for general business</b>			
		(3,373)	28,521

All items relate only to continuing operations.

The notes on pages 27 to 58 form part of these accounts.

## Non-technical account

	Note	2016 £000	2015 £000
<hr/>			
<b>Balance on the general business technical account</b>		(3,373)	28,521
Investment income	10	2,568	2,016
Realised gains on investments		7	–
Unrealised gains on investments		202	–
Realised losses on investments		(259)	(324)
Unrealised losses on investments		–	(710)
Investment expenses and charges		(154)	(155)
Allocated investment return transferred to general business technical account	10	(2,364)	(827)
Profit on foreign exchange		7,959	4,571
<b>Profit for the financial year</b>		4,586	33,092

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 27 to 58 form part of these accounts.



## Balance sheet as at 31 December 2016

	Note	2016 £000	2015 £000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	11	205,885	203,121
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		3,621	3,109
Claims outstanding		9,030	8,502
		12,651	11,611
		218,536	214,732
<b>Debtors</b>			
Debtors arising out of direct insurance operations	12	30,588	29,888
Debtors arising out of reinsurance operations	13	5,470	4,636
Other debtors		673	791
		36,731	35,315
<b>Other assets</b>			
Cash at bank and in hand	19	422	1,518
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	14	15,190	13,151
Other prepayments and accrued income		864	919
		16,054	14,070
<b>Total assets</b>		<b>271,743</b>	<b>265,635</b>

The notes on pages 27 to 58 form part of these accounts.

	Note	2016 £000	2015 £000
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Members' balances		17,145	49,146
<b>Technical provisions</b>			
Provision for unearned premiums		64,782	59,235
Claims outstanding		173,051	135,946
		237,833	195,181
<b>Creditors</b>			
Creditors arising out of direct insurance operations	18	1,223	526
Creditors arising out of reinsurance operations	18	4,311	4,393
Other creditors including taxation and social security	18	806	3,978
Accruals and deferred income		10,425	12,411
		16,765	21,308
<b>Total liabilities</b>		271,743	265,635

The financial statements on pages 20 to 58 were approved by the Board of Beaufort Underwriting Agency Limited on 16 March 2017 and were signed on its behalf by

**D. C. Eales**

*Active Underwriter and  
Director of Underwriting*

**G. M. Tuck**

*Finance Director*

20 March 2017

The notes on pages 27 to 58 form part of these accounts.

## Statement of changes in members' balances for the year ended 31 December 2016

	2016 £000	2015 £000
Members' balances brought forward at 1 January	49,146	44,725
Profit for the year	4,586	33,092
Members' agents fees	(159)	(160)
Payments of profit to members' personal reserve fund	(36,428)	(28,511)
<b>Members' balances carried forward at 31 December</b>	<b>17,145</b>	<b>49,146</b>

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.

The notes on pages 27 to 58 form part of these accounts.

## Statement of cash flows for the year ended 31 December 2016

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	Note	2016 £000	2015 £000
<b>Cash flows from operating activities</b>			
Profit for the year		4,586	33,092
<b>Adjustments:</b>			
Net losses on other financial instruments		15	1,023
Net unrealised foreign exchange gains		(37,307)	(10,545)
Net interest and dividends receivable	10	2,364	827
Interest received		(2,364)	(827)
<b>Movements in operating assets and liabilities:</b>			
Acquisitions of other financial instruments		(89,519)	(124,207)
Proceeds from sale of other financial instruments		124,047	130,844
(Increase)/decrease in reinsurers share of technical provisions		(1,040)	6,073
(Decrease) in deferred acquisition costs		(2,039)	(249)
(Decrease)/increase in debtors, subrogation and salvage and prepayments		(1,361)	4,227
Increase/(decrease) in technical provisions		42,652	(13,491)
(Decrease)/increase in creditors		(2,557)	1,815
(Increase)/decrease in accruals and deferred income		(1,986)	1,102
<b>Net cash inflow from operating activities</b>		<b>35,491</b>	<b>29,684</b>

The notes on pages 27 to 58 form part of these accounts.

## Statement of cash flows for the year ended 31 December 2016 *continued*

	Note	2016 £000	2015 £000
<b>Net cash flow from financing activities:</b>			
Transfer to members in respect of underwriting participations		(36,428)	(28,511)
Members' agents' fees paid on behalf of members		(159)	(160)
<b>Net cash outflow from financing activities</b>		<b>(36,587)</b>	<b>(28,671)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,096)</b>	<b>1,013</b>
Cash and cash equivalents at 1 January		1,518	505
<b>Cash and cash equivalents at 31 December</b>		<b>422</b>	<b>1,518</b>

The notes on pages 27 to 58 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 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.

### Estimation of claims

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.

In arriving at the level of claims provisions, a Board approved margin is applied over and above the actuarial best estimate.

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 4.

## 2 Use of judgments and estimates *continued*

### Estimation of premiums

The measurement of premiums written in the year involves judgements on the amounts of premiums written but not signed to the Syndicate until after the balance sheet date.

In our estimation of unearned premiums, we have made estimates on the allocation of premiums between accounting periods based on judgements on the profile of the underlying risks associated with the written, and accordingly how the premium is recognised as earned.

## 3 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 incepted 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.

### 3 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 in regards to 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 into 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 into 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.



3 Accounting policies *continued*

(h) Foreign currencies *continued*

Syndicate assets and liabilities are translated into Sterling at the rates of exchange at the balance sheet date. 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 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.

### 3 Accounting policies *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.

### 3 Accounting policies *continued*

#### (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 comprises 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.

