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Report and Accounts 31 December 2017

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MSF Pritchard
Syndicate 318

Beaufort Underwriting Agency Limited

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

2017 Annual accounts

2015 Underwriting year of account

Beaufort Underwriting Agency Limited

2017 calendar year

£157.4m (2016: £136.6m)
gross premiums written

1.2% (2016: 1.2%)
annual investment yield

(£68.7m) (2016: £4.6m profit for the year)
loss for year

£235m
2017 capacity

154.2% (2016: 98.2%)
Combined ratio including Managing Agency fee and profit commission

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:

C.J.W. Czapiewski	*(non-executive)*
D.C. Eales	
A. Hoffmann	
M.A. Langston	
R.J. Martin	*(non-executive)*
C.A.A. Niebuhr	*(non-executive)*
R.A. Pexton	*(non-executive chairman)*
G.M. Tuck	

Company secretary

P.S. O'Neill	*(appointed 19 December 2017)*
L.R. Crust	*(appointed 10 August 2017, resigned 18 December 2017)*
B. Arzur-Kean	*(resigned 9 August 2017)*

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 2017.

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 applicable 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 2015 underwriting year of account, which closed at 31 December 2017. These are incorporated into this document on pages 59 to 87.

Result for the 2017 Calendar Year

For the year ended 31 December 2017, Syndicate 318 has generated an overall loss of (£68.7m) compared to a profit of £4.6m in 2016, and a combined ratio of 154.2% (2016: 98.2%).

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

	2015 and Prior Years of Account £000	2016 Year of Account £000	2017 Year of Account £000	2017 Calendar Year Combined £000	2016 Calendar Year Combined £000
Gross Earned Premium	1,821	67,554	83,841	153,216	140,782
Reinsurer's Share	364	(5,161)	(17,924)	(22,721)	(19,315)
Net Earned Premium	2,185	62,393	65,917	130,495	121,467
Gross Claims Paid	(37,599)	(52,906)	(48,132)	(138,637)	(72,652)
Reinsurer's Share	2,419	2,212	3,102	7,733	5,164
Net Claims Paid	(35,180)	(50,694)	(45,030)	(130,904)	(67,488)
Change in provision for gross claims	55,429	(29,849)	(138,528)	(112,948)	(15,089)
Change in provision for reinsurer's share	(4,014)	13,463	74,873	84,323	(626)
Change in provision for net claims	51,415	(16,386)	(63,655)	(28,625)	(15,715)
Other technical income, net of reinsurance	13	299	82	394	418
Net Operating Expenses	(4,586)	(17,877)	(22,176)	(44,639)	(44,419)
Balance on Technical Account	13,847	(22,265)	(64,861)	(73,279)	(5,737)
Net Investment Income	1,266	728	25	2,019	2,364
Profit on exchange	(2,409)	2,478	2,501	2,570	7,959
Profit/(loss) for the financial year	12,704	(19,059)	(62,335)	(68,690)	4,586

Principle Activities

The principal activity of Syndicate 318 is the transaction of general insurance and reinsurance business written 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, with the largest proportion 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 2017. 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 above:

KPI	2017	2016
Gross premiums written	£157.4m	£136.6m
Reinsurance premiums	£22.2m	£19.3m
(Loss)/profit for the year	(£68.7m)	£4.6m
Gross loss ratio	164.2%	62.3%
Net loss ratio	122.2%	68.5%
Operating expense ratio	34.2%	36.6%
Combined ratio	154.2%	98.2%
Annual investment yield	1.2%	1.2%
Syndicate capacity	£235m	£235m

Underwriting and reinsurance

The level of gross written premiums in the calendar year has increased to £157.4m from £136.6m written in 2016. The Syndicate increased the amount of premium income written on the Property account, particularly on binding authorities for US coverholders. This has been an area of the business where rating has held up relatively well, in contrast to other areas of the business in recent years. The direct and facultative part of the account also saw modest increases in the level of business written in the year. The rating environment for Property business was generally flat in the year, although following the active North Atlantic windstorm season, rates began to increase in the last quarter of the year.

The Aviation market continued to be poorly rated, with the Syndicate reducing the amount of premium income written in this area by operating a disciplined approach to risk selection, in a difficult market. There appears to be little prospect for improvements in the near future.

The effect of foreign exchange has increased the level of premium written by almost £6m in the year, as the average rate of exchange for US dollars, used to revalue the profit and loss account, has moved to US$1.29 to the pound, from $1.35 in the previous accounting period. This was due to lower Sterling values in the first half of 2018, followed by a strengthening towards the end of the year.

Gross earned premiums for the year are £153.2m, 9% higher than the £140.8m earned in 2016. The increase in gross earned premiums is slightly lower than the increase in written premiums, as the pattern of binder earnings is generally slower than open market business.

	£000s
Gross premiums written 2016	136,589
Increase in premium income from rate of exchange	5,958
Increase in premiums in the year	14,839
Gross premiums written in 2017	157,386

The composition of the account is broadly consistent with last year, although the proportion of property business written under binding authorities is now marginally higher. The table above illustrates the split of gross written premium between classes on business written and incepted in the year.

Gross written premiums	2017 %	2016 %
Aviation	5.6	7.3
Property – Direct and Facultative	64.3	66.0
Property – Binding Authorities	30.1	26.7
	100%	100%

The reinsurance premiums ceded in the year have risen to £22.2m from £19.3m in 2016. The overall spend on the programme in currency was lower than in 2016, as the Syndicate obtained reductions in reinsurance costs for the Aviation account. The Syndicate was also able to obtain more comprehensive coverage for the Property programme in the year, as the reinsurance market continued to be competitive. However, a combination of reinstatement premiums payable, following the active North Atlantic Windstorm season, and rate of exchange translation differences, has led to an increase in the overall cost of reinsurance.

The reinsurance premium earned in the year of £22.7m (£19.3m 2016) closely tracks the reinsurance written, owing to the high proportion of reinsurance premium earned in the US windstorm season, and the continuity in the structure of the reinsurance programmes.

Technical Result

The calendar year technical result before investment return comprises profits and losses on the open and closing years of account. The current accident year has been severely affected by the losses from Hurricane's Harvey, Irma, and Maria, which are collectively known as the "HIM" losses. In addition to these losses, there have also been a number of smaller catastrophe events during the year. This has been the largest loss year to the insurance market from natural catastrophes since 2005, and has contributed to the Syndicate's worst technical loss.

There have been positive reserve movements in the year, particularly on the 2014 and prior years of account, and to a lesser extent 2015. These have mostly been on Property reserves but also on Aviation, amounting to £10.7m.

The strengthening of Sterling against the US Dollar at the end of the year has reduced the overall loss for the year.

Contribution of 2017 year of account to the calendar year result

The 2017 year of account has contributed a loss for the calendar year, before investment income, of £62.3m. This is much greater than the loss of £24.0m posted for the 2016 year of account in calendar year 2016. The most significant driver of the result was from the HIM losses between August and September in the US. The North Atlantic windstorm season was particularly active in terms of both frequency and severity. Although, the losses were at the more severe end of those experienced by the Syndicate, we have not been affected by them disproportionately, and our loss estimates are not out of line with our expectations of these types of events. Our reinsurance programme has also responded well, and has mitigated a large proportion of the losses.

There were also a number of smaller catastrophe events in the year which fell below the retention levels of the Syndicate's reinsurance programme, including two earthquakes in Mexico.

The table below summaries the large property losses from catastrophe type events in the year:

Loss	Gross £(m)	Net £(m)
Hurricane Harvey	41.9	22.4
Hurricane Irma	58.9	6.8
Hurricane Maria	32.9	19.3
Earthquakes Mexico	5.6	5.6
California Wildfires	2.5	2.5
Tropical Storm Lidia	1.2	1.2
	143.0	57.8

After the inclusion of reinstatement premiums payable, the net catastrophe losses for the year increase to £65m.

