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SA MEACOCK

SYNDICATE 727

REPORT AND ACCOUNTS 2016

KEY INFORMATION

RESULTS – 2014 ACCOUNT

17.5% Profit
After standard personal expenses

FORECAST – 2015 ACCOUNT

5.0% Loss to 15.0% Profit
After standard personal expenses

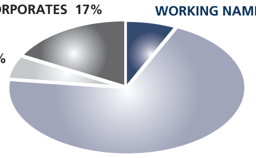
PROSPECTS

2016 Account – the business we were able to write is unlikely to make anyone's fortune

2017 Account – we have little appetite for most new business in today's treacherous and overcrowded market

CAPACITY

Total 2017 account £80.8 million



SYNDICATE FUNDS

	CASH, INVESTMENTS, OVERSEAS DEPOSITS AND OTHER ASSETS AT 31 DECEMBER 2016
Sterling	£16.4 million
US dollars	US$316.2 million
Canadian dollars	CAN$25.8 million
Total translated into Sterling	£287.0 million

ACTIVE UNDERWRITER'S REPORT

REVIEW OF YEAR OF ACCOUNT

RESULTS AND PROSPECTS

The following commentary uses 31 December 2016 exchange rates throughout.

The Closed 2014 Account

The 2014 Account has closed with a profit of 17.5% of stamp capacity after standard personal expenses but before members' agents' fees. This result has benefited from a substantial release of reserves from prior years of account now available due to the continuing favourable trends experienced during the last few years in incurred claims development on all years of account, despite the recent emergence of some new sources of claims in the liability book. The utilisation of the reserve for incurred but not reported claims has been, as it was last year, very light.

The pure 2014 account received written premium net of acquisition costs of £60.2 million against an original business plan of £58.6 million (a comparison greatly flattered by rates of exchange movements) and a final stamp capacity of £80.7 million; this equates to a utilisation of 75% of members' capacity. The account was untroubled by any catastrophe losses of note and so the short tail business as a whole made a good profit, achieving a very similar loss ratio to the 2013 Account, albeit on a much reduced volume of premium. The whole account net ultimate loss ratio is forecast at 86.8%, a figure which reflects our policy of robustly reserving long tail business.

The Open 2015 Account

Overall, the 2015 Account incurred (paid plus noted outstanding claims) loss ratio on net signed premiums at the twenty-fourth month shows a marked deterioration from the 2014 Account at the same stage. Focusing only on the short tail business, the same statement is true, here on account of the flooding in northern England and the forest fires in Fort McMurray, Alberta, Canada. Property income is down again, by over £5 million compared to 2014 Account. This is largely a result of refusing to accept ever-diminishing margins on the business, especially in the catastrophe reinsurance book where the risk reward ratio has come under attack by capital new to the market. The overall income is not much reduced because some very low risk/low reward business was judged to be worth writing if only to prevent syndicate costs from becoming overwhelming, as described in last year's report. Cautious loss projections on the long tail account contribute to an overall ultimate loss ratio forecast of 88.2%, which should produce sufficient profit to leave a surplus after allowing for expenses and investment returns. The 2015 ultimate premium income is now assessed at £58.8 million net of acquisition costs, as compared with an original business plan of £47.5 million, a comparison made almost totally meaningless by movements in rates of exchange.

The Open 2016 Account

The written premium net of acquisition costs at the end of December was £51.0 million and, with only £20.0 million being earned, it is too early to be able to produce a reliable forecast of profit or loss. A number of medium sized events have impacted the short tail account during 2016 (Hurricane Matthew, Fort McMurray, tornados in the USA) but a profit could yet materialise if claims experience is favourable during the next six months. At the whole account level, a large portion of the written premium was developed from business renewed from the 2015 Account, and this was transacted at a rate reduction of 2.0%. Measured by incurred loss ratio, 2016 Account is running several percentage points worse than 2015 Account at the same stage. Syndicate expenses remain a material sum and, at this stage, seem likely to limit the bottom line to a small profit or marginal result.