### 3 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.

### 4 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.

#### 4 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 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.

#### 4 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.

2016

	Motor	Marine, aviation and transport £000	Fire and other damage to property £000	Total £000
UK	–	43	374	417
Other Europe	–	1,628	3,232	4,860
US	175	3	82,662	82,840
Canada	–	32	4,736	4,768
Rest of World	–	8,119	35,585	43,704
<b>Total</b>	<b>175</b>	<b>9,825</b>	<b>126,589</b>	<b>136,589</b>

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
<b>Total</b>	<b>344</b>	<b>10,978</b>	<b>125,250</b>	<b>136,572</b>

##### 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.

#### 4 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:

	2016		2015	
	5 per cent increase	5 per cent decrease	5 per cent increase	5 per cent decrease
Marine, aviation and transport	(666)	666	(926)	926
Fire and other damage to property	(6,941)	6,941	(5,510)	5,510
Motor	(4)	4	(5)	5
<b>Total</b>	<b>(7,611)</b>	<b>7,611</b>	<b>(6,441)</b>	<b>6,441</b>

#### 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).

#### 4 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 that are neither past due, nor impaired.

2016	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
<b>Financial investments</b>						
Debt securities and other fixed income						
securities	55,956	92,177	42,222	6,774	–	197,129
Deposits with credit institutions	4,784	839	1,173	510	1,450	8,756
	60,740	93,016	43,395	7,284	1,450	205,885
Reinsurers' share of technical provisions	–	2,114	6,429	487	–	9,030
Direct insurance debtors	–	–	–	–	21,961	21,961
Other debtors	–	–	–	–	673	673
Cash at bank and in hand	–	–	422	–	–	422
<b>Total</b>	60,740	95,130	50,246	7,771	24,084	237,971



## Notes to the financial statements for the year ended 31 December 2016 *continued*

### 4 Risk and capital management *continued*

2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
<b>Financial investments</b>						
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
<b>Total</b>	62,609	90,164	43,543	13,022	28,471	237,809

### 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.

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

2016	Current	0-3 months	3-6 months	6-12 months	> 12 months	Impaired	Total £000
Receivables from direct insurance	21,961	5,105	2,277	1,245	–	–	30,588
Receivables from reinsurance	859	308	289	58	–	–	1,514
Other debtors	673	–	–	–	–	–	673
<hr/>							
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

#### 4 Risk and capital management *continued*

##### 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.

4 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.

2016	Carrying amount £000	Undiscounted net cash flows				More than 5 years £000
		Total cash flows £000	Less than 1 year £000	1-2 years £000	2-5 years £000	
<b>Financial investments:</b>						
Shares and other variable yield securities						
and units in unit trusts	27,681	27,681	27,681	–	–	–
Debt securities	168,940	172,984	75,939	68,796	28,249	–
Deposits with credit institutions	8,756	8,756	8,756	–	–	–
Reinsurers share of technical provisions	12,651	12,651	5,755	3,268	3,090	538
Debtors and accrued interest	37,239	37,239	37,239	–	–	–
Cash at bank and in hand	422	422	422	–	–	–
<b>Total assets</b>	<b>255,689</b>	<b>259,733</b>	<b>155,792</b>	<b>72,064</b>	<b>31,339</b>	<b>538</b>
Technical provisions	237,833	237,833	72,212	77,382	79,078	9,161
Creditors	6,340	6,340	6,340	–	–	–
<b>Total liabilities</b>	<b>244,173</b>	<b>244,173</b>	<b>78,552</b>	<b>77,382</b>	<b>79,078</b>	<b>9,161</b>

#### 4 Risk and capital management *continued*

2015

	Carrying amount £000	Total cash flows £000	Undiscounted net cash flows			
			Less than 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
<b>Financial investments:</b>						
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	–	–	–
<b>Total assets</b>	<b>251,565</b>	<b>257,093</b>	<b>142,411</b>	<b>66,821</b>	<b>41,109</b>	<b>6,752</b>
Technical provisions	195,181	195,181	61,250	61,959	64,620	7,352
Creditors	8,897	8,897	8,897	–	–	–
<b>Total liabilities</b>	<b>204,078</b>	<b>204,078</b>	<b>70,147</b>	<b>61,959</b>	<b>64,620</b>	<b>7,352</b>

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 as follows:

#### 4 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 2016 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.

2016	Sterling £000	US dollar £000	Canadian dollar £000	Other £000	Total £000
<b>Financial investments</b>					
Shares and other variable yield securities and units in unit trusts	374	18,882	8,425	–	27,681
Debt securities and other fixed income securities	–	169,448	–	–	169,448
Deposits with credit institutions	–	4,039	2,122	2,596	8,757
	374	192,369	10,547	2,596	205,886
Reinsurers' share of technical provisions	1,759	10,891	–	–	12,650
Debtors	4,375	30,712	1,644	–	36,731
Other assets	422	–	–	–	422
Prepayments and accrued income	3,546	11,909	599	–	16,054
<b>Total assets</b>	<b>10,476</b>	<b>245,881</b>	<b>12,790</b>	<b>2,596</b>	<b>271,743</b>
Technical provisions	32,345	194,846	10,642	–	237,833
Creditors	1,304	4,944	91	–	6,339
Accruals and deferred income	10,426	–	–	–	10,426
<b>Total liabilities</b>	<b>44,075</b>	<b>199,790</b>	<b>10,733</b>	<b>–</b>	<b>254,598</b>
<b>Net assets</b>	<b>(33,599)</b>	<b>46,091</b>	<b>2,057</b>	<b>2,596</b>	<b>17,145</b>

#### 4 Risk and capital management *continued*

2015	Sterling £000	US dollar £000	Canadian dollar £000	Other £000	Total £000
<b>Financial investments</b>					
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
<b>Total assets</b>	<b>12,916</b>	<b>238,758</b>	<b>11,261</b>	<b>2,700</b>	<b>265,635</b>
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
<b>Total liabilities</b>	<b>47,157</b>	<b>161,652</b>	<b>7,680</b>	<b>–</b>	<b>216,489</b>
<b>Net assets</b>	<b>(34,241)</b>	<b>77,106</b>	<b>3,581</b>	<b>2,700</b>	<b>49,146</b>

#### 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 overleaf. 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.

4 Risk and capital management *continued*

	2016 Profit or loss for the year £000	2015 Profit or loss for the year £000
<b>Interest rate risk</b>		
+ 50 basis points shift in yield curves	(825)	(829)
– 50 basis points shift in yield curves	825	829
<b>Currency risk</b>		
10 percent increase in GBP/US dollar exchange rate	(4,609)	(7,712)
10 percent decrease in GBP/US dollar exchange rate	4,609	7,712

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 (or decrease) in yield curves have been selected, on the basis that these are not considered to be unreasonable changes in the 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 analysis does 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.