There were also five individual risk losses of around or in excess of a million pounds, which aggregated to £5.8m.

There have been no major claims on the Aviation account on the 2017 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 'accrued' 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 £22.2m, which is an increase from £21.1m charged to the 2016 underwriting year at the same stage. The loss position on 2017 has meant that no profit commission has been accrued to date. The increased level of premium and rate of exchange movements have increased the acquisition costs in the year. As this increase was largely from binding authorities, a large proportion of the increase has been deferred to 2018.

The investment return for the year was £25,554, in respect of the 2017 underwriting year.

Profit on exchange in the year was £2.5m on the 2017 underwriting year. The US dollar deficit was reduced when reconverted into Sterling at closing rates of exchange.

Members' balances stand at an overall deficit of £62.3m.

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 £19.8m. The Property account has suffered from a particularly high incidence of natural catastrophe losses in the year, following an extremely active North Atlantic Windstorm Season. There were also a number of smaller catastrophe losses in the year.

The table above summaries the large property losses from catastrophe type events in the year:

Loss	Gross £(m)	Net £(m)
Hurricane Harvey	8.5	4.2
Hurricane Irma	10.7	1.6
Hurricane Maria	5.5	3.3
US Tornados Losses	4.6	4.6
Earthquakes Mexico	4.1	4.1
Tropical Cyclone Debbie	2.2	2.2
Peruvian Floods	1.8	1.8
Californian Wildfires	0.9	0.9
	38.3	22.7

After the inclusion of reinstatement premiums payable, the net catastrophe losses for the year increase to £24m.

There were also four individual risk losses of around or in excess of a million pounds, which aggregated to £5.4m.

There have been relatively little claims experience on the Aviation account, which has performed within expectations.

The technical provisions set at 31 December 2016 were all used in the calendar year, and the Syndicate had to strengthen reserves on the prior year for the 2016 year of account. This was due to greater than expected loss frequency in the early part of 2017.

Net operating expenses are £17.8m, against a comparative figure of £17.3m in calendar year 2016. Most of this increase has come from an increase in brokerage. The other expense classifications have remained relatively consistent.

The investment return for the calendar year attributable to the 2016 underwriting year of account produced net investment income of £0.73m.

Profit on exchange in the year was £2.5m on the 2016 underwriting year.

Members' balances currently stand at an overall deficit of £43.1m, after standard personal expenses. We are forecasting a loss in the range of 15.4% – 20.4% upon closure of the 2016 year of account.

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 £11.4m. In 2017, there has been an improvement of £10.8m on closed year reserves, which makes up the largest proportion of the result. The reserves set on the 2015 pure year of account at the end of last year have also proved robust, and we have experienced positive claims development. There is also an exchange loss of £2.4m, owing primarily to the weakening of the US dollar against Sterling at the year end.

Net operating expenses are £4.6m; 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 £12.7m.

The 2015 year of account has closed at a profit of £25.1m, and a result to a traditional name of 10.7%.

Operating Expenses

	2015 and Prior Years of Account £000	2016 Year of Account £000	2017 Year of Account £000	2017 Calendar Year Combined £000	2016 Calendar Year Combined £000
Acquisition Costs (Brokerage)	(641)	(15,845)	(13,512)	(29,998)	(26,737)
Acquisition Costs (Other)	(268)	(1,485)	(4,679)	(6,432)	(5,954)
Administrative Expenses	(501)	(247)	(1,275)	(2,023)	(2,161)
Standard Personal Expenses	–	(300)	(2,710)	(3,010)	(2,415)
Managing Agents Profit Commission	(3,176)	–	–	(3,176)	(7,152)
Net Operating Expenses	(4,586)	(17,877)	(22,176)	(44,639)	(44,419)

As in previous years, acquisition costs (brokerage) represent the largest single expense item in 2017. 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 2015 year of account. No profit commission has been accrued on the 2016 and 2017 years of account as they are in a loss position.

Profit and loss on exchange

The profit on exchange for the year is £2.6m (2016: £7.96m). 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 Sterling against the US dollar, which has reduced the overall loss. 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 2014 year of account profits.

Profit and loss on exchange	2015 and Prior Years of Account £000	2016 Year of Account £000	2017 Year of Account £000	Total £000
Profit/(loss) on currency translation of opening balances and calendar year profits	(2,630)	2,319	2,484	2,173
Profit on other transactions in the year	221	159	17	397
Profit/(loss) on exchange	(2,409)	2,478	2,501	2,570

Investment Performance

		2017 '000	%	2016 '000	%
Average Amount of Syndicate Funds		£175,477		£204,049	
Investment Return		£2,132	1.22%	£2,518	1.23%
By Currency:					
Sterling:*	Average Funds	£12,658		£11,352	
	Investment Return	(£69)	(0.54%)	£69	0.61%
US Dollar:	Average Funds	US$196,556		US$246,072	
	Investment Return	US$2,559	1.30%	US$3,012	1.22%
Canadian Dollar:	Average Funds	Can$17,502		Can$18,722	
	Investment Return	Can$115	0.66%	Can$113	0.60%

*Includes investment manager's fees of £148,294 (2016: £154,315).

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 Board. 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 2017 (Provided by Amundi UK Ltd)

The investment portfolio performed very well in a year in which US rates moved up and fiscal stimulus was implemented.

The year started with the inauguration of Donald Trump as the president of the United States. Global economic data continued to hold up well which in turn helped to support a positive backdrop for most risk assets. In the UK, Article 50 was triggered in March and in May Emmanuel Macron won the French elections. The ensuing relief saw European risk assets enjoy a strong run that lasted all the way into the year end. In the US, the May FOMC meeting concluded that slightly weak US growth in the first quarter would be short lived and that the rate hiking cycle was likely to continue, and indeed in June the Fed did hike rates by another 25 bps, taking US rates to between 1% and 1.25%. The second half of the year saw the theme of central bank tightening become more pronounced with the Bank of Canada going first with a rate rise. The ECB outlined plans to halve the value of bonds bought from €60 bn to €30 bn per month, starting from January 2018, and bond buying would continue to at least the end of 2018, which markets took to be dovish. In response, German bunds outperformed other developed markets bonds, especially US treasuries, although some of this performance was given up by the end of the year. The Bank of England (BoE) raised rates for the first time since the financial crisis with a base rate increase from 25 bps to 50 bps. A new head of the Federal Reserve was appointed and, as widely expected, it was Jerome Powell, who is already on the board of governors for the bank, so the news had little market impact, as policy continuity is widely expected. Towards the end of the year, the price of crude oil edged up to around the $60 per barrel mark, as supply tightened following a producer agreement to limit oil output into 2018. In December, the US Federal Reserve raised the Fed funds rate by another 25 bps, to 1.25% to 1.5%, citing continuing improvements in the labour market and a general recovery to economic activities following the disruption caused by hurricanes. In late December, president Trump signed the “Tax Cuts and Jobs Act” into law. The new tax bill cuts corporate taxes and provides individuals with temporary tax relief, questions have been raised around the bill’s impact on the government’s deficits and reduced tax revenue.

The aggregate USD portfolio returned 1.38% during 2017, beating the benchmark’s 1.03% by 35bps. Returns were above the mid-point of the range of expectations provided at the start of the year. Performance was driven by the additional yield on corporate bond holdings and through spread tightening of these securities. Duration positioning was increased towards the end of the year to take advantage of higher yields.

