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Report and Accounts 31 December 2018

318

MSF Pritchard
Syndicate 318

Beaufort Underwriting Agency Limited

MSF Pritchard Syndicate 318 has traded 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.

2018 Annual accounts

2016 Underwriting year of account

Beaufort Underwriting Agency Limited

2018 calendar year

£176.8m (2017: £157.4m)
gross premiums written

1.8% (2017: 1.2%)
annual investment yield

(£55.6m) (2017: (£68.7m) loss for the year)
loss for year

£234m (2017: £235m)
2018 capacity

140.9% (2017: 154.2%)
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:

R.J. Betzler	*(non-executive) (appointed 7 February 2018, resigned 28 February 2019)*
T. Cracas	*(appointed 28 February 2019)*
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) (resigned 15 March 2018)*
R.A. Pexton	*(non-executive chairman)*
G.M. Tuck	

Company secretary

P.S. O'Neill

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 2018.

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 2016 underwriting year of account, which closed at 31 December 2018. These are incorporated into this document on pages 59 to 87.

Result for the 2018 Calendar Year

For the year ended 31 December 2018, Syndicate 318 has generated an overall loss of (£55.6m) compared to a loss of (£68.7m) in 2017, and a combined ratio of 140.9% (2017: 154.2%).

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

	2016 and Prior Years of Account £000	2017 Year of Account £000	2018 Year of Account £000	2018 Calendar Year Combined £000	2017 Calendar Year Combined £000
Gross Earned Premium	2,069	73,045	96,814	171,928	153,216
Reinsurer's Share	(593)	(7,200)	(22,652)	(30,445)	(22,721)
Net Earned Premium	1,476	65,845	74,162	141,483	130,495
Gross Claims Paid	(51,078)	(99,441)	(26,429)	(176,948)	(138,637)
Reinsurer's Share	12,056	50,653	2,011	64,720	7,733
Net Claims Paid	(39,022)	(48,788)	(24,418)	(112,228)	(130,904)
Change in provision for gross claims	69,474	19,192	(69,680)	18,986	(112,948)
Change in provision for reinsurer's share	(12,699)	(44,114)	3,428	(53,385)	84,323
Change in provision for net claims	56,775	(24,922)	(66,252)	(34,399)	(28,625)
Other technical income, net of reinsurance	(4)	223	67	286	394
Net Operating Expenses	(1,014)	(19,565)	(25,716)	(46,295)	(44,639)
Balance on Technical Account	18,211	(27,207)	(42,157)	(51,153)	(73,279)
Net Investment Income	1,060	1,006	283	2,349	2,019
(Loss)/profit on exchange	(557)	(4,449)	(1,761)	(6,767)	2,570
Profit/(loss) for the financial year	18,714	(30,650)	(43,635)	(55,571)	(68,690)

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.

Business review – financial

The business review provides a commentary on the financial and non-financial performance of the Syndicate in 2018. 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:

KPI	2018	2017
Gross premiums written	£176.8m	£157.4m
Reinsurance ceded	£32.8m	£22.2m
Loss for the year	(£55.6m)	(£68.7m)
Gross loss ratio	91.9%	164.2%
Net loss ratio	103.6%	122.2%
Operating expense ratio	32.7%	34.2%
Combined ratio	140.9%	154.2%
Annual investment yield	1.8%	1.2%
Syndicate capacity	£234m	£235m

Underwriting and reinsurance

The level of gross written premiums in the calendar year has increased to £176.8m from £157.4m written in 2017. The Syndicate increased the amount of premium income written on the Property account, particularly in the US.

Following the losses from Hurricanes Harvey, Irma, and Maria "HIM Losses" in 2017, the Syndicate experienced an improvement in rating across its core direct and facultative business. The Syndicate also continued its expansion into binding authorities written through US coverholders. The combination of these factors is the key to the increase in the levels of premiums written in the year.

The amount of Aviation premiums written in the year has fallen marginally, as there has been relatively little change in this market in the year.

The effect of foreign exchange has been to decrease the level of premium written by almost £5.4m in the year, as the average rate of exchange for US dollars, used to retranslate the profit and loss account, has moved to US$1.34 to the pound, from US$1.29, in the previous accounting period. This was owing to higher values of Sterling in the early part of 2018, followed by an overall weakening for the remainder of the year.

	£000s
Gross premiums written 2017	157,386
Decrease in premium income from rate of exchange	(5,446)
Increase in premiums in the year	24,876
Gross premiums written in 2018	176,816

Gross earned premiums for the year are £171.9m, which is higher than the £153.2m earned in 2017. The increase in gross earned premiums is consistent with the increase in written premiums in the year.

The composition of the account is broadly consistent with last year, although the proportion of property business written under binding authorities is now higher as this is an area in which the Syndicate has expanded in recent years. The table below illustrates the split of gross written premium between classes on business written and incepted in the year.

Gross written premiums	2018 %	2017 %
Aviation	4.7	5.6
Property – Direct and Facultative	61.1	64.3
Property – Binding Authorities	34.2	30.1
	100%	100%

The reinsurance premiums ceded in the year have risen to £32.8m from £22.2m in 2017. The overall spend on the programme was higher than in 2017 as there was an increase in rates following the HIM losses. The Syndicate also purchased a slightly more comprehensive programme in the year with additional coverage. There has also been a higher than average amount of reinstatement premiums paid for reinsurance following the settlement of the HIM losses.

The reinsurance premium earned in the year of £30.4m (£22.7m 2017) 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. This has again been a difficult year for the Property account with a number of medium sized catastrophe events as well as increased attrition and large risk loss activity. The most notable of the named windstorm losses were Hurricane's Florence and Michael. These losses had a particularly severe impact on the property binding authorities, owing to the concentration of risk in affected areas. The accumulation of these losses has led to a significant technical loss in the current accident year.

There have been positive reserve movements in the year, particularly on the 2016 and prior years of account, which has mainly arisen from an improvement in reserves on the Property account.

The weakening of Sterling against the US Dollar at the end of the year has resulted in a net foreign exchange loss of some £6.7m which has increased the overall loss for the year.

Contribution of 2018 year of account to the calendar year result

The 2018 year of account has contributed a loss for the calendar year, before investment income, of £43.4m. The loss has largely resulted from a number of medium sized catastrophe losses in the year. However, these losses are not large enough to generate meaningful recoveries from the Syndicate's reinsurance programme.

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

Loss	Gross £(m)	Net £(m)
Hawaiian Lava Loss	5.6	5.0
Hurricane Florence	14.7	13.9
Hurricane Michael	20.5	17.6
Wildfires California	8.7	7.9
	49.5	44.4

There were also risk losses in excess of a million dollars, which aggregated to approximately £4.7m, as well as higher than average level of attritional losses on the account in proportion to premium.

There was one major claim on the Aviation account on the 2018 year of account to date, which is estimated to settle for £2.2m.

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

Net operating expenses are £25.7m, which is an increase from £22.2m charged to the 2017 underwriting year at the same stage. The loss position on 2018 has meant that no profit commission has been accrued. The increased level of premium has increased the amount of brokerage in the year, which is the main driver of the increase in expenses.

The investment return for the year was £0.28m.

Loss on exchange in the year was £1.8m on the 2018 underwriting year. The US dollar deficit has increased when reconverted into Sterling at closing rates of exchange.

Members' balances stand at an overall deficit of £43.6m.

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 £29.7m. The Property account has been affected by a number of natural catastrophe losses in the year. These losses have had a greater severity on business written under binding authorities as the events have occurred in geographical areas where the Syndicate has a high concentration of exposure. This has also meant that a higher than average proportion of catastrophe losses have impacted the middle year of account, because of the even earnings pattern applied to binding authorities.

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

Loss	Gross £(m)	Net £(m)
Hawaiian Lava Loss	5.4	5.1
Hurricane Florence	7.2	6.9
Hurricane Michael	6.0	5.1
Wildfires California	2.3	2.2
Earthquake Papua New Guinea	1.2	1.2
	22.1	20.5

There has also been a particularly high incidence of large risk losses in the year, with new advices in the current accident year and also deteriorations on existing claims. The Syndicate has also experienced a creeping level of attrition on the 2017 year of account, following a period of poor rating.

There has been one major airline loss in the year on the Aviation account, which is estimated to settle for £2.2m.

The technical provisions set at 31 December 2017 for the 2017 year of account were strengthened in the calendar year following unexpected deterioration in early 2018. This was owing to greater than expected loss frequency in the early part of 2018.