Whilst the actual currency movements in the year have been in excess of the thresholds above, we still consider a 10% currency risk variable to be reasonable in a normal year.

**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

#### 4 Risk and capital management *continued*

requirements apply only at overall and member level 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 comprises 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's 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 2017 was maintained at 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 23, represent resources available to meet members' and Lloyd's capital requirements.



## Notes to the financial statements for the year ended 31 December 2016 *continued*

### 5 Analysis of underwriting result

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

2016	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses* £000	Reinsurance balance £000	Total £000
<b>Direct insurance:</b>						
Motor (other classes)	175	238	(188)	(151)	(36)	(137)
Marine aviation and transport	3,118	4,053	(2,720)	(1,387)	(1,160)	(1,214)
Fire and other damage to property	82,436	83,144	(52,830)	(25,831)	(9,152)	(4,669)
	85,729	87,435	(55,738)	(27,369)	(10,348)	(6,020)
Reinsurance acceptances	50,860	53,347	(32,003)	(17,050)	(4,429)	(135)
<b>Total</b>	<b>136,589</b>	<b>140,782</b>	<b>(87,741)</b>	<b>(44,419)</b>	<b>(14,777)</b>	<b>(6,155)</b>

\*Includes commissions on direct business of (£17,078).

2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses* £000	Reinsurance balance £000	Total £000
<b>Direct insurance:</b>						
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
<b>Total</b>	<b>136,572</b>	<b>139,601</b>	<b>(49,857)</b>	<b>(44,778)</b>	<b>(17,497)</b>	<b>27,469</b>

\*Includes commissions on direct business of (£15,449).

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

#### Geographical analysis by destination

	2016 Gross premiums written £000	2015 Gross premiums written £000
UK	11,168	11,990
US	84,788	78,397
Other	40,633	46,185
<b>Total</b>	<b>136,589</b>	<b>136,572</b>

## 6 Claims

Favourable movements of £22.2 million, (2015: £25.4 million), in the past year's provision for claims outstanding and IBNR, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance.

## 7 Net operating expenses

	2016 £000	2015 £000
<b>Acquisition costs:</b>		
Brokerage and commissions	26,800	25,058
Other acquisition costs	5,953	6,215
	32,753	31,273
Change in deferred acquisition costs	(63)	285
Administrative expenses	2,161	2,292
Members' standard personal expenses	9,568	10,928
<b>Net operating expenses</b>	<b>44,419</b>	<b>44,778</b>

Administrative expenses include:

	2016 £000	2015 £000
<b>Auditors' remuneration:</b>		
– fees payable to the Syndicate auditor for the audit of the Syndicate annual accounts	117	110
– audit related assurance services	65	61
	182	171

## 8 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:

	2016 £000	2015 £000
Directors' emoluments	655	583
Pension contributions	51	62
	706	645

Directors' emoluments include severance payments of £Nil in 2016 (2015: £100,000).

No other compensation was payable to key management personnel.

The active underwriter, was the highest paid director in the year, and received the following aggregate remuneration charged to the Syndicate and included within directors' emoluments above.

	2016 £000	2015 £000
Emoluments	290	270
Pension contributions	11	45
	301	315

## 9 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:

	2016 £000	2015 £000
Wages and salaries	4,366	4,435
Social security costs	925	553
Other pension costs	501	554
	5,792	5,542

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:

	2016 No	2015 No
Administration and finance	20	20
Underwriting	18	16
Claims	11	10
	49	46

## 10 Investment return

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

	2016 £000	2015 £000
Investment income:		
Interest and dividend income	2,568	2,016
Realised gains	7	–
Unrealised gains on investments	202	–
Investment expenses and charges:		
Investment management expenses, including interest	(154)	(155)
Losses on the realisation of investments	(259)	(324)
Unrealised losses on investments	–	(710)
<b>Total investment return</b>	<b>2,364</b>	<b>827</b>

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

	2016 £000	2015 £000
Financial assets at fair value through profit or loss	2,518	982
Investment management expenses, excluding interest	(154)	(155)
<b>Total investment return</b>	<b>2,364</b>	<b>827</b>

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.

	2016 £000	2015 £000
Average amount of Syndicate funds available for investment during the year		
Sterling	11,352	17,541
US dollar	198,445	179,803
Canadian dollar	11,279	8,668
<b>Total funds available for investment, in sterling</b>	<b>221,076</b>	<b>206,012</b>
<b>Total investment return</b>	<b>2,364</b>	<b>827</b>
Annual investment yield		
Sterling	0.61%	(0.33%)
US dollar	1.22%	0.47%
Canadian dollar	0.60%	0.72%
<b>Total annual investment yield, in sterling</b>	<b>1.23%</b>	<b>0.49%</b>

## Notes to the financial statements for the year ended 31 December 2016 *continued*

### 11 Financial investments

	Carrying value		Cost	
	2016 £000	2015 £000	2016 £000	2015 £000
Shares and other variable yield securities and units in unit trusts	27,681	24,198	27,681	24,198
Debt securities and other fixed income securities	169,448	170,907	169,228	171,644
<i>Government and supranational securities</i>	69,801	63,189	69,964	63,574
<i>Asset backed securities</i>	12,983	20,604	12,945	20,643
<i>Mortgage backed instruments</i>	3,624	3,547	3,595	3,547
<i>Corporate bonds</i>	83,040	83,567	82,724	83,880
Deposits with credit institutions	8,756	8,016	8,756	8,016
<b>Total financial investments</b>	205,885	203,121	205,665	203,858

The amount ascribable to listed investments is £139.4 million (2015: £124.9 million). All financial assets are 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

2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	–	27,681	–	27,681
Debt securities and other fixed income securities	40,825	128,623	–	169,448
Deposits with credit institutions	3,925	4,831	–	8,756
<b>Total</b>	44,750	161,135	–	205,885

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
<b>Total</b>	64,549	138,572	–	203,121

## 11 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.

## 12 Debtors arising out of direct insurance operations

	2016 £000	2015 £000
Amounts due from intermediaries:		
Due within one year	30,588	29,888
	<u>30,588</u>	<u>29,888</u>