Outlook

Growth across the US, Europe and Emerging Markets is currently the strongest since the financial crisis, which we believe will be a catalyst for more rate rises to come from the US Fed in 2018. Additionally, the Fed will be reducing their balance sheet through less re-investment of maturing bonds and coupon proceeds, potentially leading to higher treasury yields. The ECB has taken similar actions and will from January, halve the rate of bond buying. The Bank of England may also join this band of tightening central banks as already demonstrated by their November rate hike. High levels of liquidity and a higher yield pick-up remains very important, and we continue to seek out opportunities to add high quality agencies and corporate bonds to the portfolio to achieve this.

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 2017 in the table below:

	Aviation	Property – Direct and Facultative	Property – Binding Authorities
Proportion of business written where the Syndicate is the lead underwriter	49%	50%	43%
Proportion of business written which has been renewed by the Syndicate	96%	87%	92%

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
Derek Eales	*Active Underwriter*	33	33
Nick Chalk	*Class Underwriter Property – Direct and Facultative*	18	20
Steve Anderson	*Class Underwriter Property – Binding Authorities*	9	29
Simon Herring	*Class Underwriter Aviation*	16	34

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 2017
Percentage of claims responded to within target response time	100.0%
Percentage of claims meeting internal reserving accuracy target	99.5%
Percentage of claims meeting adjustment and settlement targets	99.2%

The overall performance against the agreed targets has been very good in 2017, with generally high average scores against the metrics set, against a backdrop of a high level of catastrophe losses.

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.

Brexit

The Board will continue to monitor developments surrounding the United Kingdom's decision to leave the European Union, and endeavour to make the best decisions for our capital providers, and policyholders.

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 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 considers 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 reinsurance 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 the 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.

Product Oversight and Governance Committee

The Product Oversight and Governance (POG) committee has the delegated authority of the Board to provide guidance and critical assessment of conduct risk issues thereby ensuring compliance with Lloyd's and the FCA's principles concerning conduct, and to assist the Board in this regard. As such, the POG supports the Board in establishing a positive corporate culture in respect of Conduct Risk which ensures that customers are treated fairly at all times.

Future Developments

Following the scale and severity of the catastrophe losses in the year, the Syndicate resubmitted the 2018 Syndicate Business Plan to Lloyd's with upwards expectations of premium income, and profitability. In aggregate, the Syndicate has planned to increase its premium income for the Property account by around a quarter, as a direct consequence of the losses, and underlying non-catastrophe results.

The early signs of rate increases have been encouraging, with underwriters being able to negotiate increases in premiums, as well as improvements in terms and conditions. The Market is still in the process of absorbing the impact of the losses, and the key renewal period of April to July will provide a better barometer of the relative strength of property rates. With so many of our insureds affected by losses, we would expect improvements across most areas of the book.

The reinsurance market currently appears to be managing the losses from a capital perspective, with the large traditional reinsurers adopting a business as usual approach. Elsewhere, collateralised reinsurers have been able to recapitalise and continue to trade into the coming year. Whilst, we anticipate significant rate increases in the reinsurance market, we still expect to be able to purchase a reinsurance programme that provides value and comprehensive coverage. The availability of reinsurance is likely to allow primary insurers to continue to write their portfolios, although this could temper rate increases.

We currently do not see the catastrophe losses as market turning events across all lines of business, and consequently, as one of the few improving classes, property business will continue to be an area where composite insurers wish to participate.

The turning of the property market is certainly welcome, and overdue. Although, there is still some way to go for a sustainable rating environment, the improvements so far certainly represent a step in the right direction.

Directors

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

Directors:

C.J.W. Czapiewski	*(non-executive)*
D.C. Eales	
A. Hoffmann	
M.A. Langston	
R.J. Martin	*(non-executive)*
C.A.A. Niebuhr	*(non-executive)*
R.A. Pexton	*(non-executive chairman)*
G.M. Tuck	

Company secretary

P.S. O'Neill	*(appointed 19 December 2017)*
L.R. Crust	*(appointed 10 August 2017, resigned 18 December 2017)*
B. Arzur-Kean	*(resigned 9 August 2017)*

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 15 March 2018

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

Opinion

We have audited the financial statements of Syndicate 318 for the year ended 31 December 2017 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

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

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 17, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

Mark Taylor (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
16 March 2018

Statement of profit or loss for the year ended 31 December 2017

Technical account – general business

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Earned premiums, net of reinsurance					
Gross premiums written	5	157,386		136,589	
Outward reinsurance premiums		(22,222)		(19,264)	
Change in the provision for unearned premiums					
Gross amount		(4,170)		4,193	
Reinsurers' share		(499)		(51)	
	17		130,495		121,467
Allocated investment return transferred from the non-technical account	10		2,019		2,364
Other technical income, net of reinsurance			394		418
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	5	(138,637)		(72,652)	
Reinsurers' share		7,733		5,164	
	17	(130,904)		(67,488)	
Change in the provision for claims					
Gross amount	5	(112,948)		(15,089)	
Reinsurers' share		84,323		(626)	
		(28,625)		(15,715)	
			(159,529)		(83,203)
Net operating expenses	7		(44,639)		(44,419)
Balance on the technical account – for general business			(71,260)		(3,373)

All items relate only to continuing operations.

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

Non-technical account

	Note	2017 £000	2016 £000
Balance on the general business technical account		(71,260)	(3,373)
Investment income	10	2,259	2,568
Realised gains on investments		36	7
Unrealised gains on investments		–	202
Realised losses on investments		(82)	(259)
Unrealised losses on investments		(46)	–
Investment expenses and charges		(148)	(154)
Allocated investment return transferred to general business technical account	10	(2,019)	(2,364)
Profit on foreign exchange		2,570	7,959
(Loss)/profit for the financial year		(68,690)	4,586

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 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Assets					
Investments					
Other financial investments	11		124,380		205,885
Reinsurers' share of technical provisions	17				
Provision for unearned premiums		2,850		3,621	
Claims outstanding		88,977		9,030	
			91,827		12,651
			216,207		218,536
Debtors					
Debtors arising out of direct insurance operations	12	29,908		30,588	
Debtors arising out of reinsurance operations	13	9,270		5,470	
Other debtors		471		673	
			39,649		36,731
Other assets					
Cash at bank and in hand	19		3,702		422
Prepayments and accrued income					
Deferred acquisition costs	14	15,604		15,190	
Other prepayments and accrued income		490		864	
			16,094		16,054
Total assets			275,652		271,743

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

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Liabilities					
Capital and reserves					
Members' balances			(80,785)		17,145
Technical provisions	17				
Provision for unearned premiums		64,128		64,782	
Claims outstanding		269,667		173,051	
			333,795		237,833
Creditors					
Creditors arising out of direct insurance operations	18	1,825		1,223	
Creditors arising out of reinsurance operations	18	7,082		4,311	
Other creditors including taxation and social security	18	7,391		806	
Accruals and deferred income		6,344		10,425	
			22,642		16,765
Total liabilities			275,652		271,743

The financial statements on pages 20 to 58 were approved by the Board of Beaufort Underwriting Agency Limited on 15 March 2018 and were signed on its behalf by

D. C. Eales
Active Underwriter and
Director of Underwriting

G. M. Tuck
Finance Director

16 March 2018

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

Statement of changes in members' balances for the year ended 31 December 2017

	2017 £000	2016 £000
Members' balances brought forward at 1 January	17,145	49,146
(Loss)/profit for the year	(68,690)	4,586
Members' agents fees	(144)	(159)
Payments of profit to members' personal reserve fund	(29,096)	(36,428)
Members' balances carried forward at 31 December	(80,785)	17,145