Net operating expenses are £19.6m, against a comparative figure of £17.8m in calendar year 2017. Most of this increase has come from higher brokerage, following the rise in premium income of property binding authorities. The other expenses classifications have remained relatively consistent.

The investment return for the calendar year attributable to the 2017 underwriting year of account has been positive, producing net investment income of £1.0m.

Loss on exchange in the year was £4.4m on the 2017 underwriting year.

Members' balances currently stand at an overall deficit of £74.2m, after standard personal expenses. The Syndicate has made cash calls of £18.7m translated at closing rates of exchange at 31 December 2018. We are forecasting a loss in the range of 36.6% – 41.6% upon closure of the 2017 year of account.

Contribution of 2016 year of account to the calendar year result

The 2016 year of account has contributed a profit for the calendar year before investment income, of £17.6m. In 2018 there has been an improvement of £12.6m on closed year reserves, which makes up the largest proportion of the result. The reserves set on the 2016 pure year of account at the end of last year have also proved robust, and we have experienced positive claims development. There has also been a small exchange loss of £0.6m.

Net operating expenses are £1m. The majority of this movement is generated from brokerage from binders earned in the year.

The investment return for the year of £1.1m has increased the profit for the year to £18.7m.

The 2016 year of account has closed at a loss of £24.4m, and a loss to a traditional name of 10.7% as a percentage of negative capacity.

Operating Expenses

	2016 and Prior Years of Account £000	2017 Year of Account £000	2018 Year of Account £000	2018 Calendar Year Combined £000	2017 Calendar Year Combined £000
Acquisition Costs (Brokerage)	(723)	(17,684)	(16,774)	(35,181)	(29,998)
Acquisition Costs (Other)	(206)	(1,580)	(4,866)	(6,652)	(6,432)
Administrative Expenses	(94)	(269)	(1,396)	(1,759)	(2,023)
Standard Personal Expenses	9	(32)	(2,680)	(2,703)	(3,010)
Managing Agents Profit Commission	–	–	–	–	(3,176)
Net Operating Expenses	(1,014)	(19,565)	(25,716)	(46,295)	(44,639)

As in previous years, acquisition costs (brokerage) represent the largest single expense item in 2018. Other operating expenses under the control of the Managing Agency have stayed relatively consistent in the calendar year.

No profit commission has been accrued as all years of account are in a loss position.

Profit and loss on exchange

The loss on exchange for the year is £6.8m compared with a profit of £2.6m in 2017. This has largely arisen from currency translation differences from conversion of the opening balances and calendar year result from average to closing rates of exchange. The Syndicate has also realised profits and losses on exchange from transactions in the year, as well as having open currency positions at the year end. The table below provides a breakdown of the profit and loss on exchange during the year. The translation differences have resulted from the strengthening of the US dollar against Sterling, which has increased the overall loss between 31 December 2017 and 31 December 2018 in reported currency as the brought forward losses were predominantely made up of US dollars.

Profit and loss on exchange	2016 and Prior Years of Account £000	2017 Year of Account £000	2018 Year of Account £000	Total £000
Loss on currency translation of opening balances and calendar year profits	(544)	(4,407)	(1,758)	(6,709)
Loss on other transactions in the year	(13)	(42)	(3)	(58)
Loss on exchange	(557)	(4,449)	(1,761)	(6,767)

Investment Performance

		2018 '000	%	2017 '000	%
Average Amount of Syndicate Funds		£138,774		£175,477	
Investment Return		£2,449	1.76%	£2,132	1.22%
By Currency:					
Sterling:*	Average Funds	£12,536		£12,628	
	Investment Return	£62	0.49%	(£69)	(0.54%)
US Dollar:	Average Funds	US$155,355		US$196,556	
	Investment Return	US$2,854	1.84%	US$2,559	1.30%
Canadian Dollar:	Average Funds	Can$17,823		Can$17,502	
	Investment Return	Can$271	1.52%	Can$115	0.66%

*Includes investment manager's fees of £100,293 (2017: £148,294).

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 2018 (Provided by Amundi UK Ltd.)

The investment portfolio performed well against a backdrop of rising interest rates, increased financial market volatility and significant risk aversion in Q4.

2018 saw continued economic momentum, which peaked around mid-year as the effects of Trump's fiscal stimulus faded. Jerome Powell took over as Chairman of the Federal Reserve in February, maintaining the recent pace of hikes of 0.25% a quarter bringing the Fed Funds Target Range to 2.3-2.5% by year-end. The Federal Reserve has been raising rates since December 2015, and there is ongoing discussion whether they are now at or close to the "neutral" level. As interest rates rose, the US Treasury curve flattened as short dated yields rose at a faster pace than longer yields. The yield curve between 2 and 5 years has been slightly negative since the end of November causing some alarm as an inverted yield curve (traditionally 2-10 years) is seen as an indicator of pending recession. At the November midterms, the Republican Party lost the House of Representatives curtailing President Trump's power. Markets were volatile at the start of the year where a drop in equity markets caused a number of short volatility funds to collapse. Q4 also saw broad risk aversion, with equity and credit markets seeing material falls amid poor liquidity as technology stocks fell, corporate earning softened, and the European Central Bank (ECB) halted its Quantitative Easing programme.

The aggregate USD portfolio returned 1.97% during 2018, beating the benchmark of 1.83% by 14 basis points. Outperformance was driven by additional yield provided by corporate bonds, a small relative short duration as yields rose, and a rotation to increase credit quality in Q3. There were significant flows in the Lloyd's Dollar Trust Funds (LDTF) throughout the year so the portfolio remains in high quality and liquid issues.

Outlook for 2019

Growth across developed markets has moderated and we expect it to continue around trend in 2019, down from the above potential pace seen in 2018. The Federal Open Market Committee (FOMC) turned much more dovish in January 2019 following the equity market falls in December and the government shutdown, but strong employment is supporting consumption and firms are boosting capital expenditure. Markets are currently pricing rate cuts from the Fed but this seems premature. Employment is strong and skills mismatches remain. Wages are firming, feeding through to higher services prices and inflation. We expect that the trade war with China will come to some kind of deal allowing Trump to back down and give relief to Europe's exporters.

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.

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 2018 in the table below:

	Aviation	Property – Direct and Facultative	Property – Binding Authorities
Proportion of business written where the Syndicate is the lead underwriter	41%	59%	46%
Proportion of business written which has been renewed by the Syndicate	77%	82%	87%

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*	34	34
Nick Chalk	*Class Underwriter Property – Direct and Facultative*	19	21
Steve Anderson	*Class Underwriter Property – Binding Authorities*	10	30
Simon Herring	*Class Underwriter Aviation*	17	35

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. The table below illustrates some of the KPIs used by the Board.

Claims Measurement	Average score in 2018
Percentage of claims responded to within target response time	100%
Percentage of claims meeting internal reserving accuracy target	100%
Percentage of claims meeting adjustment and settlement targets	99.7%

The overall performance against the agreed targets has been very good in 2018, 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

With the UK government invoking Article 50 in March 2017, this would mean that without extensions the UK will formally leave the European Union on 29 March 2019. As a direct result of this decision the Board of Directors of the Managing Agency formulated a contingency strategy and work programme and has planned on the basis of a worst case/hard Brexit. A key implication of Brexit is the loss of 'passporting rights' which allows Lloyd's of London and Syndicate 318 to conduct cross-border business throughout the European Economic Area (EEA). For EEA reinsurance business in the majority of circumstances Syndicate 318 should still be able to write this business cross-border from London on Lloyd's paper in the event of a hard Brexit.

In order to provide continued access to Lloyd's for policy holders within the EEA, Lloyd's has set up a subsidiary in Brussels (Lloyd's Insurance Company S.A.). Syndicate 318 has worked closely with Lloyd's on this contingency arrangement. Lloyd's Brussels is an insurance company authorised and regulated by the National Bank of Belgium and regulated by the Financial Services and Markets Authority. The subsidiary is fully capitalised and assigned the equivalent financial ratings as Lloyd's from A.M Best (A), Fitch (AA-) and Standard & Poors (A+).

Whilst it is only a small proportion of its overall business, Syndicate 318 has incorporated the essential changes required by Lloyd's throughout the organisation to be business ready to uphold our reputation by providing the best possible service to brokers, coverholders and ultimately policy holders.

Syndicate 318 is underwriting business incepting from 1 January 2019 domiciled or located in the EEA, which includes the 27 EU states plus 3 EEA states, on behalf of Lloyd's Brussels.