## 13 Debtors arising out of reinsurance operations

	2016 £000	2015 £000
Amounts due within one year	5,470	4,636
	<u>5,470</u>	<u>4,636</u>

## Notes to the financial statements for the year ended 31 December 2016 *continued*

### 14 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.

	2016 £000	2015 £000
Balance at 1 January	13,151	12,902
Incurring costs deferred	14,191	12,780
Amortisation	(14,128)	(13,065)
Effect of movements in exchange rates	1,976	534
<b>Balance at 31 December</b>	<b>15,190</b>	<b>13,151</b>

### 15 Year of account development

Year of Account	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Profit before members' agents fees £000
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	21,075	29,253
2015					4,858	7,536	
2016						(24,025)	
<b>Calendar year result</b>			<b>26,325</b>	<b>33,544</b>	<b>33,092</b>	<b>4,586</b>	

A distribution of £29.1 million to members will be proposed in relation to the 2014 year of account (2015: £36.4 million in relation to the 2013 year of account).

## 16 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 2016 in all cases.

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
<b>Estimate of ultimate gross claims</b>							
at end of underwriting year	72,476	75,635	56,942	55,704	48,122	71,048	
one year later	107,622	114,052	89,011	94,772	90,465		
two years later	107,183	107,799	78,693	86,066			
three years later	103,312	105,097	76,080				
four years later	99,872	104,911					
five years later	97,381						
Less gross claims paid	93,936	96,580	65,152	65,417	39,193	14,210	
Gross ultimate claims reserve	3,445	8,331	10,928	20,649	51,272	56,838	151,463
Gross ultimate claims reserve for 2010 and prior years							21,588
Gross claims reserves							173,051

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
<b>Estimate of ultimate net claims</b>							
at end of underwriting year	71,040	73,950	54,641	53,451	47,367	69,853	
one year later	102,958	109,141	85,223	92,784	87,230		
two years later	102,130	101,725	74,916	83,986			
three years later	97,656	98,626	72,343				
four years later	94,049	97,071					
five years later	91,434						
Less net claims paid	88,070	90,251	62,333	63,960	37,259	13,705	
Net ultimate claims reserve	3,364	6,820	10,010	20,026	49,971	56,148	146,339
Net ultimate claims reserve for 2010 and prior years							17,682
Net claims reserves							164,021



## Notes to the financial statements for the year ended 31 December 2016 *continued*

### 17 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.

	2016			2015		
	Gross provisions £000	Reinsurance assets £000	Net £000	Gross provisions £000	Reinsurance assets £000	Net £000
<b>Incurred claims outstanding:</b>						
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 1 January	135,946	(8,502)	127,444	149,101	(14,321)	134,780
Change in prior year provisions	(63,926)	2,201	(61,725)	(73,108)	6,997	(66,111)
Expected cost of current year claims	151,667	(6,739)	144,928	122,965	(8,186)	114,779
Claims paid during the year	(72,652)	5,164	(67,488)	(68,657)	7,480	(61,177)
Effect of movements in exchange rates	22,016	(1,154)	20,862	5,645	(472)	5,173
<b>Balance at 31 December</b>	<b>173,051</b>	<b>(9,030)</b>	<b>164,021</b>	<b>135,946</b>	<b>(8,502)</b>	<b>127,444</b>
Claims notified	108,836	(8,192)	100,644	79,404	(7,984)	71,420
Claims incurred but not reported	64,215	(838)	63,377	56,542	(518)	56,024
<b>Balance at 31 December</b>	<b>173,051</b>	<b>(9,030)</b>	<b>164,021</b>	<b>135,946</b>	<b>(8,502)</b>	<b>127,444</b>
<b>Unearned premiums</b>						
Balance at 1 January	59,235	(3,109)	56,126	59,571	(3,363)	56,208
Premiums written during the year	136,551	(19,264)	117,287	136,572	(18,249)	118,323
Premiums earned during the year	(140,744)	(19,315)	(160,059)	(139,601)	18,686	(120,915)
Effect of movements in exchange rate	9,740	38,067	47,807	2,693	(183)	2,510
<b>Balance at 31 December</b>	<b>64,782</b>	<b>(3,621)</b>	<b>61,161</b>	<b>59,235</b>	<b>(3,109)</b>	<b>56,126</b>

### 18 Financial liabilities at amortised cost

	2016 £000	2015 £000
Creditors arising out of direct insurance operations	1,223	526
Creditors arising out of reinsurance operations	4,311	4,393
Other creditors	806	3,978
<b>Total financial liabilities at amortised cost</b>	<b>6,340</b>	<b>8,897</b>

Other creditors include £0.7 million (2015: £3.9 million) due to related undertakings.

## 19 Cash and cash equivalents

	2016 £000	2015 £000
Cash at bank and in hand	422	1,518
<b>Total cash and cash equivalents</b>	<b>422</b>	<b>1,518</b>

## 20 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](http://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 2016.

For the 2015, 2016 and 2017 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2015	214,357	91.2
2016	214,357	91.2
2017	214,357	91.2

### Other disclosures

M.J. Cox (resigned 23 June 2016) 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.

## 20 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 2016, Gross Written Premiums under these contracts amounted to £56,945 (2015: £520,959) with acquisition costs on Gross Written Premiums amounting to £14,948 (2015: £145,942).

### Munich Re Syndicate Limited

Munich Re Syndicate Limited (“MRSLS”) 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 £138,762 (2015: £68,208). Actual and anticipated recoveries under these arrangements amount to £40,917 as at 31 December 2016 (2015: £6,871).

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 disclosed in the profit and loss account as other technical income. At 31 December 2016, the following amounts have been accrued and are payable to the Syndicate:

2015:	£278,492 and US\$185,918
2016:	£92,782 and US\$38,318

In respect of the 2014 year of account, the Syndicate received £327,482 and US\$272,795 in the calendar year.

## 20 Related parties *continued*

### Inter-Syndicate transactions

During the period to which these reports relate, the Syndicate underwrote reinsurances of Syndicate 457, managed by MRSL, amounting to £259,733 (2015: £296,774).