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 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
(Loss)/profit for the year		(68,690)	4,586
Adjustments:			
Net losses on other financial instruments		50	15
Net unrealised foreign exchange gains		15,923	(37,307)
Net interest and dividends receivable	10	2,019	2,364
Interest received		(2,019)	(2,364)
Movements in operating assets and liabilities:			
Acquisitions of other financial instruments		(83,334)	(89,519)
Proceeds from sale of other financial instruments		148,866	124,047
Increase in reinsurers share of technical provisions		(79,176)	(1,040)
Decrease in deferred acquisition costs		(414)	(2,039)
Decrease in debtors, subrogation and salvage and prepayments		(2,544)	(1,361)
Increase in technical provisions		95,962	42,652
Increase/(decrease) in creditors		9,958	(2,557)
Increase in accruals and deferred income		(4,081)	(1,986)
Net cash inflow from operating activities		32,520	35,491

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

Statement of cash flows for the year ended 31 December 2017 *continued*

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Net cash flow from financing activities:					
Transfer to members in respect of underwriting participations		(29,096)		(36,428)	
Members' agents' fees paid on behalf of members		(144)		(159)	
Net cash outflow from financing activities			(29,240)		(36,587)
Net increase/(decrease) in cash and cash equivalents			3,280		(1,096)
Cash and cash equivalents at 1 January			422		1,518
Cash and cash equivalents at 31 December	19		3,702		422

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

(l) Taxation

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

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

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

(m) Pension costs

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

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 financial risks to the Investment Committee, which is responsible for developing and monitoring financial risk management policies. The Underwriting Committee monitors the Syndicate's premiums income, pricing, and terms and conditions.

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 annually 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.

2017

	Motor £000	Marine, aviation and transport £000	Fire and other damage to property £000	Total £000
UK	–	2,339	344	2,683
Other Europe	–	661	4,793	5,454
US	359	–	99,669	100,028
Canada	–	38	5,028	5,066
Rest of World	–	5,635	38,520	44,155
Total	359	8,673	148,354	157,386

2016

	Motor £000	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
Total	175	9,825	126,589	136,589

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:

	2017 5 per cent increase £000	5 per cent decrease £000	2016 5 per cent increase £000	5 per cent decrease £000
Marine, aviation and transport	(435)	435	(666)	666
Fire and other damage to property	(8,937)	8,937	(6,941)	6,941
Motor	(4)	4	(4)	4
Total	(9,376)	9,376	(7,611)	7,611

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.

2017	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
Debt securities and other fixed income securities	28,018	58,464	23,586	5,810	–	115,878
Deposits with credit institutions	4,025	900	944	509	2,124	8,502
	32,043	59,364	24,530	6,319	2,124	124,380
Reinsurers' share of technical provisions	–	8,316	57,610	–	23,051	88,977
Direct insurance debtors	–	–	–	–	22,422	22,422
Other debtors	–	–	–	–	471	471
Cash at bank and in hand	–	–	3,702	–	–	3,702
Total	32,043	67,680	85,842	6,319	48,068	239,952

4 Risk and capital management *continued*

2016	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
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
Total	60,740	95,130	50,246	7,771	24,084	237,971

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.

2017	Current £000	0-3 months £000	3-6 months £000	6-12 months £000	> 12 months £000	Impaired £000	Total £000
Receivables from direct insurance	22,422	4,016	2,266	1,187	17	–	29,908
Receivables from reinsurance	4,980	–	–	–	–	–	4,980
Other debtors	471	–	–	–	–	–	471

2016	Current £000	0-3 months £000	3-6 months £000	6-12 months £000	> 12 months £000	Impaired £000	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

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.

2017			Undiscounted net cash flows			
	Carrying amount £000	Total cash flows £000	Less than 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	17,511	17,511	17,511	–	–	–
Debt securities	97,955	96,832	39,771	47,536	8,257	1,268
Deposits with credit institutions	8,502	8,502	8,502	–	–	–
Reinsurers share of technical provisions	91,827	91,827	16,159	31,222	41,559	2,887
Debtors and accrued interest	40,061	40,061	40,061	–	–	–
Cash at bank and in hand	3,702	3,702	3,702	–	–	–
Total assets	259,558	258,435	125,706	78,758	49,816	4,155
Technical provisions	333,795	333,795	87,076	114,608	118,667	13,444
Creditors	16,298	16,298	16,298	–	–	–
Total liabilities	350,093	350,093	103,374	114,608	118,667	13,444

4 Risk and capital management *continued*

2016	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
Financial investments:						
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	–	–	–
Total assets	255,689	259,733	155,792	72,064	31,339	538
Technical provisions	237,833	237,833	72,212	77,382	79,078	9,161
Creditors	6,340	6,340	6,340	–	–	–
Total liabilities	244,173	244,173	78,552	77,382	79,078	9,161

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 is 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 2017, 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.

2017	Sterling £000	US dollar £000	Canadian dollar £000	Other £000	Total £000
Financial investments					
Shares and other variable yield securities and units in unit trusts	393	9,400	7,718	–	17,511
Debt securities and other fixed income securities	–	98,367	–	–	98,367
Deposits with credit institutions	–	3,016	1,494	3,992	8,502
	393	110,783	9,212	3,992	124,380
Reinsurers' share of technical provisions	989	90,838	–	–	91,827
Debtors	3,743	34,093	1,813	–	39,648
Other assets	3,702	–	–	–	3,702
Prepayments and accrued income	3,525	11,927	642	–	16,094
Total assets	12,352	247,641	11,667	3,992	275,652
Technical provisions	37,551	287,907	8,337	–	333,795
Creditors	7,544	8,748	7	–	16,298
Accruals and deferred income	6,344	–	–	–	6,344
Total liabilities	51,439	296,655	8,344	–	356,437
Net assets	(39,087)	(49,014)	3,324	3,992	(80,785)

4 Risk and capital management *continued*

2016	Sterling £000	US dollar £000	Canadian dollar £000	Other £000	Total £000
Financial investments					
Shares and other variable yield securities and units in unit trusts	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
Total assets	10,476	245,881	12,790	2,596	271,743
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
Total liabilities	44,075	199,790	10,733	–	254,598
Net assets	(33,599)	46,091	2,057	2,596	17,145

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*

	2017 Profit or loss for the year £000	2016 Profit or loss for the year £000
Interest rate risk		
+ 50 basis points shift in yield curves	(512)	(825)
– 50 basis points shift in yield curves	512	825
Currency risk		
10 percent increase in GBP/US dollar exchange rate	4,901	(4,609)
10 percent decrease in GBP/US dollar exchange rate	(4,901)	4,609

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 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 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 and not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 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.

5 Analysis of underwriting result

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

2017	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses* £000	Reinsurance balance £000	Total £000
Direct insurance:						
Motor (other classes)	359	186	(30)	(77)	(77)	2
Marine aviation and transport	3,961	3,210	196	(1,465)	(109)	1,832
Fire and other damage to property	99,015	94,481	(155,581)	(29,037)	51,674	(38,463)
	103,335	97,877	(155,415)	(30,579)	51,488	(36,629)
Reinsurance acceptances	54,051	55,339	(96,170)	(14,060)	17,847	(37,044)
Total	157,386	153,216	(251,585)	(44,639)	69,335	(73,673)

*Includes commissions on direct business of (£21,665,000).

2016	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses* £000	Reinsurance balance £000	Total £000
Direct insurance:						
Motor (other classes)	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)
Total	136,589	140,782	(87,741)	(44,419)	(14,777)	(6,155)

*Includes commissions on direct business of (£17,078,000).