Lloyd's have confirmed that they plan to transfer all EEA business to Lloyd's Brussels before the end of 2020 via a Part VII transfer. Whilst uncertainty remains about whether a withdrawal agreement can be reached before the UK is due to exit the EU on 29 March 2019 and the terms of the future relationship between the UK and the EU, if the UK leaves with no transition or implementation period Lloyd's have advised underwriters to continue to honour their contractual commitments including the payment of valid claims. Lloyd's expects that this will have the support of all European regulators as it goes to the heart of treating customers fairly. In the event that it does not, Lloyd's has directed its underwriters, to take such other steps, to ensure that contractual commitments are met in full whilst the transfer is being completed. Lloyd's approach has the full support of the UK's Financial Conduct Authority.

There is still considerable uncertainty with the consequences of executing Article 50 and the current negotiations. The Syndicate has sought to appropriately mitigate the volatility of the resultant uncertainties from a withdrawal from Europe where known which includes the contingency arrangement put in place by Lloyd's. As a result and given the small proportion of business that the Syndicate writes in the EEA states, The Managing Agency Board is confident that Syndicate 318's future performance should not be materially impacted by Brexit.

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 34.

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. All members of this committee are independent non-executive directors.

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 the 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 and Change of Ownership

Our portfolio has been exhibiting positive rate movements since the first quarter of 2018, originally this was concentrated in the property classes that were loss affected by the 2017 HIM events, now that is spreading into other areas whilst maintaining momentum in property which makes up the bulk of our portfolio. In addition to a rating environment that has (positively) exceeded our business plan for two years there are other positive indicators around terms and conditions and the availability of new business at realistic pricing levels.

There have been numerous initiatives from Lloyd's to improve performance and these have never been more widely implemented than during the 2019 planning process, the positive impact this has had in Lloyd's is undeniable but absent a wider tightening of appetite in the worldwide market it would not have been achievable and given that we now have this opportunity it is extremely pleasing to be able to adjust our portfolio in a similarly positive manner. Our efforts in 2019 and beyond will be to absolutely focus on the long-term value clients where risk management is of a high quality and longevity allows for less volatile annual adjustments. Headline premium levels are rising and finally the focus on costs and particularly acquisition costs seems to be producing results but of course, we are on a reasonably long journey to reverse the expense creep that the industry has endured.

Whilst our binder portfolio has always been the most stable book from a rating perspective, our Aviation and Property D&F books are relatively volatile and it's no surprise therefore that these classes are now seeing double-digit rate improvements and we expect this to continue through 2019.

We anticipate the Decile 10 initiative implemented by Lloyd's to have a positive impact on rating in 2019 and beyond. The Syndicate stamp will remain at £234m for 2019 year of account.

On 28 February 2019, MSP Underwriting Limited, and its subsidiaries including Beaufort Underwriting Agency Limited, and Beaufort Dedicated No.2 Limited were acquired by

Cincinnati Financial Corporation ("CFC") from Münchener Rückversicherungs-Gesellschaft ("Munich Re"). We would like to thank Munich Re for all their support over the years, and look forward to continuing our commercial relationship with them.

It is with great pleasure, we extend a warm welcome to Cincinnati Financial Corporation to the Lloyd's market. CFC is a long established insurance company, and writes predominantly property casualty business in the US, which is marketed through independent insurance agencies in 42 states.

We have an opportunity under our new ownership to develop new areas of business – both in terms of London centric speciality lines and also the products we can develop for the Cincinnati's agency network.

This promises to be an exciting time for Syndicate 318, and we are confident in developing a close working relationship with CFC that will provide benefits to all members of the Syndicate for many years to come.

Directors

The directors and officers of the Managing Agent who held office up to the date of the signing of the balance sheet were as follows:

Directors:

R.J. Betzler	*(non-executive) (appointed 7 February 2018, resigned 28 February 2019)*
T. Cracas	*(appointed 28 February 2019)*
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) (resigned 15 March 2018)*
R.A. Pexton	*(non-executive chairman)*
G.M. Tuck	

Company secretary

P.S. O'Neill

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 21 March 2019

Statement of managing agent's responsibilities for the year ended 31 December 2018

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates annual accounts for each financial year. Under that law they have elected to prepare the annual accounts 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.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- 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.

The directors of the managing agent are responsible for keeping adequate 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 financial statements 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 financial statements 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.

The directors of the managing agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

G. M. Tuck
Finance Director (on behalf of the board)

Beaufort Underwriting Agency Limited
One Minster Court
London EC3R 7AA

Approved by the Board of Beaufort Underwriting Agency Limited on 21 March 2019

Opinion

We have audited the financial statements of Syndicate 318 for the year ended 31 December 2018 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 2018 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

The directors of the Managing Agent have prepared the Annual Return on the going concern basis as they do not intend to liquidate the Syndicate or to cease its operations, and as they have concluded that the Syndicate's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Syndicate's business model, including the impact of Brexit, and analysed how those risks might affect the Syndicate's financial resources or the ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Syndicate will continue in operation.

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
21 March 2019

Statement of profit or loss for the year ended 31 December 2018

Technical account – general business

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Earned premiums, net of reinsurance					
Gross premiums written	5	176,816		157,386	
Outward reinsurance premiums		(32,797)		(22,222)	
Change in the provision for unearned premiums					
Gross amount		(4,888)		(4,170)	
Reinsurers' share		2,353		(499)	
	17		141,484		130,495
Allocated investment return transferred from the non-technical account	10		2,349		2,019
Other technical income, net of reinsurance			285		394
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	5	(176,948)		(138,637)	
Reinsurers' share		64,720		7,733	
	17	(112,228)		(130,904)	
Change in the provision for claims					
Gross amount	5	18,986		(112,948)	
Reinsurers' share		(53,385)		84,323	
		(34,399)		(28,625)	
			(146,627)		(159,529)
Net operating expenses	7		(46,295)		(44,639)
Balance on the technical account – for general business			(48,804)		(71,260)

All items relate only to continuing operations.

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

Non-technical account

	Note	2018 £000	2017 £000
Balance on the general business technical account		(48,804)	(71,260)
Investment income	10	2,362	2,259
Realised gains on investments		48	36
Unrealised gains on investments		101	–
Realised losses on investments		(62)	(82)
Unrealised losses on investments		–	(46)
Investment expenses and charges		(100)	(148)
Allocated investment return transferred to general business technical account	10	(2,349)	(2,019)
(Loss)/profit on foreign exchange		(6,767)	2,570
Loss for the financial year		(55,571)	(68,690)

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 2018

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Assets					
Investments					
Other financial investments	11		120,401		124,380
Reinsurers' share of technical provisions	17				
Provision for unearned premiums		5,498		2,850	
Claims outstanding		38,200		88,977	
			43,698		91,827
			164,099		216,207
Debtors					
Debtors arising out of direct insurance operations	12	35,314		29,908	
Debtors arising out of reinsurance operations	13	11,155		9,270	
Other debtors		169		471	
			46,638		39,649
Other assets					
Cash at bank and in hand	19		4,912		3,702
Prepayments and accrued income					
Deferred acquisition costs	14	17,572		15,604	
Other prepayments and accrued income		602		490	
			18,174		16,094
Total assets			233,823		275,652

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

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Liabilities					
Capital and reserves					
Members' balances			(130,941)		(80,785)
Technical provisions	17				
Provision for unearned premiums		72,610		64,128	
Claims outstanding		263,908		269,667	
			336,518		333,795
Creditors					
Creditors arising out of direct insurance operations	18	2,971		1,825	
Creditors arising out of reinsurance operations	18	9,448		7,082	
Other creditors including taxation and social security	18	15,731		7,391	
Accruals and deferred income		96		6,344	
			28,246		22,642
Total liabilities			233,823		275,652

The financial statements on pages 20 to 58 were approved by the Board of Beaufort Underwriting Agency Limited on 21 March 2019 and were signed on its behalf by

D. C. Eales
Active Underwriter and
Director of Underwriting

G. M. Tuck
Finance Director

21 March 2019

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

Statement of changes in members' balances for the year ended 31 December 2018

	2018 £000	2017 £000
Members' balances brought forward at 1 January	(80,785)	17,145
Loss for the year	(55,571)	(68,690)
Members' agents fees	(137)	(144)
Payments of profit to members' personal reserve fund	(24,939)	(29,096)
Open year cash calls made	30,491	–
Members' balances carried forward at 31 December	(130,941)	(80,785)