### 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 2016 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 2016 totalled £741,117 (2015: £3,941,063). 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 £4,583,312 (2015: £4,581,895). Profit commission of £7,313,507 is due in respect of the 2014 year of account (2013: £9,146,231). Profit commission of £3,098,349 has been accrued on the 2015 year of account (2014: £2,043,817). Profit commission of £Nil has been accrued on the 2016 year of account (2015: £1,216,422). The 2015 year of account will normally close at 31 December 2017 and the 2016 year of account at 31 December 2018.

Expenses totalling £8,746,452 (2015: £9,148,956) 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 2014 year of account at 31 December 2016 was agreed by the Board of the Managing Agency on the 7 February 2017. Consequently the technical provisions at 31 December 2016 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.

**21 Post balance sheet events**

A total of £29,095,554 will be transferred to members’ personal reserve funds on 11 April 2017 in respect of the 2014 year of account.

**22 Foreign exchange rates**

	2016		2015	
	Year-end rate	Average rate	Year-end rate	Average rate
US dollar	1.24	1.35	1.47	1.53
Canadian dollar	1.66	1.79	2.05	1.95

**23 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.

# 2014 Underwriting Year of Account

## Financial highlights

318

### 2014 underwriting account

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**£235m**

Syndicate capacity

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**£170.3m**

gross premium written (including brokerage)

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**£29.3m**

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

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**81.3%**

combined ratio

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**17.2%**

return on gross premium

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**12.5%**

return on capacity

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# 2014 Underwriting Year of Account

## Managing agent's report

The Managing Agent presents its report on the 2014 Year of Account (YoA) of Syndicate 318 closed at 31 December 2016 together with an overview of the 2015 YoA to be closed 31 December 2017 and the 2016 YoA to be closed at 31 December 2018.

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005). It accompanies the annual accounts prepared on an annual accounting basis as required by Statutory Instrument (No. 1950 of 2008), the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) regulations.

Detailed underwriting account descriptions as well as future trading prospects are covered in the Report of the directors of the Managing Agent.

R.G. Carter *(non-executive chairman)  
(resigned 23 June 2016)*

M.J. Cox *(non-executive) (resigned  
23 June 2016)*

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

D.C. Eales

A. Hoffmann

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

R.J. Martin *(non-executive) (appointed  
2 May 2016)*

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

R.A. Pexton *(non-executive) (appointed  
5 May 2016),  
(non-executive chairman)  
(appointed 24 June 2016)*

G.M. Tuck

## 2014 Year of Account

I am delighted to report that the 2014 YoA has closed on a three year basis with a profit after personal expenses of £29.3m, which equates to 12.5% expressed as a percentage of capacity for a traditional name. 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.

Gross premiums at closing rates of exchange are £170.3m (£140.1m excluding brokerage). This includes negative premium movements of around £0.6m on prior years of account. This is around £14.8m (£11.8m excluding brokerage) higher than the 2013 YoA at 36 months. This increase has been driven by rate of exchange movements, and in underlying currencies the premium income actually decreased by around £11.5m in the pure year. The largest proportion of this reduction was on direct and facultative business written in the Property account where the competition has been most intense. The premium income on the Aviation account also reduced significantly, as the market continued to soften.

The Syndicate continued to be conservative in its investment policy, with the investment return only contributing £1.8m to the overall result, in what continues to be a challenging investment environment. Syndicate operating expenses were £7.6m.

The Syndicate was able to obtain better value on its outward reinsurance programme for both the Property and Aviation accounts, as the reinsurance market continued to soften in the absence of major catastrophe events. The year benefited from strong underwriting performance. Whilst routine claims ran a little higher than expected, the continuing lack of any material natural catastrophe events has meant the Syndicate has produced another profitable year for its Names. The closing position as at 31 December 2016 for the pure year of account was a net ultimate loss ratio of 55% (70% excluding brokerage). 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 the 2014 YoA, the pure year gross premium income for the Property account was £152.3m (£125.7m excluding brokerage), an increase of around £15m (£11.9m excluding brokerage) from the 2013 YoA at 31 December 2015. As previously mentioned in the commentary this increase was generated by a strengthening of the US dollar against a weakened Sterling after the Brexit referendum. In real terms, the level of gross premium income was down between 5 – 6% from the 2013 YoA. Once again, the main driver for this on direct and facultative risks was the continuing competitive nature of the market putting pressure on the line sizes and exposures the underwriters were able to put

down. On average, direct and facultative rates were around 8% lower in 2014, but binding authority rates were marginally higher by around 1.5%.

The catastrophe experience for 2014 YoA was particularly favourable for the Syndicate. The most costly event to the Syndicate being Hurricane Odile which struck the tourist area of Los Cabos in Mexico in September 2014 and is estimated to cost the Syndicate USD 14.7m, with the majority falling on the 2014 year of account. Since last year's report, no large losses previously reported have shown any material movements in their positions and no further new material losses have been reported. At a gross level the account has a projected ultimate loss ratio of 51% (62% excluding brokerage), following the cost of reinsurance this is estimated at 57% (72% excluding brokerage) at a net level for the Property account.

#### Aviation

Continued over capacity and falling rates in the Aviation market put additional pressure on the Syndicate's book during 2014 YoA. The gross premium income is £18.7m (£15.1 excluding brokerage) which is at very similar to the 2013 YoA. However, in real terms at like for like rates of exchange the gross premium income is around 13% lower than the 2013 YoA. In terms of losses there was one claim which dominated 2014 YoA – the crashing of a Hunter Hawker T7



# 2014 Underwriting Year of Account

## Managing agent's report *continued*

into the A27 in England, on 22 August 2015, killing 11 and injuring 16 others. Whilst the claim has improved over the past 12 months it is still expected to cost the Syndicate GBP 1.6m. Against the position reported at last year end there are no material differences or movements. As such, the second largest claim impacting 2014 YoA was due to damage to a helicopter in Brazil caused by a hard emergency landing. This claim is estimated at USD 0.5m; of which USD 0.4m is paid. At a gross level the account has a projected ultimate loss ratio of 33% (41% excluding brokerage), following the cost of reinsurance this is estimated at 40% (52% excluding brokerage) at a net level.