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

Geographical analysis by destination

	2017 Gross premiums written £000	2016 Gross premiums written £000
UK	10,938	11,168
US	102,751	84,788
Other	43,697	40,633
Total	157,386	136,589

6 Claims

Favourable movements of £14.4 million, (2016: £22.2 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

	2017 £000	2016 £000
Acquisition costs:		
Brokerage and commissions	31,431	26,800
Other acquisition costs	6,432	5,953
	37,863	32,753
Change in deferred acquisition costs	(1,433)	(63)
Administrative expenses	2,023	2,161
Members' standard personal expenses	6,186	9,568
Net operating expenses	44,639	44,419

Administrative expenses include:

	2017 £000	2016 £000
Auditors' remuneration:		
– fees payable to the Syndicate auditor for the audit of the Syndicate annual accounts	122	117
– audit related assurance services	67	65
	189	182

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:

	2017 £000	2016 £000
Directors' emoluments	701	655
Pension contributions	36	51
	737	706

Directors' emoluments include severance payments of £Nil in 2017 (2016: £Nil).

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.

	2017 £000	2016 £000
Emoluments	313	290
Pension contributions	–	11
	313	301

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:

	2017 £000	2016 £000
Wages and salaries	4,524	4,366
Social security costs	974	925
Other pension costs	487	501
	5,985	5,792

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:

	2017 No	2016 No
Administration and finance	21	20
Underwriting	16	18
Claims	11	11
	48	49

10 Investment return

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

	2017 £000	2016 £000
Investment income:		
Interest and dividend income	2,259	2,568
Realised gains	36	7
Unrealised gains on investments	–	202
Investment expenses and charges:		
Investment management expenses, including interest	(148)	(154)
Losses on the realisation of investments	(82)	(259)
Unrealised losses on investments	(46)	–
Total investment return	2,019	2,364

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

	2017 £000	2016 £000
Financial assets at fair value through profit or loss	2,167	2,518
Investment management expenses, excluding interest	(148)	(154)
Total investment return	2,019	2,364

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.

	2017 £000	2016 £000
Average amount of Syndicate funds available for investment during the year		
Sterling	12,658	11,352
US dollar	145,597	198,445
Canadian dollar	10,295	11,279
Total funds available for investment, in sterling	168,550	221,076
Total investment return	2,019	2,364
Annual investment yield		
Sterling	(0.54%)	0.61%
US dollar	1.30%	1.22%
Canadian dollar	0.66%	0.60%
Total annual investment yield, in sterling	1.22%	1.23%

11 Financial investments

	Carrying value 2017 £000	Carrying value 2016 £000	Cost 2017 £000	Cost 2016 £000
Shares and other variable yield securities and units in unit trusts	17,511	27,681	17,511	27,681
Debt securities and other fixed income securities	98,367	169,448	98,411	169,228
Government and supranational securities	*47,788*	*69,801*	*47,900*	*69,964*
Asset backed securities	*2,373*	*12,983*	*2,373*	*12,945*
Mortgage backed instruments	*3,437*	*3,624*	*3,442*	*3,595*
Corporate bonds	*44,769*	*83,040*	*44,696*	*82,724*
Deposits with credit institutions	8,502	8,756	8,502	8,756
Total financial investments	124,380	205,885	124,424	205,665

The amount ascribable to listed investments is £79.5 million (2016: £139.4 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

2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	–	17,511	–	17,511
Debt securities and other fixed income securities	66,833	31,534	–	98,367
Deposits with credit institutions	2,821	5,681	–	8,502
Total	69,654	54,726	–	124,380

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
Total	44,750	161,135	–	205,885

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

	2017 £000	2016 £000
Amounts due from intermediaries:		
Due within one year	29,908	30,588
	29,908	30,588

13 Debtors arising out of reinsurance operations

	2017 £000	2016 £000
Amounts due within one year	9,270	5,470
	9,270	5,470

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.

	2017 £000	2016 £000
Balance at 1 January	15,190	13,151
Incurred costs deferred	16,165	14,191
Amortisation	(14,732)	(14,128)
Effect of movements in exchange rates	(1,019)	1,976
Balance at 31 December	15,604	15,190

15 Year of account development

Year of Account	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	Profit before members' agents fees £000
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	12,704	25,098
2016					(24,025)	(19,059)	
2017						(62,335)	
Calendar year result			33,544	33,092	4,586	(68,690)	

A distribution of US$33.6 million to members will be proposed in relation to the 2015 year of account (2016: £29.1 million in relation to the 2014 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 2017 in all cases.

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Estimate of ultimate gross claims								
at end of underwriting year	67,585	70,291	52,851	51,724	44,573	65,907	178,705	
one year later	100,115	105,885	82,654	88,227	84,259	145,564		
two years later	99,922	100,078	73,153	80,189	79,637			
three years later	96,317	97,565	70,737	75,042				
four years later	93,117	97,394	70,042					
five years later	90,771	95,736						
six years later	89,868							
Less gross claims paid	87,528	90,289	64,801	66,599	60,540	63,875	46,047	
Gross ultimate claims reserve	2,340	5,447	5,241	8,443	19,097	81,689	132,658	254,915
Gross ultimate claims reserve for 2010 and prior years								14,752
Gross claims reserves								269,667

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Estimate of ultimate net claims								
at end of underwriting year	66,254	68,744	50,644	49,623	43,880	64,810	104,195	
one year later	95,754	101,374	79,101	86,372	81,283	129,485		
two years later	95,153	94,503	69,650	78,243	76,508			
three years later	91,048	91,620	67,264	73,578				
four years later	87,695	90,192	66,351					
five years later	85,233	88,764						
six years later	84,311							
Less net claims paid	81,986	84,167	61,770	65,188	58,070	61,297	43,082	
Net ultimate claims reserve	2,325	4,597	4,581	8,390	18,438	68,188	61,113	167,632
Net ultimate claims reserve for 2010 and prior years								13,058
Net claims reserves								180,690

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.

	2017 Gross provisions £000	2017 Reinsurance assets £000	2017 Net £000	2016 Gross provisions £000	2016 Reinsurance assets £000	2016 Net £000
Incurred claims outstanding:						
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
Balance at 1 January	173,051	(9,030)	164,021	135,946	(8,502)	127,444
Change in prior year provisions	(77,022)	3,249	(73,773)	(63,926)	2,201	(61,725)
Expected cost of current year claims	328,607	(95,305)	233,302	151,667	(6,739)	144,928
Claims paid during the year	(138,637)	7,733	(130,904)	(72,652)	5,164	(67,488)
Effect of movements in exchange rates	(16,332)	4,376	(11,956)	22,016	(1,154)	20,862
Balance at 31 December	269,667	(88,977)	180,690	173,051	(9,030)	164,021
Claims notified	179,432	(69,314)	110,118	108,836	(8,192)	100,644
Claims incurred but not reported	90,235	(19,663)	70,572	64,215	(838)	63,377
Balance at 31 December	269,667	(88,977)	180,690	173,051	(9,030)	164,021
Unearned premiums						
Balance at 1 January	64,782	(3,621)	61,161	59,235	(3,109)	56,126
Premiums written during the year	157,386	(22,222)	135,164	136,551	(19,264)	117,287
Premiums earned during the year	(153,216)	22,721	(130,495)	(140,744)	(19,315)	(160,059)
Effect of movements in exchange rate	(4,824)	272	(4,552)	9,740	38,067	47,807
Balance at 31 December	64,128	(2,850)	61,278	64,782	(3,621)	61,161

18 Financial liabilities at amortised cost

	2017 £000	2016 £000
Creditors arising out of direct insurance operations	1,825	1,223
Creditors arising out of reinsurance operations	7,082	4,311
Other creditors	7,391	806
Total financial liabilities at amortised cost	16,298	6,340

Other creditors include £7.3 million (2016: £0.7 million) due to related undertakings.