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 2018

	Note	2018 £000	2017 £000
Cash flows from operating activities			
Loss for the year		(55,571)	(68,690)
Adjustments:			
Net Unrealised (gains)/losses on other financial instruments including foreign exchange		(10,639)	15,973
Net interest and dividends receivable	10	2,349	2,019
Interest received		(2,349)	(2,019)
Movements in operating assets and liabilities:			
Acquisitions of other financial instruments		(80,987)	(83,334)
Proceeds from the sale of other financial instruments		95,605	148,866
Decrease/(increase) in reinsurers share of technical provisions		48,129	(79,176)
Increase in deferred acquisition costs		(1,968)	(414)
Increase in debtors, subrogation and salvage and prepayments		(7,101)	(2,544)
Increase in technical provisions		2,723	95,962
Increase in creditors		11,852	9,958
Decrease in accruals and deferred income		(6,248)	(4,081)
Net cash (outflow)/inflow from operating activities		(4,205)	32,520

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

	Note	2018 £000	2018 £000	2017 £000	2017 £000
Net cash flow from financing activities:					
Transfer to members in respect of underwriting participations		(24,939)		(29,096)	
Members' agents' fees paid on behalf of members		(137)		(144)	
Open year cash calls made		30,491		–	
Net cash inflow/(outflow) from financing activities			5,415		(29,240)
Net increase in cash and cash equivalents			1,210		3,280
Cash and cash equivalents at 1 January			3,702		422
Cash and cash equivalents at 31 December	19		4,912		3,702

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 Lloyd's 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"), and Financial Reporting Standard 103 Insurance Contracts ("FRS 103").

The Syndicate has financial resources available, based on the latest cash flow forecasts, for a period covering at least 12 months from the date of approval of these financial statements. This includes the cash call made from members on 11 February 2019 on the 2017 year of account, detailed in note 21, and taking into account it's ability to call future losses from it's capital providers to meet its liabilities as they fall due. As a consequence, taking this into account together with the Syndicate's ability to manage it's business risks in the current economic climate that it remains appropriate for these financial statements to have been prepared on a going concern basis.

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 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 given 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.

2 Use of judgments and estimates *continued*

Estimation of claims *continued*

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.

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.

The estimation of unearned premiums, includes estimates made 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).

3 Accounting policies *continued*

(e) Claims provisions and related recoveries *continued*

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.

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

3 Accounting policies *continued*

(h) Foreign currencies *continued*

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.

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 how they are measured, and changes in those values are presented in the statement of profit or loss. 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, directly attributable transaction costs 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 the carrying amount of the impaired asset directly. 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. This exercise aims 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.

2018

	Motor £000	Marine, aviation and transport £000	Fire and other damage to property £000	Total £000
UK	–	2,411	617	3,028
Other Europe	–	634	3,304	3,938
US	705	–	114,104	114,809
Canada	–	34	5,262	5,296
Rest of World	–	5,019	44,726	49,745
Total	705	8,098	168,013	176,816

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

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:

	2018 5 per cent increase £000	2018 5 per cent decrease £000	2017 5 per cent increase £000	2017 5 per cent decrease £000
Marine, aviation and transport	(384)	384	(435)	435
Fire and other damage to property	(10,411)	10,411	(8,937)	8,937
Motor	(10)	10	(4)	4
Total	(10,805)	10,805	(9,376)	9,376

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, while 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 regularly.

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.

2018	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
Debt securities	37,182	28,703	21,429	–	–	87,314
Shares and other variable yield securities and units in unit trusts	24,763	–	–	–	–	24,763
Deposits with credit institutions	3,921	679	863	772	2,089	8,324
	65,866	29,382	22,292	772	2,089	120,401
Reinsurers' share of technical provisions	–	8,334	22,270	94	7,502	38,200
Direct insurance debtors	–	–	–	–	35,314	35,314
Debtors arising out of reinsurance operations	–	–	–	–	5,618	5,618
Other debtors	–	–	–	–	169	169
Cash at bank and in hand	–	–	4,912	–	–	4,912
Total	65,866	37,716	49,474	866	50,692	204,614

The debtors arising from reinsurance operations excludes accepted reinsurance debtors of £5.5m.

4 Risk and capital management *continued*

2017	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
Debt securities	10,507	58,464	23,586	5,810	–	98,367
Shares and other variable yield securities and units in unit trusts	17,511	–	–	–	–	17,511
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	–	–	–	–	29,908	29,908
Debtors arising out of reinsurance operations	–	–	–	–	4,980	4,980
Other debtors	–	–	–	–	471	471
Cash at bank and in hand	–	–	3,702	–	–	3,702
Total	32,043	67,680	85,842	6,319	60,534	252,418

The debtors arising from reinsurance operations excludes accepted reinsurance debtors of £4.3m.

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.

2018	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	26,525	6,400	1,768	590	31	–	35,314
Reinsurer' share of claims outstanding	38,200	–	–	–	–	–	38,200
Receivables from reinsurance	5,618	–	–	–	–	–	5,618
Other debtors	169	–	–	–	–	–	169

The debtors arising from reinsurance operations excludes accepted reinsurance debtors of £5.5m.

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
Reinsurer' share of claims outstanding	88,977	–	–	–	–	–	88,977
Receivables from reinsurance	4,980	–	–	–	–	–	4,980
Other debtors	471	–	–	–	–	–	471

The debtors arising from reinsurance operations excludes accepted reinsurance debtors of £4.3m.

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 regularly 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 date 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.

2018		Undiscounted net cash flows				
	Carrying amount £000	Total cash flows £000	Less than 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	24,763	24,763	24,763	–	–	–
Debt securities	87,314	87,741	48,139	22,598	14,644	2,360
Deposits with credit institutions	8,324	8,324	8,324	–	–	–
Reinsurers share of technical provisions	43,698	43,698	15,354	13,997	13,469	878
Debtors	46,638	46,638	46,638	–	–	–
Cash at bank and in hand	4,912	4,912	4,912	–	–	–
Total assets	215,649	216,076	148,130	36,595	28,113	3,238
Technical provisions	336,518	336,518	108,020	110,654	104,515	13,329
Creditors	28,150	28,150	28,150	–	–	–
Total liabilities	364,668	364,668	136,170	110,654	104,515	13,329

4 Risk and capital management *continued*

2017	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	17,511	17,511	17,511	–	–	–
Debt securities	98,367	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	39,648	39,648	39,648	–	–	–
Cash at bank and in hand	3,702	3,702	3,702	–	–	–
Total assets	259,557	258,022	125,293	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

Total cash flows detailed in the tables above for investments are the sum of all future interest receipts and repayment of principal at maturity of the underlying securities. The carrying amount is the current market value for the securities and includes accrued interest at the balance sheet date.

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 2018, 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.

2018	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	2,920	13,632	8,211	–	24,763
Debt securities and other fixed income securities	–	87,314	–	–	87,314
Deposits with credit institutions	–	2,922	1,864	3,538	8,324
	2,920	103,868	10,075	3,538	120,401
Reinsurers' share of technical provisions	1,110	42,588	–	–	43,698
Debtors	4,707	39,992	1,939	–	46,638
Other assets	4,912	–	–	–	4,912
Prepayments and accrued income	3,903	13,586	685	–	18,174
Total assets	17,552	200,034	12,699	3,538	233,823
Technical provisions	41,383	284,792	10,343	–	336,518
Creditors	16,265	11,861	24	–	28,150
Accruals and deferred income	96	–	–	–	96
Total liabilities	57,744	296,653	10,367	–	364,764
Net assets	(40,192)	(96,619)	2,332	3,538	(130,941)

4 Risk and capital management *continued*

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	–	39,649
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	6	–	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)	3,323	3,992	(80,785)

Equity price risk

The Syndicate does not hold any equities which are subject to equity 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*

	2018 Profit or loss for the year £000	2017 Profit or loss for the year £000
Interest rate risk		
+ 50 basis points shift in yield curves	(371)	(512)
– 50 basis points shift in yield curves	371	512
Currency risk		
10 percent increase in GBP/US dollar exchange rate	9,662	4,901
10 percent decrease in GBP/US dollar exchange rate	(9,662)	(4,901)

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.

The deficit between US Dollar asset and liabilities is significantly greater at 31 December 2018, and consequently the currency risk has grown in the 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 financial strength, licence and ratings objectives.