### Prior year surplus

The reserves established at last year end in respect of 2014 YoA and prior years have developed favourably during 2016. This has resulted in a release of £10.3m which has contributed to the overall result.

### 2015 Year of Account

The Syndicate maintained its capacity for the 2015 YoA at £235m. The current estimate of gross premium income for the year, at the closing rate of exchange for the year is £165.6m (£135.1m excluding brokerage). Compared to last year's report this constitutes an increase in premium which, however, is largely driven by exchange rate movements.

The Syndicate was able to obtain better value on its outward reinsurance programmes for both

the Property, and Aviation accounts. The Syndicate purchased more coverage and could reduce the total costs by 8.5% compared to the previous year.

Regarding claims, 2015 YoA has so far been devoid of any really large headline claims activity. Whilst a number of significant and high profile events occurred, the Syndicate's exposure to these has been minimal. The biggest loss reported was caused by flooding across Texas in late May, brought on by severe storms and tornadoes, currently estimated to cost the Syndicate \$3.0m (down from USD 4.7m 12 months ago). The 2015 hurricane season threatened two potentially costly storms in Joaquin and then Patricia, however neither lived up to anything meaningful with Joaquin now expected to cost USD 2.6m and Patricia only USD 0.2m. At 24 months, the 2015 YoA is producing a technical account surplus of GBP 25.4m for Property, after brokerage.

After a benign calendar year 2015 the Aviation account experienced a rather high level of claims in 2016 impacting the 2015 YoA. In April 2016 a helicopter crashed in Bergen, Norway and the current estimate is \$2.9m. Also in April 2016 there was a collision of two aircraft on the runway at Jakarta, Indonesia with a Syndicate exposure of \$ 565k. Finally, in December 2016, there was a Pakistan International Airlines crash which the Syndicate reserved with \$750k. At 24 months the 2015 YoA is producing a technical account deficit of GBP 1.2m in Aviation after brokerage.

Overall, therefore, at 24 months the loss experience for the Syndicate has been positive and we remain optimistic about the outcome for the 2015 YoA. Members' balances currently stand at an overall surplus of £12.4m and I am pleased to report that the Syndicate is currently forecasting a profit in the range of 3.3% – 8.3% of Stamp Capacity.

### 2016 Year of Account

The Syndicate has maintained its capacity at £235m for the 2016 YoA. The gross premium income at closing rates of exchange is £157.2m (£126.2m excluding brokerage). This represents a reduction from the 2015 YoA forecast premium income. The market has remained highly competitive in most areas that the Syndicate operates in, particularly aviation, and direct and facultative property risks.

As in previous years the Syndicate's underwriters have attempted to maintain sensible rates for the risks being written and it should be noted that for property business written on a direct and facultative basis there have been signs of some abatement to the falling premiums rates in the final months of the year. As such, the average rate reductions across the whole year were slightly better than anticipated in our original business plan. However, in Aviation there was a continued fall in premiums, with rate declines considerably worse than anticipated in the business plan.

Perhaps the only somewhat positive fall-out of the very competitive market conditions can be reported on the outwards reinsurance side. The Syndicate was able to place its reinsurance programmes at a marginally reduced rate compared to 2015.

The negative effects of a lower premium income for 2016 YoA have been aggravated by a higher loss experience than in previous years. This is mainly caused by the Property account as there have not been major claims for the Aviation account to date. The largest of the losses in Property was Hurricane Matthew which was the most severe loss of the 2016 North Atlantic windstorm season. In the absence of any reinsurance recoveries associated to the losses experienced, 2016 YoA is showing a sizable loss at the 12 month stage, contributing a loss of £24m to the 2016 calendar year results.

Whilst this result is very disappointing, it should be noted that this is on an earned basis. Historically, the earned position after 12 months tends to improve, and given both the expected profit on the unearned business as well as prior year movements, the ultimate expectation is hopefully a little less gloomy.

# 2014 Underwriting Year of Account

## Managing agent's report *continued*

### 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.

### **G. M. Tuck**

*Finance Director*

Beaufort Underwriting Agency Limited

Third Floor

One Minster Court

London EC3R 7AA

20 March 2017

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.

# 2014 Underwriting Year of Account

## Independent auditor's report to the Members of Syndicate 318 – 2014 closed year of account

We have audited the Syndicate underwriting year accounts for the 2014 year of account of Syndicate 318 for the three years ended 31 December 2016, as set out on pages 68 to 87. 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, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw.

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 65, the managing agent's directors are 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 Ethical Standards for Auditors.

### Scope of the audit of the Syndicate underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the Syndicate underwriting year accounts sufficient to give reasonable assurance that the Syndicate underwriting year accounts are free from material misstatements, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the Syndicate underwriting year accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have audited the Syndicate underwriting accounts, which comprise of the Statement of profit or loss, the balance sheet as at

31 December 2016, the statement of cash flows, the statement of changes in members' balances, and the related notes.

The underwriting year accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016. As a consequence of this, the residual risks to the members on the closed year have been minimised. Management have deemed the following risk disclosure requirements of FRS 102 to be not applicable to these underwriting accounts:

- Insurance risk
- Financial risk
- Credit risk
- Liquidity risk
- Market risk
- Capital management
- Fair value hierarchy disclosure on investments

#### 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 2014 closed year of account;
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw.

#### 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**  
for and on behalf of **KPMG LLP, Statutory Auditor,**  
**Chartered Accountants**

15 Canada Square  
London, E14 5GL  
20 March 2017

# 2014 Underwriting Year of Account

## Statement of profit or loss: Technical account – general business for the 2014 closed year of account for the three years ended 31 December 2016

### Technical account – general business

	Note	£000	£000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	170,311	
Outward reinsurance premiums		(23,804)	
			146,507
<b>Reinsurance to close premiums received, net of reinsurance</b>	4/15		59,645
<b>Allocated investment return transferred from the non-technical account</b>			1,800
<b>Other technical income, net of reinsurance</b>			547
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(78,788)	
Reinsurers' share		4,432	
		(74,356)	
Reinsurance to close premium payable, net of reinsurance	5	(57,902)	
			(132,258)
<b>Net operating expenses</b>	7		(47,795)
<b>Balance on the technical account – for general business</b>			28,446

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

The notes on pages 74 to 87 form part of these accounts.