19 Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	3,702	422
Total cash and cash equivalents	3,702	422

20 Related parties

Beaufort Underwriting Agency Limited – Ultimate holding company

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

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

Beaufort Underwriting Agency Limited directors' interests in Munich Re

C.A.A. Niebuhr held 20 shares and A. Hoffmann held 50 shares in Munich Re. None of the other directors of BUAL or their families held shares in Munich Re at 31 December 2017.

For the 2016, 2017 and 2018 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2016	214,357	91.2
2017	214,357	91.3
2018	214,357	91.5

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.

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 2017, Gross Written Premiums under these contracts amounted to £1,241,280 (2016: £56,945) with acquisition costs on Gross Written Premiums amounting to £337,532 (2016: £14,948).

Munich Re Syndicate Limited

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

Münchener Rückversicherungs-Gesellschaft ("Munich Reinsurance Company")

The Syndicate purchases reinsurance protection from Munich Re. Total premiums ceded in respect of these contracts amounted to £183,115 (2016: £138,762). Actual and anticipated recoveries under these arrangements amount to £7,896 as at 31 December 2017 (2016: £40,917).

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 2017, the following amounts have been accrued and are payable to the Syndicate:

2016:	£92,782 and US$38,318
2017:	£39,701 and US$24,242

In respect of the 2015 year of account, the Syndicate received £281,153 and US$198,914 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 £134,500 (2016: £259,733).

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 2017 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 2017 totalled £7,377,150 (2016: £741,117). These amounts are included in "Other creditors".

In aggregate, total fees payable to BUAL in respect of services provided to the Syndicate for the three open years amounted to £4,581,553 (2016: £4,583,312). Profit commission of £6,274,336 is due in respect of the 2015 year of account (2014: £7,313,507). Profit commission of £Nil has been accrued on the 2016 year of account (2015: £3,098,349). Profit commission of £Nil has been accrued on the 2017 year of account (2016: £Nil). The 2016 year of account will normally close at 31 December 2018 and the 2017 year of account at 31 December 2019.

Expenses totalling £8,894,741 (2016: £8,746,452) 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 2015 year of account at 31 December 2017 was agreed by the Board of the Managing Agency on the 7 February 2018. Consequently, the technical provisions at 31 December 2017 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 US$33,667,395 will be transferred to members' personal reserve funds on 10 April 2018 in respect of the 2015 year of account.

On 9 February 2018, the Syndicate made cash calls to members' personal reserves of £11,752,000 on the 2016 year of account, and US$23,797,800 on the 2017 year of account.

22 Foreign exchange rates

	2017		2016	
	Year-end rate	Average rate	Year-end rate	Average rate
US dollar	1.35	1.29	1.24	1.35
Canadian dollar	1.70	1.67	1.66	1.79

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.

2015 Underwriting Year of Account

Financial highlights

318

2015 underwriting account

£235m
Syndicate capacity

£25.1m
profit for closed year (before non-standard personal expenses)

16.4%
return on gross premium

£152.6m
gross premium written (including brokerage)

82.8%
combined ratio

10.7%
return on capacity

2015 Underwriting Year of Account

Managing agent's report

The Managing agent presents its report on the 2015 Year of Account (YoA) of Syndicate 318 closed at 31 December 2017 together with an overview of the 2016 YoA to be closed 31 December 2018 and the 2017 YoA to be closed at 31 December 2019.

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 Instruments (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 23 June 2016)*
C.A.A. Niebuhr *(Non-Executive)*
R.A. Pexton *(Non-Executive Chairman – appointed 24 June 2016)*
G.M. Tuck

2015 Year of Account

I am delighted to report that the 2015 YoA has closed on a three year basis with a profit, after personal expenses, of £25.1m, which equates to 10.7%, 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.

The Syndicate maintained its capacity at £235m for the 2015 YoA and continued to underwrite two main classes, being International and US Property and Aviation. Gross Premiums after brokerage at closing rates of exchange are £124.4m, which means that the Gross Premiums in Pound Sterling are £15.7m lower than the premium income for the 2014 YoA. The reduction in premium is driven particularly by a decline in the direct and facultative (D&F) business where the competition has been most intense and which constitutes the largest part of the Property account. 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 contributing £2.2m to the overall result, in what continues to be a challenging investment environment. Syndicate operating expenses remained relatively stable at £7.8m.

The reserving of prior years of account continued to be robust, and we have seen reserve improvements on both classes of business. On its outward reinsurance, the Syndicate was able to obtain good value for both the Property and Aviation as the reinsurance market continued to soften.

In the absence of major catastrophe events and with attritional and large losses running in line with expectations, the Syndicate was able to produce the above mentioned £25.1m profit after all personal expenses.

International and US Property

For the 2015 YoA, the gross premium income, (excluding brokerage) for the Property account on a year on year basis reduced by £10m to £104m. However, in US dollar terms the income for the property account for 2015 was US$154m which was only marginally down on the previous year's final position of US$157m. The main driver for this continued to be the very competitive nature of the market (particularly for direct and facultative business) putting pressure on the line sizes and rates (on average D&F rates were down 8.6%, Binder rates reduced by 2.2%).

The claims experience for the 2015 YoA was rather benign. The Syndicate's most costly events were Hurricane Matthew and a dam collapse in Brazil which generated losses of US$3.2m and US$3.5 respectively. 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 pure year ultimate loss. At a gross level, the account has a projected pure year ultimate loss ratio of 60%, following the cost of reinsurance, this is estimated at 68% at a net level (for the combined D&F and Binder accounts). These loss ratios are stated after the deduction of brokerage.

Aviation

Continued over capacity and falling rates in the Aviation market put additional pressure on the Syndicate's book during 2015 YoA. The premium expressed in US dollars fell from US$18.7m to US$14.3m. Almost inconceivable at the time, the average rate decrease over the 12 months deteriorated further from 5.5% (YoA 2014) to 11.7%.

In terms of losses, the year of account was dominated by two claims. On 21 December 2015, an aircraft ran off the end of a runway in Indonesia. Luckily no injuries were reported but the plane was still a total loss costing the Syndicate US$2.8m. The second loss was a helicopter which crashed in Bergen, Norway, on 29 April 2016. All 13 people on board died in this tragic event. The Syndicate's estimated loss is US$2.5m. Other than these two losses, there have not been any significant movements to losses which had already been reported. At a gross level, the account has a projected ULR of 86%, following the cost of reinsurance, this is estimated at 101% at a net level. These loss ratios are stated after the deduction of brokerage.

Prior year surplus

The reserves established at last year end in respect of 2015 YoA and prior years have developed favourably during 2017. This has resulted in a release of £10.8m which has contributed to the overall result.

2016 Year of Account

The Syndicate maintained its capacity for the 2016 YoA at £235m. The current estimate of gross premium income for the year, excluding brokerage, is £117m which is further reduction from last year's forecast and the YoA 2015 level, as the market has remained highly competitive in most areas that the Syndicate operates in, particularly aviation and D&F 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 D&F there has 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: minus 8.5% compared to minus 10% to 15%.

However, Aviation did not see any end to the enduring misery. Rates were down almost 15% compared to a 7% drop in rates envisaged in the original 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 reduced rate compared to 2015, of around 3%.

The negative effects of a lower premium income for 2016 YoA have been exacerbated by a considerably higher loss experience than in previous years. YoA 2016 was battered by Hurricane Matthew, which was the most severe loss of the 2016 North Atlantic windstorm season (estimated to cost the Syndicate US$ 27.5m), as well as by the three Hurricanes of the 2017 windstorm season: Harvey, Irma and Maria (estimated gross loss US$32m attributable to YoA 2016). Not surprisingly, at 24 months, members' balances stand at and overall deficit of £43.1m, after standard personal expenses. The Syndicate is forecasting a loss in the range of 15.4% to 20.4% upon closure of the 2016 year of account.