4 Risk and capital management *continued*

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 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 2019 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:

2018	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)	705	577	(193)	(241)	(66)	77
Marine aviation and transport	4,015	3,944	(2,372)	(976)	(396)	200
Fire and other damage to property	119,485	113,919	(115,130)	(34,598)	(8,114)	(43,923)
	124,205	118,440	(117,695)	(35,815)	(8,576)	(43,646)
Reinsurance acceptances	52,611	53,488	(40,267)	(10,480)	(10,533)	(7,792)
Total	176,816	171,928	(157,962)	(46,295)	(19,109)	(51,438)

*Includes commissions on direct business of (£28,249,000).

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).

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

Geographical analysis by destination

	2018 Gross premiums written £000	2017 Gross premiums written £000
UK	10,243	10,938
US	120,259	102,751
Other	46,314	43,697
Total	176,816	157,386

6 Claims

Favourable movements of £13.8 million, (2017: £14.4 million), in the past year's provision for claims outstanding and IBNR, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance.

7 Net operating expenses

	2018 £000	2017 £000
Acquisition costs:		
Brokerage and commissions	36,370	31,431
Other acquisition costs	6,653	6,432
	43,023	37,863
Change in deferred acquisition costs	(1,190)	(1,433)
Administrative expenses	1,759	2,023
Members' standard personal expenses	2,703	6,186
Net operating expenses	46,295	44,639

Administrative expenses include:

	2018 £000	2017 £000
Auditors' remuneration:		
– fees payable to the Syndicate auditor for the audit of the Syndicate annual accounts	116	122
– audit related assurance services	64	67
	180	189

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:

	2018 £000	2017 £000
Directors' emoluments	692	701
Pension contributions	17	36
	709	737

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.

	2018 £000	2017 £000
Emoluments	302	313
Pension contributions	–	–
	302	313

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:

	2018 £000	2017 £000
Wages and salaries	4,673	4,524
Social security costs	579	974
Other pension costs	471	487
	5,723	5,985

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:

	2018 No	2017 No
Administration and finance	20	21
Underwriting	15	16
Claims	13	11
	48	48

10 Investment return

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

	2018 £000	2017 £000
Investment income:		
Interest and dividend income	2,362	2,259
Realised gains	48	36
Unrealised gains on investments	101	–
Unrealised losses on investments	–	(46)
Investment expenses and charges:		
Investment management expenses, including interest	(100)	(148)
Losses on the realisation of investments	(62)	(82)
Total investment return	2,349	2,019

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

	2018 £000	2017 £000
Financial assets at fair value through profit or loss	2,449	2,167
Investment management expenses, excluding interest	(100)	(148)
Total investment return	2,349	2,019

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.

	2018 £000	2017 £000
Average amount of Syndicate funds available for investment during the year		
Sterling	12,536	12,628
US dollar	122,327	145,597
Canadian dollar	10,243	10,295
Total funds available for investment, in sterling	145,106	168,520
Total investment return	2,349	2,019
Annual investment yield		
Sterling	0.49%	(0.54%)
US dollar	1.84%	1.30%
Canadian dollar	1.52%	0.66%
Total annual investment yield, in sterling	1.76%	1.22%

11 Financial investments

	Carrying value		Cost	
	2018 £000	2017 £000	2018 £000	2017 £000
Shares and other variable yield securities and units in unit trusts	24,763	17,511	24,763	17,511
Debt securities and other fixed income securities	87,314	98,367	87,209	98,411
Government and supranational securities	*39,958*	*47,788*	*39,810*	*47,900*
Asset backed securities	*1,757*	*2,373*	*1,763*	*2,373*
Mortgage backed instruments	*1,813*	*3,437*	*1,814*	*3,442*
Corporate bonds	*43,786*	*44,769*	*43,822*	*44,696*
Deposits with credit institutions	8,324	8,502	8,324	8,502
Total financial investments	120,401	124,380	120,296	124,424

The amount ascribable to listed investments is £71.9 million (2017: £79.5 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

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	–	24,763	–	24,763
Debt securities and other fixed income securities	35,637	51,677	–	87,314
Deposits with credit institutions	3,264	5,060	–	8,324
Total	38,901	81,500	–	120,401

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

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 2 in the fair value hierarchy as generally they are actively traded and 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 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

	2018 £000	2017 £000
Amounts due from intermediaries:		
Due within one year	35,314	29,908
	35,314	29,908

13 Debtors arising out of reinsurance operations

	2018 £000	2017 £000
Amounts due within one year	11,155	9,270
	11,155	9,270

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.

	2018 £000	2017 £000
Balance at 1 January	15,604	15,190
Incurred costs deferred	16,871	16,165
Amortisation	(15,681)	(14,732)
Effect of movements in exchange rates	778	(1,019)
Balance at 31 December	17,572	15,604

15 Year of account development

Year of Account	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Profit/(loss) before members' agents fees £000
2013	(122)	16,626	20,081				36,585
2014		25	8,153	21,076			29,254
2015			4,858	7,535	12,704		25,097
2016				(24,025)	(19,059)	18,713	(24,371)
2017					(62,335)	(30,649)	
2018						(43,635)	
Calendar year result			33,092	4,586	(68,690)	(55,571)	

A remaining cash call of US$16.2m from members will be received in relation to the 2016 year of account (2017: US$33.6m distribution in relation to the 2015 year of account), which follows a £11.8m cash call made in February 2018.

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 2018 in all cases.

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Estimate of ultimate gross claims									
at end of underwriting year	70,967	73,976	55,705	54,429	47,029	69,489	189,431	100,821	
one year later	105,261	111,481	87,023	92,655	88,444	153,259	273,428		
two years later	104,915	105,385	76,948	84,135	83,563	148,769			
three years later	101,105	102,744	74,379	79,183	78,873				
four years later	97,746	102,568	73,637	77,722					
five years later	95,300	100,823	72,709						
six years later	94,365	98,627							
seven years later	93,889								
Less gross claims paid	92,446	95,387	68,390	72,522	70,485	110,615	153,489	27,832	
Gross ultimate claims reserve	1,443	3,240	4,319	5,200	8,388	38,154	119,939	72,989	253,672
Gross ultimate claims reserve for 2010 and prior years									10,236
Gross claims reserves									263,908

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	Total £m
Estimate of ultimate net claims									
at end of underwriting year	69,562	72,330	53,431	52,219	46,292	68,322	110,227	95,082	
one year later	100,685	106,686	83,303	90,706	85,284	136,172	187,325		
two years later	99,944	99,458	73,251	82,094	80,240	130,446			
three years later	95,561	96,426	70,718	77,211	76,172				
four years later	92,039	94,912	69,768	75,768					
five years later	89,472	93,413	68,948						
six years later	88,516	91,276							
seven years later	88,032								
Less net claims paid	86,604	88,737	65,195	70,568	67,783	95,380	96,893	25,711	
Net ultimate claims reserve	1,428	2,539	3,753	5,200	8,389	35,066	90,432	69,371	216,178
Net ultimate claims reserve for 2010 and prior years									9,530
Net claims reserves									225,708

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.

	2018 Gross provisions £000	2018 Reinsurance assets £000	2018 Net £000	2017 Gross provisions £000	2017 Reinsurance assets £000	2017 Net £000
Incurred claims outstanding:						
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 1 January	269,667	(88,977)	180,690	173,051	(9,030)	164,021
Change in prior year provisions	(132,187)	59,773	(72,414)	(77,022)	3,249	(73,773)
Expected cost of current year claims	290,149	(71,108)	219,041	328,607	(95,305)	233,302
Claims paid during the year	(176,948)	64,720	(112,228)	(138,637)	7,733	(130,904)
Effect of movements in exchange rates	13,227	(2,608)	10,619	(16,332)	4,376	(11,956)
Balance at 31 December	263,908	(38,200)	225,708	269,667	(88,977)	180,690
Claims notified	192,701	(34,376)	158,325	179,432	(69,314)	110,118
Claims incurred but not reported	71,207	(3,824)	67,383	90,235	(19,663)	70,572
Balance at 31 December	263,908	(38,200)	225,708	269,667	(88,977)	180,690
Unearned premiums						
Balance at 1 January	64,128	(2,850)	61,278	64,782	(3,621)	61,161
Premiums written during the year	176,816	(32,797)	144,019	157,386	(22,222)	135,164
Premiums earned during the year	(171,928)	30,444	(141,484)	(153,216)	22,721	(130,495)
Effect of movements in exchange rate	3,594	(295)	3,299	(4,824)	272	(4,552)
Balance at 31 December	72,610	(5,498)	67,112	64,128	(2,850)	61,278

18 Financial liabilities at amortised cost

	2018 £000	2017 £000
Creditors arising out of direct insurance operations	2,971	1,825
Creditors arising out of reinsurance operations	9,448	7,082
Other creditors	15,731	7,391
Total financial liabilities at amortised cost	28,150	16,298

Other creditors include £15.7m (2017: £7.4m) due to related undertakings.