**Statement of profit or loss: Non-technical account – general business for the 2014 closed year of account for the three years ended 31 December 2016**

318

Non-technical account

	£000
<b>Balance on the general business technical account</b>	28,446
Income from investments	2,589
Realised losses on investments	(362)
Unrealised losses on investments	(283)
Investment expenses and charges	(144)
Allocated investment return transferred to general business technical account	(1,800)
Profit on exchange	808
<b>Profit for the closed year of account</b>	<b>29,254</b>

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 74 to 87 form part of these accounts.



# 2014 Underwriting Year of Account

## Balance sheet as at 31 December 2016

	Note	£000	£000
<b>Assets</b>			
<b>Investments</b>			
Other financial investments	8		93,211
			<hr/>
			93,211
<b>Debtors</b>			
Debtors arising out of direct insurance operations	9	62	
Debtors arising out of reinsurance operations	10	1,128	
Other debtors		499	
			<hr/>
			1,689
<b>Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account</b>			
	5		7,039
<b>Other assets</b>			
Cash at bank and in hand			422
<b>Prepayments and accrued income</b>			
		–	
<b>Total assets</b>			<hr/>
			102,361

The notes on pages 74 to 87 form part of these accounts.

	Note	£000	£000
<b>Liabilities</b>			
<b>Capital and reserves</b>			
Amounts due to members			29,096
<b>Reinsurance to close premiums payable to close the account – gross amount</b>	5		64,941
<b>Creditors</b>			
Creditors arising out of direct insurance operations	11	113	
Creditors arising out of reinsurance operations	12	490	
Other creditors including taxation and social security		406	
			1,009
Accruals and deferred income			7,315
<b>Total liabilities</b>			102,361

The financial statements on pages 68 to 87 were approved by the Board of Beaufort Underwriting Agency Limited on 16 March 2017 and were signed on its behalf by

**D. C. Eales**

*Active Underwriter and  
Director of Underwriting*

**G. M. Tuck**

*Finance Director*

20 March 2017

The notes on pages 74 to 87 form part of these accounts.

# 2014 Underwriting Year of Account

## Statement of members' balances for the 36 months ended 31 December 2016

	£000
Members' balances brought forward at 1 January	–
Profit for closed year of account	29,254
Members' agents fees	(158)
Members' balances carried forward at 31 December 2016	29,096

The notes on pages 74 to 87 form part of these accounts.

## Statement of cash flows for the 36 months ended 31 December 2016

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	Note	£000
<b>Closed year cash flow</b>		
<b>Cash flows from operating activities</b>		
Profit for the year		29,254
Unrealised losses on investments		283
Net realised foreign exchange gains		(8,157)
Non cash consideration received as part of RITC received	15	(87,206)
RITC premium payable net of reinsurance		57,902
Acquisitions of other financial instruments		(76,389)
Proceeds from sale of other financial instruments		87,731
Increase in debtors, subrogation and salvage and prepayments		(540)
Decrease in creditors		(2,299)
<b>Net cash inflow from operating activities</b>		<b>579</b>
<b>Net cash flow from financing activities:</b>		
Members' agents' fees paid on behalf of members		(157)
<b>Net cash outflow from financing activities</b>		<b>(157)</b>
<b>Net increase in cash and cash equivalents</b>		<b>422</b>
Cash and cash equivalents at 1 January		–
Effect of exchange rate changes on cash and cash equivalents		–
<b>Cash and cash equivalents at 31 December</b>	16	<b>422</b>

The notes on pages 74 to 87 form part of these accounts.

# 2014 Underwriting Year of Account

## Notes to the accounts for the 36 months ended 31 December 2016

### 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 2014 year of account which has been closed by reinsurance to close at 31 December 2016; consequently the balance sheet represents the assets and liabilities of the 2014 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 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 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.

# 2014 Underwriting Year of Account

## Notes to the accounts for the 36 months ended 31 December 2016 *continued*

### 2 Accounting policies *continued*

#### Reinsurance to close premium payable

- (e) The reinsurance to close premium paid was closed into the 2015 year of account at 31 December 2016.

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.

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.

## 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.



# 2014 Underwriting Year of Account

## Notes to the accounts for the 36 months ended 31 December 2016 *continued*

### 2 *Accounting policies 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.

## 2 Accounting policies *continued*

### (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.

# 2014 Underwriting Year of Account

## Notes to the accounts for the 36 months ended 31 December 2016 *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 13, and more detailed definitions of these risks and further explanation on how they affect the Syndicate are detailed in notes on page 33.

Effective from the 31 December 2016, the RITC process means that the Insurance, Financial, Credit, Liquidity, Market and Capital risks are transferred to the accepting 2015 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
<b>Direct insurance:</b>					
Marine aviation and transport	6,050	(3,688)	(1,366)	(864)	132
Fire and other damage to property	94,093	(43,519)	(27,432)	(9,538)	13,604
Third party liability	–	(157)	–	–	(157)
<b>Reinsurance acceptances</b>	138,061	(96,365)	(18,997)	(10,179)	12,520
<b>Total</b>	238,204	(143,729)	(47,795)	(20,581)	26,099

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 2013 and prior years of account. The gross premiums written include £67,893,239 of reinsurance acceptances from the 2013 and prior years reinsurance to close premium. Reinsurance balances include £8,248,612 of reinsurance recoverables from the 2013 and prior years reinsurance to close premium.