2017 Year of Account

2017 has established itself as a record year for industry cat losses. The re/insurance industry has to bear catastrophe losses of approximately US$135 billion in 2017 following hurricanes Harvey, Irma and Maria as well as severe earthquakes in Mexico. Given the Syndicate's exposure to natural catastrophes in conjunction with years of overcapacity and corresponding pressure on rates, it comes as little surprise that YoA 2017 is not a good year for the Syndicate. Despite the effective response of the Syndicate's reinsurance programme, the 2017 year of account is showing the worst loss to be reported at the 12 month stage. In fact, whilst the cost of these events was at record levels the Syndicate's reinsurance programme responded well to the three hurricanes experienced. The cost of these events have been significantly reduced, with the gross cost reducing from US$204.3m to US$85.2m.

The Syndicate maintained its capacity for the 2017 YoA at £235m. The current estimate of gross premium income for the year, excluding brokerage, is £122m which is an increase from the previous year's level. Prior to the hurricanes, the rating environment in Property D&F had started to show improvements on the previous years, as underwriters were able to obtain better terms and conditions, and not had to cut rates as they had in previous years. October to December saw positive rate increase with the market responding to the record claims caused by the hurricanes. The rate increase achieved in the final three months of the year for the whole Syndicate was over 5% with November and December pushing towards the 7% increase advised to Lloyd's as part of the updated 2018 business plan. Overall, premium income of D&F business is expected to be slightly above the business plan.

The Binder account witnessed small rate decreases, with the average showing a drop of 3.4% in 2017. However, this was better than the expected drop in the 2017 business plan of 5%. It is less clear how the hurricanes will impact this class going forwards. Only a small amount of the business is written in Q4 so there is limited information at his time. The Binder income is also expected to be marginally above the business plan estimates.

In Aviation, the premium is marginally lower than in 2016. Like the property accounts, there are signs that this market is starting to improve compared to the past few years. As with D&F (prior to the hurricanes) there is a definite slowdown in the 'rate' of rate decreases being seen in the market. In the 12 months to the year end rates were down on average, 2.6%.

The 2017 year of account to date has been relatively benign both in terms of major airline incidents and claims impacting the Syndicate.

The Syndicate's reinsurances renew towards the start of the calendar year (Aviation 1 January, Property 1 April) and overall, reinsurance costs were 3% down on 2016 largely due to the reduction on the Binder specific quota share participation. Whilst there is, as usual, an expectation that the second accident year should improve the result, there is no expectation that this will turn into a profit.

At 12 months, members' balances stand at an overall deficit of £62.3m, after standard personal expenses.

However, the upside to this is the impact these events will have on the rating environment, especially for property business, and this should lead to more positive results in the coming years.

Statement as to disclosure of information to auditors

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

A. Hoffmann
Managing Director

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

16 March 2018

Statement of responsibilities of the directors of the managing agent

The directors of the managing agent are responsible for preparing the Syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. They have elected to prepare the accounts in accordance with FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these accounts, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used;
- 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 accounts;
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so. As explained in note 1 the directors of the managing agent do not believe that it is appropriate to prepare the underwriting year accounts on a going concern basis.

The directors of the managing agent are responsible for keeping adequate and proper accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the underwriting year accounts comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

On behalf of the board

Graham Tuck
Finance Director

16 March 2018

2015 Underwriting Year of Account

Independent auditor's report to the Members of Syndicate 318 – 2015 closed year of account

We have audited the Syndicate underwriting year accounts for the 2015 year of account of Syndicate 318 for the three year period ended 31 December 2017, which comprise the Statement of profit and loss: Technical account, Statement of profit or loss: Non-Technical Account, the balance sheet, the Statement of cash flows, the Statement of members' balances and related notes, including the accounting policies in note 3. 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 Syndicate's members, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the directors of the managing agent and auditor

As explained more fully in the statement of the directors of the managing agent's responsibilities set out on page 65, the directors of the Managing Agent are responsible for the preparation of the 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 underwriting year accounts in accordance with the 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 underwriting year of accounts

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

Opinion on underwriting year accounts

In our opinion the underwriting year accounts:

- give a true and fair view of the syndicate's profit for the 2015 closed year; and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- adequate and proper accounting records have not been kept by the directors of the managing agent on behalf of the syndicate; or
- the 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.

We have nothing to report in these respects.

Mark Taylor
for and on behalf of KPMG LLP, Statutory Auditor, Chartered Accountants
15 Canada Square
London, E14 5GL
16 March 2018

2015 Underwriting Year of Account

Statement of profit or loss: Technical account – general business for the 2015 closed year of account for the three years ended 31 December 2017

Technical account – general business

	Note	£000	£000
Earned premiums, net of reinsurance			
Gross premiums written	4	152,625	
Outward reinsurance premiums		(19,618)	
			133,007
Reinsurance to close premiums received, net of reinsurance	4/15		54,374
Allocated investment return transferred from the non-technical account			2,180
Other technical income, net of reinsurance			428
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(72,787)	
Reinsurers' share		4,123	
		(68,664)	
Reinsurance to close premium payable, net of reinsurance	5	(51,390)	
			(120,054)
Net operating expenses	7		(45,288)
Balance on the technical account – for general business			24,647

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 2015 closed year of account for the three years ended 31 December 2017

Non-technical account

	£000
Balance on the general business technical account	24,647
Income from investments	2,528
Realised losses on investments	(168)
Unrealised losses on investments	(25)
Investment expenses and charges	(155)
Allocated investment return transferred to general business technical account	(2,180)
Profit on exchange	450
Profit for the closed year of account	25,097

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 are presented.

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

2015 Underwriting Year of Account

Balance sheet as at 31 December 2017

	Note	£000	£000
Assets			
Investments			
Other financial investments	8		79,459
			79,459
Debtors			
Debtors arising out of direct insurance operations	9	1	
Debtors arising out of reinsurance operations	10	1,325	
Other debtors		290	
			1,616
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	5		3,930
Other assets			
Cash at bank and in hand			3,702
Total assets			88,707

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

	Note	£000	£000
Liabilities			
Capital and reserves			
Amounts due to members			24,939
Reinsurance to close premiums payable to close the account – gross amount	5		55,320
Creditors			
Creditors arising out of direct insurance operations	11	65	
Creditors arising out of reinsurance operations	12	543	
Other creditors including taxation and social security		1,566	
			2,174
Accruals and deferred income			6,274
Total liabilities			88,707

The financial statements on pages 68 to 87 were approved by the Board of Beaufort Underwriting Agency Limited on 15 March 2018 and were signed on its behalf by

D. C. Eales
Active Underwriter and
Director of Underwriting

G. M. Tuck
Finance Director

16 March 2018

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

2015 Underwriting Year of Account

Statement of members' balances for the 36 months ended 31 December 2017

	£000
Members' balances brought forward at 1 January	–
Profit for closed year of account	25,097
Members' agents fees	(158)
Members' balances carried forward at 31 December 2017	24,939

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

Statement of cash flows for the 36 months ended 31 December 2017

	Note	£000
Closed year cash flow		
Cash flows from operating activities		
Profit for the year		25,097
Unrealised losses on investments		25
Net realised foreign exchange gains		3,078
Non cash consideration received as part of RITC received	15	(86,576)
RITC premium payable net of reinsurance	5	51,390
Acquisitions of other financial instruments		(67,270)
Proceeds from sale of other financial instruments		77,919
Increase in debtors, subrogation and salvage and prepayments		74
Decrease in creditors		123
Net cash inflow from operating activities		3,860
Net cash flow from financing activities:		
Members' agents' fees paid on behalf of members		(158)
Net cash outflow from financing activities		(158)
Net increase in cash and cash equivalents		3,702
Cash and cash equivalents at 1 January		–
Effect of exchange rate changes on cash and cash equivalents		–
Cash and cash equivalents at 31 December	16	3,702

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

2015 Underwriting Year of Account

Notes to the accounts for the 36 months ended 31 December 2017

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 2015 year of account which has been closed by reinsurance to close at 31 December 2017; consequently the balance sheet represents the assets and liabilities of the 2015 year of account and the profit and loss account and cash flow statement reflects the transactions for that year of account during the 36 months period until closure. Therefore, the directors of the managing agent have prepared the underwriting year accounts on a non-going concern basis. There was no effect of this on the amount reported in the accounts.