19 Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	4,912	3,702
Total cash and cash equivalents	4,912	3,702

20 Related parties

Beaufort Underwriting Agency Limited – Ultimate holding company

At 31 December 2018, the ultimate parent company of Beaufort Underwriting Agency Limited ("BUAL") is Münchener Rücksversicherungs-Gesellschaft Aktiengesellschaft in München. 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 2018.

For the 2017, 2018 and 2019 years of account, the Munich Re participation on Syndicate 318 is as follows as at 31 December 2018:

Year of account	Participation £000	% of capacity
2017	214,357	91.3
2018	214,357	91.5
2019	214,357	91.8

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 2018, Gross Written Premiums under these contracts amounted to £128,249 (2017: £1,241,280) with acquisition costs on Gross Written Premiums amounting to £41,948 (2017: £337,532).

20 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 amounted to £329,731 (2017: £183,115). Actual and anticipated recoveries under these arrangements amount to £58,374 as at 31 December 2018 (2017: £7,896).

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 to allow 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:

2017:	£39,701 and US$24,242
2018:	£53,394 and US$17,597

In respect of the 2016 year of account, the Syndicate received £310,066 and US$135,109 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 £68,740 (2017: £134,500).

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 2018 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 2018 totalled £15,730,659 (2017: £7,377,150). 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 £4,575,724 (2017: £4,581,553). Profit commission of £Nil is due in respect of the 2016 year of account (2015: £6,274,336). Profit commission of £Nil has been accrued on the 2017 year of account (2016: £Nil). Profit commission of £Nil has been accrued on the 2018 year of account (2017: £Nil). The 2017 year of account will normally close at 31 December 2019 and the 2018 year of account at 31 December 2020.

Expenses totalling £8,831,490 (2017: £8,894,741) 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 the time individuals spent on Syndicate matters
Accommodation costs	– according to the number of personnel
Other costs	– as appropriate

The reinsurance premium paid to close the 2016 year of account at 31 December 2018 was agreed by the Board of the Managing Agency on the 7 February 2019. Consequently, the technical provisions at 31 December 2018 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$16,229,699 will be transferred from members' personal reserve funds on 10 April 2019 in respect of the 2016 year of account.

On 11 February 2019, the Syndicate made cash calls to members' personal reserves of £15,000,000 and US$13,000,000 on the 2017 year of account.

On 28 February 2019, MSP Underwriting Limited, and its subsidiaries including Beaufort Underwriting Agency Limited, and Beaufort Dedicated No.2 Limited were acquired by Cincinnati Financial Corporation from Münchener Rückversicherungs-Gesellschaft.

22 Foreign exchange rates

	2018		2017	
	Year-end rate	Average rate	Year-end rate	Average rate
US dollar	1.27	1.34	1.35	1.29
Canadian dollar	1.74	1.73	1.70	1.67

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.

2016 Underwriting Year of Account

Financial highlights

318

2016 underwriting account

£235m
Syndicate capacity

£153.8m
gross premium written (including brokerage)

(£24.4m)
profit/(loss) for closed year (before non-standard personal expenses)

120%
combined ratio

(15.8%)
return on gross premium

(10.4%)
return on capacity

2016 Underwriting Year of Account

Managing agent's report

The Managing Agent presents its report on the 2016 Year of Account (YoA) of Syndicate 318 closed at 31 December 2018 together with an overview of the 2017 YoA to be closed 31 December 2019 and the 2018 YoA to be closed at 31 December 2020.

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.

Directors

The following individuals served on the board at various periods up to the point of closure of the 2016 year of account.

Directors:

R.J. Betzler (non-executive) (appointed 7 February 2018, resigned 28 February 2019)
R.G. Carter (Non-Executive Chairman – resigned 23 June 2016)
M.J. Cox (Non-Executive Chairman – resigned 23 June 2016)
T. Cracas (appointed 28 February 2019)
C.J.W. Czapiewski (Non-Executive)
D.C. Eales
A. Hoffmann
M.A. Langston
R.J. Martin (Non-Executive) (appointed 2 May 2016)
C.A.A. Niebuhr (Non-Executive) (resigned 15 March 2018)
R.A. Pexton (Non-Executive Chairman) (appointed 1 February 2016)
G.M. Tuck

Company Secretary:

P.S. O'Neil (appointed 19 December 2017)
L.R. Crust (appointed 10 August 2017, resigned 18 December 2017)
B. Azur-Kaan (resigned 9 August 2017)

2016 Year of Account

It is to our regret that for the first time in many years the 2016 Year of Account has produced a loss of £24.4m for the Syndicate which equates to -10.4% 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 applies to the closing and open years on a conventional year of account basis only.

The Syndicate has maintained its capacity for the year at £235m for the 2016 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 £123.5m which means that the Gross Premiums in Pound Sterling are almost at the level of premium income for the 2015 YoA. However, in US$ terms the income reduced in both accounts as the market has remained highly competitive in most areas that the Syndicate operates in, particularly aviation and Direct and Facultative (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 were first signs of some abatement to the falling premiums rates in the final months of the year.

The negative effects of a lower premium income for 2016 YoA were exacerbated by a considerably higher loss experience than in previous years. YoA 2016 was severely affected Hurricane Matthew which was the most severe loss of the 2016 North Atlantic windstorm season as well as by the three Hurricanes of the 2017 windstorm season: Harvey, Irma and Maria (HIM).

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

The Syndicate continued to be conservative in its investment policy, with the investment return contributing £1.9m to the overall result, in what continued to be a challenging investment environment. Syndicate operating expenses remained relatively stable at £7.5m (excluding traditional names expenses).

The reserving of prior years of account continued to be robust, and we have seen reserve improvements on all classes of business.

Overall, in light of major catastrophe events and with attritional and large losses running higher than planned, particularly for the D&F account, the closing position as at 31 December 2018 was a net ultimate loss ratio (ULR) of 129% and technical account deficit of £29.2m.

International and US Property

For YoA 2016 the premium income of the Property account in US dollar terms (which is the main original currency) was US$147m which was down on the previous year's final position of US$153m. 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 2016 YoA was particularly poor and following on from Hurricane Matthew (which cost the 2016 year of account US$23.9m) the HIM losses of 2017 brought a total of US$31.4m gross losses to the account. Other CAT events outside these four brought an additional US$23.3m including two earthquakes in Mexico totalling US$5.5m.

At a gross level, the account has a projected ULR of 123%. Following the cost of reinsurance, this is estimated at 122% at a net level (for the combined D&F and binder lines).

Aviation

The Aviation account did not see any end to the enduring market pressures. Continued overcapacity and falling rates in the Aviation market put additional pressure on the Syndicate's book during 2016 YoA. The premium reduced from US$14.1m to US$10.4m. The average rate decrease over the 12 months continued to deteriorate at 11.7%, which was high considering the relatively soft market conditions. In terms of losses the year of account was having a relatively good year as no claim breached the US$/GBP 1m mark and against the position reported at last year end, there have been neither significant movements to losses which had already been reported nor any material new losses reported. We have continued to de-risk areas of the book.

The most costly claim for the Syndicate was a rescue helicopter crash in Italy with a reported cost of the claim to be £920k. At a gross level, the account has a projected ULR of 55%.

Prior year surplus

The reserves established at last year end in respect of 2016 YoA and prior years have developed favourably which has resulted in a release of £12.6m contributing to the overall result.

2017 Year of Account

2017 has established itself as a record year for industry cat losses. The insurance industry had to bear catastrophe losses of approximately $135 billion in 2017 following hurricanes Harvey, Irma and Maria as well as severe earthquakes in Mexico. Given the Syndicate's exposure to property catastrophe in conjunction with years of overcapacity and corresponding pressure on rates, it is no surprise that YoA 2017 is not a good year for the Syndicate. The hurricanes resulted in record claims for both the Syndicate and the Lloyd's market as a whole. Hurricane Harvey caused severe flooding in Texas, Irma went through the Caribbean before hitting south Florida. Losses from Hurricane Maria were heavily concentrated in the Caribbean. Despite the effective response of the Syndicate's reinsurance programme which significantly reduced with the gross cost from US$198m to US$81m, the YoA is still left with a record loss to be reported for the Syndicate.