#### Geographical analysis by destination

	Gross premiums written £000
UK	79,508
US	98,271
Other	60,425
<b>Total</b>	<b>238,204</b>

#### 5 Reinsurance to close premium payable net of reinsurance

	Reported £000	IBNR £000	Total £000
Gross outstandings	42,054	22,887	64,941
Reinsurance recoveries anticipated	(6,954)	(85)	(7,039)
<b>Net</b>	<b>35,100</b>	<b>22,802</b>	<b>57,902</b>

# 2014 Underwriting Year of Account

## Notes to the accounts for the 36 months ended 31 December 2016 *continued*

### 6 Analysis of result by year of account

	2013 & prior years of account £000	2014 pure year of account £000	Total £000
Technical account balance before allocated investment return and net operating expenses	10,313	63,582	73,895
Brokerage and commission on gross premium	–	(30,232)	(30,232)
	10,313	33,350	43,663

### 7 Net operating expenses

	£000
Acquisition costs	35,651
Administrative expenses	12,144
	47,795

The closed year profit is stated after charging:

	£000
Auditors' remuneration	
Audit – Mazars LLP	134
– KPMG LLP	35
Operating lease rentals	
Property	355

### 8 Financial investments

	Market value £000	Cost £000
Holdings in collective investment schemes	12,009	12,009
Debt securities and other fixed income securities	75,710	75,611
Overseas deposits as investments	5,492	5,492
Total investments	93,211	93,112

### 9 Debtors arising out of direct insurance operations

	£000
Due within one year	62
	62

#### 10 Debtors arising out of reinsurance operations

	£000
.....	
Due within one year	1,128
	1,128

#### 11 Creditors arising out of direct insurance operations

	£000
.....	
Due within one year	113
	113

#### 12 Creditors arising out of reinsurance operations

	£000
.....	
Due within one year	490
	490

#### 13 Post balance sheet events

The reinsurance premium paid to close the 2014 year of account at 31 December 2016 was agreed by the Board of the Managing Agency on the 7 February 2017. Consequently the technical provisions at 31 December 2016 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 £29,095,554 will be transferred to members' personal reserve funds on 11 April 2017 in respect of the 2014 year of account.

# 2014 Underwriting Year of Account

## Notes to the accounts for the 36 months ended 31 December 2016 *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](http://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 2016.

For the 2015, 2016 and 2017 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2015	214,357	91.2
2016	214,357	91.2
2017	214,357	91.2

#### Other disclosures

M.J. Cox (resigned 23 June 2016) 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 was 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 2014 year of account, Gross Written Premiums under these contracts amounted to £624,989. Brokerage paid to BCL amounted to £171,919.

#### 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 £146,499 for the 2014 year. Actual and anticipated recoveries under these arrangements amount to £Nil as at 31 December 2016.

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

##### **Great Lakes Reinsurance (UK) SE (“GLUK”)**

For the 2014 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 disclosed in the profit and loss account as other technical income.

In respect of the 2014 year of account, the Syndicate received £327,482 and US\$272,795 in the calendar year.



# 2014 Underwriting Year of Account

## Notes to the accounts for the 36 months ended 31 December 2016 *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 2016 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 2014 year of account amounted to £1,527,788.

Profit commission of £7,313,507 has been accrued in respect of the 2014 year of account.

Expenses totalling £8,402,476 were recharged to the Syndicate in 2014 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 comprises:	
Portfolio investments	96,680
Debtors	1,149
Creditors	(10,623)
<b>Non cash consideration received</b>	<b>87,206</b>
Cash	1,518
Total cash and non cash consideration for RITC received	88,724
Amounts payable to members’ on closure of the 2013 year of account	(36,428)
<b>Reinsurance to close premiums received, net of reinsurance received at 31 December 2016</b>	<b>52,296</b>
Profit on foreign exchange	7,349
<b>Reinsurance to close premiums received, net of reinsurance</b>	<b>59,645</b>

## 16 Movement in opening and closing portfolio investments net of financing

	At 1 January 2014 £000	Received within RITC premium £000	Cash flow £000	Change in fair value and foreign exchange £000	£000	At 31 December 2016 £000
Cash	–	1,518	(1,096)	–	–	422
Portfolio investments	–	96,680	(11,342)	7,873	–	93,211
<b>Total portfolio investments</b>	–	98,198	(12,438)	7,873	–	93,633

## 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.

	2008	2009	2010	2011	2012	2013	2014
Syndicate allocated capacity	£201.51m	£201.83m	£225.04m	£224.89m	£234.98m	£234.83m	<b>£235.04m</b>
Capacity utilised	74.4%	73.7%	55.3%	56.7%	58.7%	54.6%	<b>59.6%</b>

### Results for an illustrative share of £10,000

	£	£	£	£	£	£	£
Gross premiums (net of brokerage)	7,438	7,367	5,527	5,674	5,872	5,463	<b>5,960</b>
Net premiums	5,660	5,613	4,392	4,618	4,937	4,413	<b>4,947</b>
Reinsurance to close from an earlier account	3,899	4,425	3,910	3,397	2,779	2,589	<b>2,538</b>
Net claims	(5,656)	(3,931)	(4,019)	(3,725)	(3,362)	(2,435)	<b>(3,163)</b>
Reinsurance to close	(4,400)	(4,502)	(3,446)	(2,788)	(2,501)	(2,227)	<b>(2,463)</b>
Profit/(loss) on exchange	145	1	(10)	(4)	23	27	<b>34</b>
Net operating expenses	(264)	(285)	(257)	(281)	(295)	(341)	<b>(303)</b>
Balance on technical account	(616)	1,321	570	1,217	1,581	2,026	<b>1,590</b>
Investment income and gains less losses, less expenses and charges	99	82	66	75	45	39	<b>77</b>
Profit/(loss) before personal expenses	(517)	1,403	636	1,292	1,626	2,065	<b>1,667</b>
Illustrative personal expenses for a traditional Name							
Managing agent's salary	(65)	(65)	(65)	(65)	(65)	(65)	<b>(65)</b>
Central Fund contributions	(33)	(36)	(29)	(29)	(10)	(26)	<b>(23)</b>
Profit commission	–	(147)	(103)	(234)	(305)	(389)	<b>(311)</b>
Lloyd's subscription	(33)	(36)	(29)	(29)	(24)	(26)	<b>(23)</b>
	(131)	(284)	(226)	(357)	(404)	(506)	<b>(422)</b>
Profit/(loss) after illustrative profit commission and illustrative personal expenses	(648)	1,119	410	935	1,222	1,559	<b>1,245</b>

For the 2014 year of account, an illustrative share of £10,000 represents 0.00425% 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.

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