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 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 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.

2 Accounting policies *continued*

Reinsurance to close premium payable

(e) The reinsurance to close premium paid was closed into the 2016 year of account at 31 December 2017.

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.

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.

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 2017, the RITC process means that the Insurance, Financial, Credit, Liquidity, Market and Capital risks are transferred to the accepting 2016 Year of account of the Syndicate. Accordingly, these Underwriting Year accounts do not have any associated disclosures as required by section 34 of FRS 102.

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

4 Analysis of underwriting result

	Gross premiums written and earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Marine aviation and transport	4,523	(4,323)	(1,075)	(30)	(905)
Fire and other damage to property	87,047	(39,377)	(26,782)	(9,655)	11,233
Third party liability	64	(99)	(7)	(7)	(49)
Reinsurance acceptances	121,968	(84,308)	(17,424)	(8,476)	11,760
Total	213,602	(128,107)	(45,288)	(18,168)	22,039

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 2014 and prior years of account. The gross premiums written include £60,977,011 of reinsurance acceptances from the 2014 and prior years reinsurance to close premium. Reinsurance balances include £6,603,157 of reinsurance recoverable from the 2014 and prior years reinsurance to close premium.

Geographical analysis by destination

	Gross premiums written £000
UK	73,924
US	89,512
Other	50,166
Total	213,602

5 Reinsurance to close premium payable net of reinsurance

	Reported £000	IBNR £000	Total £000
Gross outstandings	34,152	21,167	55,320
Reinsurance recoveries anticipated	(3,832)	(97)	(3,930)
Net	30,320	21,070	51,390

6 Analysis of result by year of account

	2014 & prior years of account £000	2015 pure year of account £000	Total £000
Technical account balance before allocated investment return and net operating expenses	10,794	56,533	67,327
Brokerage and commission on gross premium	–	(28,203)	(28,203)
	10,794	28,330	39,124

7 Net operating expenses

	£000
Acquisition costs	34,293
Administrative expenses	10,995
	45,288

The closed year profit is stated after charging:

	£000
Auditor remuneration	
Audit – KPMG LLP	173
Operating lease rentals	
Property	395

8 Financial investments

	Market value £000	Cost £000
Holdings in collective investment schemes	10,657	10,657
Debt securities and other fixed income securities	64,214	64,256
Overseas deposits as investments	4,588	4,588
Total investments	79,459	79,501

9 Debtors arising out of direct insurance operations

	£000
Due within one year	1
	1

10 Debtors arising out of reinsurance operations

	£000
Due within one year	1,325
	1,325

11 Creditors arising out of direct insurance operations

	£000
Due within one year	65
	65

12 Creditors arising out of reinsurance operations

	£000
Due within one year	543
	543

13 Post balance sheet events

The reinsurance premium paid to close the 2015 year of account at 31 December 2017 was agreed by the Board of the Managing Agency on the 7 February 2018. Consequently the technical provisions at 31 December 2017 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 $33,667,395 will be transferred to members' personal reserve funds on 10 April 2018 in respect of the 2015 year of account.

14 Related parties

Beaufort Underwriting Agency Limited – Ultimate holding company

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

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

Beaufort Underwriting Agency Limited directors' interests in Munich Re

C.A.A. Niebuhr held 20 shares and A. Hoffmann held 50 shares in Munich Re. None of the other directors of BUAL or their families held shares in Munich Re at 31 December 2017.

For the 2016, 2017 and 2018 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2016	214,357	91.2
2017	214,357	91.3
2018	214,357	91.5

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.

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 2015 year of account, Gross Written Premiums under these contracts amounted to £402,248. Brokerage paid to BCL amounted to £112,307.

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 £159,838 for the 2015 year. Actual and anticipated recoveries under these arrangements amount to £30,464 as at 31 December 2017.

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

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

For the 2015 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 2015 year of account, the Syndicate received £281,153 and US$198,914 in the calendar year.

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 2017 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 2015 year of account amounted to £1,527,736.

Profit commission of £6,341,964 has been accrued in respect of the 2015 year of account. Expenses totalling £9,342,984 were recharged to the Syndicate in 2015 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	93,211
Debtors	1,690
Creditors	(8,325)
Non cash consideration received	86,576
Cash	422
Total cash and non cash consideration for RITC received	86,998
Amounts payable to members' on closure of the 2014 year of account	(29,096)
Reinsurance to close premiums received, net of reinsurance received at 1 January 2017	57,902
(Loss) on foreign exchange	(3,528)
Reinsurance to close premiums received, net of reinsurance	54,374

16 Movement in opening and closing portfolio investments net of financing

	At 1 January 2015 £000	Received within RITC premium £000	Cash flow £000	Change in fair value and foreign exchange £000	£000	At 31 December 2017 £000
Cash	–	422	3,280	–	–	3,702
Portfolio investments	–	93,211	(10,649)	(3,103)	–	79,459
Total portfolio investments	–	93,633	(7,369)	(3,103)	–	83,161

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.

	2009	2010	2011	2012	2013	2014	**2015**
Syndicate allocated capacity	£201.83m	£225.04m	£224.89m	£234.98m	£234.83m	£235.04m	**£234.85m**
Capacity utilised	73.7%	55.3%	56.7%	58.7%	54.6%	59.6%	**53.0%**

Results for an illustrative share of £10,000

	£	£	£	£	£	£	£
Gross premiums (net of brokerage)	7,367	5,527	5,674	5,872	5,463	5,960	**5,298**
Net premiums	5,613	4,392	4,618	4,937	4,413	4,947	**4,463**
Reinsurance to close from an earlier account	4,425	3,910	3,397	2,779	2,589	2,538	**2,315**
Net claims	(3,931)	(4,019)	(3,725)	(3,362)	(2,435)	(3,163)	**(2,924)**
Reinsurance to close	(4,502)	(3,446)	(2,788)	(2,501)	(2,227)	(2,463)	**(2,188)**
Profit/(loss) on exchange	1	(10)	(4)	23	27	34	**19**
Net operating expenses	(285)	(257)	(281)	(295)	(341)	(303)	**(330)**
Balance on technical account	1,321	570	1,217	1,581	2,026	1,590	**1,355**
Investment income and gains less losses, less expenses and charges	82	66	75	45	39	77	**93**
Profit/(loss) before personal expenses	1,403	636	1,292	1,626	2,065	1,667	**1,448**
Illustrative personal expenses for a traditional Name							
Managing agent's salary	(65)	(65)	(65)	(65)	(65)	(65)	**(65)**
Central Fund contributions	(36)	(29)	(29)	(10)	(26)	(23)	**(24)**
Profit commission	(147)	(103)	(234)	(305)	(389)	(311)	**(267)**
Lloyd's subscription	(36)	(29)	(29)	(24)	(26)	(23)	**(24)**
	(284)	(226)	(357)	(404)	(506)	(422)	**(380)**
Profit/(loss) after illustrative profit commission and illustrative personal expenses	1,119	410	935	1,222	1,559	1,245	**1,068**

For the 2015 year of account, an illustrative share of £10,000 represents 0.00426% of allocated capacity.

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