The Syndicate maintained its capacity for the 2017 YoA at £235m. The current estimate of gross premium income for the year, excluding brokerage is £132m 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 of regular double-digit rate decreases. Following the hurricanes, all property classes have started to record positive and substantial rate increases.

Overall the D&F account shows a rate reduction of 0.4% which was considerably better than the business plan expectation of decreases around -10%. Owing to this positive news the D&F income is up on the 2016 YoA and marginally above the original business plan estimate of US$107m at US$110m.

The Binder account witnessed small rate decreases with the average in 2017 showing a reduction of -3.4%. However, this was better than the expected reduction in the 2017 business plan of -5%. As mentioned before, the hurricanes have had a further positive impact on rates which, however, start to fully show in YoA 2018. The Binder income is also expected to be marginally above the planned income with a current estimate of US$47.4m.

In Aviation the premium estimate is US$9.5m and as such is marginally down on 2016. Like the Property accounts the Aviation market started to improve compared to the past few years. Rates were down on average -2.6% and as such much better than the business plan which made provision for a -15% reduction in rates. In terms of claims, YoA 2017 was relatively benign for Aviation in terms of large losses. However, given the small size of the Aviation account, it is producing a technical account loss of £0.8m at 24 months.

The Syndicate's reinsurance costs were 3% down on 2016 largely due to the reduction on the Binder specific quota share participation.

Overall, at 24 months, members' balances stand at an overall deficit of £74.2m, after cash calls and standard personal expenses.

2018 Year of Account

The Syndicate maintained its capacity for the 2018 YoA at £235m. The current estimate of gross premium income for the year, excluding brokerage, is £145m which is a 10% increase from the previous year's level. However, the 2018 YoA has developed into a year of very mixed blessings. On the one hand, all classes of business are now showing positive and substantial rate increases further outlined below. On the other hand losses to the Syndicate during 2018 are about two thirds the magnitude of YoA 2017 recorded a year ago. The Syndicate was hit by a number of mid-level natural catastrophe events. Hurricanes Florence and Michael, the Hawaii Lava Flows and the California Wildfires. Although wildfires are becoming an annual occurrence in California, the 2018 season is considered the deadliest and costliest on record with over 100 lives lost. The Syndicate had particular exposure to the Camp wildfire, in Butte, which was the most destructive in the season notwithstanding the fact that it was contained in just over two weeks. However, claims usually lead to higher rates at renewal.

Following the 2017 hurricanes the rating environment in Property D&F had started to show improvements on the previous years of regular double-digit rate decreases, leading to a whole year rate change of +19%, which is 5.5% above the expected improvements. Owing to this positive news the D&F income is up on the on the 2017 YoA (by US$8.3m) but slightly below the (post HIM) business plan estimate of US$125m at US$119m.

The Binder account witnessed rate increases throughout the year with the average in 2018 showing an increase of 3.6% which was better than expected. As the Syndicate also continued its growth strategy for the Binder account the Binder income is currently estimated to reach US$45m (after brokerage) and thus about US$3m above plan targets.

In Aviation the premium estimate remains approximately the US$10m mark and as such around the same level as YoA 2017. Like the Property accounts, this market is starting to improve compared to the past few years and the Syndicate is very well positioned to benefit from improving market conditions.

The Syndicate's reinsurance programmes renew towards the start of the calendar year (Aviation 1 January, Property 1 April). Following on from the 2017 hurricanes, reinsurance rates were up with the overall reinsurance spend up 34%, however this was skewed by a number of layers being renewed early following their exhaustion after HIM. In addition the top layer was stretched giving increased protection. The Quota Share policy for the Binder account was renewed at 10% and in addition, towards the end of the year, a new Binder excess of loss layer was purchased.

At 12 months, the Syndcate result is estimated to be a loss of £31.6m (after expenses).

The outlook is, however, not at all doom and gloom. The above outlined rate developments for property D&F business mean that the rating environment can be considered to be back to early 2015 levels. Looking at 2019, rates are expected to continue to rise in a meaningful way. In addition to improvement in pricing levels, underwriters will increasingly be looking into terms and conditions alongside pure rate. Additional ancillary coverages and increasing sublimits have been endemic over the soft market phase and we will be seeking to reverse this trend in the coming year, all of which 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

21 March 2019

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

21 March 2019

2016 Underwriting Year of Account

Independent auditor's report to the Members of Syndicate 318 – 2016 closed year of account

We have audited the Syndicate underwriting year accounts for the 2016 year of account of Syndicate 318 for the three years ended 31 December 2018, which comprise the Statement of profit or loss: Technical account – general business, Statement of profit or loss: Non-Technical account – general business, Balance sheet, Statement of members' balances, Statement of cashflows and related notes, including the accounting policies in note 2. 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. Note 1 to the financial statements further explains the basis of preparation of the underwriting year accounts.

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 and the Lloyd's Syndicate Accounting Byelaw. 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 and 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 loss for the 2016 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
21 March 2019

2016 Underwriting Year of Account

Statement of profit or loss: Technical account – general business for the 2016 closed year of account for the three years ended 31 December 2018

Technical account – general business

	Note	£000	£000
Earned premiums, net of reinsurance			
Gross premiums written	4	153,850	
Outward reinsurance premiums		(22,448)	
			131,402
Reinsurance to close premiums received, net of reinsurance	4/15		53,739
Allocated investment return transferred from the non-technical account			1,944
Other technical income, net of reinsurance			416
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(120,968)	
Reinsurers' share		15,465	
		(105,503)	
Reinsurance to close premium payable, net of reinsurance	5	(65,905)	
			(171,408)
Net operating expenses	7		(40,997)
Balance on the technical account – for general business			(24,904)

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 2016 closed year of account for the three years ended 31 December 2018

Non-technical account

	£000
Balance on the general business technical account	(24,904)
Income from investments	2,123
Realised losses on investments	(62)
Unrealised gains on investments	34
Investment expenses and charges	(151)
Allocated investment return transferred to general business technical account	(1,944)
Profit on exchange	533
Loss for the closed year of account	(24,371)

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.

2016 Underwriting Year of Account

Balance sheet as at 31 December 2018

	Note	£000	£000
Assets			
Investments			
Other financial investments	8		54,783
			54,783
Debtors			
Debtors arising out of direct insurance operations	9	44	
Debtors arising out of reinsurance operations	10	2,665	
Other debtors		96	
			2,805
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	5		5,076
Other assets			
Cash at bank and in hand			4,912
Total assets			67,576

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

	Note	£000	£000
Liabilities			
Capital and reserves			
Amounts due from members			(12,779)
Reinsurance to close premiums payable to close the account – gross amount	5		70,981
Creditors			
Creditors arising out of direct insurance operations	11	444	
Creditors arising out of reinsurance operations	12	510	
Other creditors including taxation and social security		8,420	
			9,374
Accruals and deferred income			–
Total liabilities			67,576

The financial statements on pages 68 to 87 were approved by the Board of Beaufort Underwriting Agency Limited on 21 March 2019 and were signed on its behalf by

D. C. Eales
Active Underwriter and
Director of Underwriting

G. M. Tuck
Finance Director

21 March 2019

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

2016 Underwriting Year of Account

Statement of members' balances for the 36 months ended 31 December 2018

	£000
Members' balances brought forward at 1 January	–
Loss for closed year of account	(24,371)
Open year cash calls made	11,752
Members' agents fees	(160)
Members' balances carried forward at 31 December 2018	(12,779)

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

Statement of cash flows for the 36 months ended 31 December 2018

	Note	£000
Closed year cash flow		
Cash flows from operating activities		
Loss for the year		(24,371)
Unrealised gains on investments		(34)
Net realised foreign exchange gains		(2,881)
Non cash consideration received as part of RITC received	15	(72,627)
RITC premium payable net of reinsurance	5	65,905
Acquisitions of other financial instruments		(22,934)
Proceeds from sale of other financial instruments		50,526
Increase in debtors, subrogation and salvage and prepayments		(1,190)
Decrease in creditors		926
Net cash outflow from operating activities		(6,680)
Net cash flow from financing activities:		
Members' agents' fees paid on behalf of members		(160)
Cash calls received from members		11,752
Net cash inflow from financing activities		11,592
Net increase in cash and cash equivalents		4,912
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	4,912

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

Notes to the accounts for the 36 months ended 31 December 2018

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"), and Financial Reporting Standard 103 Insurance Contracts ("FRS 103").

Whilst the directors of the managing agent have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future, these financial statements represent the participation of members in the 2016 year of account, which closed on 31 December 2018. The accumulated loss of the 2016 year of account will be called shortly after publication of these accounts. Therefore the 2016 year of account is not continuing to trade and, accordingly the directors have not adopted the going concern basis in the preparation of these accounts. This has no effect on the amounts reported in the accounts as the 2016 year of account will be closed by payment of a reinsurance to close premium, as outlined in note 5 below, which is consistent with the normal course of business for a Lloyd's Syndicate and with the approach we have applied to earlier underwriting years.

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. Refer to note 2 in the annual accounts for the treatment of estimates.

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

2 Accounting policies

(a) Underwriting transactions

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 years, 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.

(b) Reinsurance to close premium received

The reinsurance to close premium received 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 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.

2 Accounting policies *continued*

(b) Reinsurance to close premium received *continued*

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 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 years, 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.

(c) Premiums written and earned

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.

2 Accounting policies *continued*

(d) Claims paid

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.

(e) Reinsurance to close premium payable

The reinsurance to close premium paid was closed into the 2017 year of account at 31 December 2018.

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 years, 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*

(f) Acquisition costs

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 how 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*

(g) Financial assets and liabilities *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 the carrying amount of the impaired asset directly. 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.

(i) Net operating expenses

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*

(k) 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 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 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.

(l) Basis of currency translation

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 34.

Effective from the 1 January 2019, the RITC process means that the Insurance, Financial, Credit, Liquidity, Market and Capital risks are transferred to the accepting 2017 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	3,822	(2,937)	(996)	(872)	(983)
Fire and other damage to property	94,522	(76,943)	(26,416)	839	(7,998)
Third party liability	–	(105)	–	(2)	(107)
Reinsurance acceptances	113,366	(111,964)	(13,585)	(5,993)	(18,176)
Total	211,710	(191,949)	(40,997)	(6,028)	(27,264)

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 2015 and prior years of account. The gross premiums written include £57,859,542 of reinsurance acceptances from the 2015 and prior years reinsurance to close premium. Reinsurance balances include £4,120,399 of reinsurance recoverable from the 2015 and prior years reinsurance to close premium.

Geographical analysis by destination

	Gross premiums written £000
UK	70,167
US	98,222
Other	43,321
Total	211,710

5 Reinsurance to close premium payable net of reinsurance

	Reported £000	IBNR £000	Total £000
Gross outstandings	49,793	21,188	70,981
Reinsurance recoveries anticipated	(4,969)	(107)	(5,076)
Net	44,824	21,081	65,905

6 Analysis of result by year of account

	2015 & prior years of account £000	2016 pure year of account £000	Total £000
Technical account balance before allocated investment return and net operating expenses	12,551	1,181	13,732
Brokerage and commission on gross premium	–	(30,375)	(30,375)
Acquisition costs – other	–	(6,160)	(6,160)
	12,551	(35,354)	(22,803)

7 Net operating expenses

	£000
Acquisition costs – brokerage	30,375
Acquisition costs – other	6,160
Administrative expenses	4,462
	40,997

The closed year profit is stated after charging:

	£000
Auditor remuneration	
Audit – KPMG LLP	120
Audit related assurance services – KPMG LLP	63
Operating lease rentals	
Property	405

8 Financial investments

	Market value £000	Cost £000
Holdings in collective investment schemes	13,631	13,631
Debt securities and other fixed income securities	36,906	36,861
Overseas deposits as investments	4,246	4,246
Total investments	54,783	54,738

9 Debtors arising out of direct insurance operations

	£000
Due within one year	44
	44

10 Debtors arising out of reinsurance operations

	£000
Due within one year	2,665
	2,665

11 Creditors arising out of direct insurance operations

	£000
Due within one year	444
	444

12 Creditors arising out of reinsurance operations

	£000
Due within one year	510
	510

13 Post balance sheet events

The reinsurance premium paid to close the 2016 year of account at 31 December 2018 was agreed by the Board of the Managing Agency on the 7 February 2019. Consequently the technical provisions at 31 December 2018 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 $16,229,699 will be transferred from members' personal reserve funds on 10 April 2019 in respect of the 2016 year of account.

On 28 February 2019, MSP Underwriting Limited, and its subsidiaries including Beaufort Underwriting Agency Limited, and Beaufort Dedicated No.2 Limited were acquired by Cincinnati Financial Corporation from Münchener Rückversicherungs-Gesellschaft.

14 Related parties

Beaufort Underwriting Agency Limited – Ultimate holding company

As at 31 December 2018 the ultimate parent company of Beaufort Underwriting Agency Limited ("BUAL") is Münchener Rücksversicherungs-Gesellschaft Aktiengesellschaft in München. 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 2018.

For the 2017, 2018 and 2019 years of account, the Munich Re participation on Syndicate 318 is as follows:

Year of account	Participation £000	% of capacity
2017	214,357	91.3
2018	214,357	91.5
2019	214,357	91.8

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 2016 year of account, Gross Written Premiums under these contracts amounted to £439,405. Brokerage paid to BCL amounted to £124,797.

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 £273,969 for the 2016 year. Actual and anticipated recoveries under these arrangements amount to £310,252 as at 31 December 2018.

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

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

For the 2016 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 2016 year of account, the Syndicate received £310,066 and US$135,109 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 2018 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 2016 year of account amounted to £1,527,788.

Profit commission of £Nil has been accrued in respect of the 2016 year of account. Expenses totalling £8,984,715 were recharged to the Syndicate in 2016 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	79,459
Debtors	1,616
Creditors	(8,448)
Non cash consideration received	72,627
Cash	3,702
Total cash and non cash consideration for RITC received	76,329
Amounts payable to members' on closure of the 2015 year of account	(24,939)
Reinsurance to close premiums received, net of reinsurance received at 1 January 2018	51,390
Profit on foreign exchange	2,349
Reinsurance to close premiums received, net of reinsurance	53,739

16 Movement in opening and closing portfolio investments net of financing

	At 1 January 2016 £000	Received within RITC premium £000	Cash flow £000	Change in fair value and foreign exchange £000	At 31 December 2018 £000
Cash	–	3,702	1,210	–	4,912
Portfolio investments	–	79,459	(27,591)	2,915	54,783
Total portfolio investments	–	83,161	(26,381)	2,915	59,695

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.

	2010	2011	2012	2013	2014	2015	**2016**
Syndicate allocated capacity	£225.04m	£224.89m	£234.98m	£234.83m	£235.04m	£234.85m	**£235.04**
Capacity utilised	55.3%	56.7%	58.7%	54.6%	59.6%	53.0%	**52.5%**

Results for an illustrative share of £10,000

	£	£	£	£	£	£	**£**
Gross premiums (net of brokerage)	5,527	5,674	5,872	5,463	5,960	5,298	**5,253**
Net premiums	4,392	4,618	4,937	4,413	4,947	4,463	**4,298**
Reinsurance to close from an earlier account	3,910	3,397	2,779	2,589	2,538	2,315	**2,286**
Net claims	(4,019)	(3,725)	(3,362)	(2,435)	(3,163)	(2,924)	**(4,489)**
Reinsurance to close	(3,446)	(2,788)	(2,501)	(2,227)	(2,463)	(2,188)	**(2,804)**
Profit/(loss) on exchange	(10)	(4)	23	27	34	19	**23**
Net operating expenses	(257)	(281)	(295)	(341)	(303)	(330)	**(319)**
Balance on technical account	570	1,217	1,581	2,026	1,590	1,355	**(1,005)**
Investment income and gains less losses, less expenses and charges	66	75	45	39	77	93	**83**
Profit/(loss) before personal expenses	636	1,292	1,626	2,065	1,667	1,448	**(922)**
Illustrative personal expenses for a traditional Name							
Managing agent's salary	(65)	(65)	(65)	(65)	(65)	(65)	**(65)**
Central Fund contributions	(29)	(29)	(10)	(26)	(23)	(24)	**(22)**
Profit commission	(103)	(234)	(305)	(389)	(311)	(267)	**–**
Lloyd's subscription	(29)	(29)	(24)	(26)	(23)	(24)	**(28)**
	(226)	(357)	(404)	(506)	(422)	(380)	**(115)**
Profit/(loss) after illustrative profit commission and illustrative personal expenses	410	935	1,222	1,559	1,245	1,068	**(1,037)**

For the 2016 year of account, an illustrative share of £10,000 represents 0.00425% of allocated capacity.

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

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