Prospects for the 2017 Account

We retained over 90% of our business that renews in January at an average rate that was only 2.7% down on a risk adjusted basis. This higher retention rate, by comparison with earlier years of account, reflects the fact that our business forecasts of late are based on business which typically has been with us for many years, and comes from sources with whom we are happy to partner as we go deeper into the lower regions of the pricing cycle. This is undoubtedly where the market is heading as capacity continues to exceed demand in both reinsurance and excess and surplus lines business. New business continues to be shown and carefully considered by us, and some has been accepted, but our business forecasts do not count on writing much new business. We have not set ourselves a very ambitious business plan for the 2017 Account in terms of either volume or margin, but with a reliable and loyal renewal book our goals should be achievable. US interest rates appear set for an uptick or two, but it remains to be seen if the bottom line will benefit much in view of Lloyd's inability or unwillingness to rein in the ever-increasing costs of regulation and data processing.

Producing a materially positive result for the 2017 Account of Syndicate 727 is as daunting a task as any of the many challenges that have presented themselves over the years, but it is a challenge that I am as keen as ever to accept and, it is to be hoped, meet. As always, I am indebted to the management team here and the staff for all their hard work and professionalism, and to you the Names for maintaining your loyal support.

M J Meacock
Active Underwriter
17 March 2017

FOURTEEN YEAR SUMMARY OF RESULTS

31 DECEMBER 2016

	2001	2002	2003	2004	2005	2006	2007
	£	£	£	£	£	£	£
Syndicate allocated capacity	49,286,000	61,777,000	71,041,470	76,741,651	71,564,310	72,278,249	73,492,472
Number of Members of the Syndicate	856	883	871	863	809	817	800
Aggregate net premiums	39,426,202	46,444,038	53,318,722	52,414,403	54,043,726	51,302,698	50,152,597
Results for £10,000 share							
Gross premiums (Note 2)	8,779	8,069	7,958	7,465	8,156	7,571	6,980
Net premiums (Note 2)	7,999	7,518	7,505	7,179	7,670	7,098	6,824
Premium for the reinsurance to close an earlier year of account (Note 4)	9,871	8,014	9,118	9,850	11,610	11,973	16,875
Net claims	(8,196)	(4,510)	(4,286)	(4,512)	(5,524)	(4,379)	(4,627)
Reinsurance to close the year of account (Note 4)	(10,541)	(9,266)	(10,641)	(11,329)	(12,994)	(13,299)	(18,349)
Underwriting result	(867)	1,756	1,696	1,188	762	1,393	723
Syndicate operating expenses	(531)	(474)	(399)	(346)	(414)	(399)	(481)
Balance on technical account	(1,398)	1,282	1,297	842	348	994	242
Profit/(Loss) on exchange	14	78	(6)	(91)	(62)	360	575
Investment income less investment expenses and charges and investment gains less losses	561	344	464	683	969	793	1,383
Profit/(Loss) before personal expenses	(823)	1,704	1,755	1,434	1,255	2,147	2,200
Illustrative profit commission (Note 3)	–	(55)	(226)	(180)	(164)	(291)	(298)
Illustrative personal expenses (Note 3)	(160)	(185)	(185)	(235)	(160)	(210)	(210)
Total standard personal expenses	(160)	(240)	(411)	(415)	(324)	(501)	(508)
Profit/(Loss) after standard personal expenses	(983)	1,464	1,344	1,019	931	1,646	1,692

FOURTEEN YEAR SUMMARY OF RESULTS

31 DECEMBER 2016

	2008	2009	2010	2011	2012	2013	2014	2014 (Note 5)
	£	£	£	£	£	£	£	£
Syndicate allocated capacity	73,681,796	73,789,097	79,814,031	79,821,684	79,587,725	80,055,342	80,688,382	80,688,382
Number of Members of the Syndicate	782	789	790	792	795	815	820	820
Aggregate net premiums	93,656,352	59,509,108	59,102,713	64,602,432	61,713,904	57,826,174	48,027,674	59,559,977
Results for £10,000 share								
Gross premiums (Note 2)	12,909	8,273	7,544	8,316	7,924	7,347	6,005	7,447
Net premiums (Note 2)	12,711	8,061	7,405	8,093	7,754	7,223	5,952	7,381
Premium for the reinsurance to close an earlier year of account (Note 4)	17,575	23,711	22,628	21,878	21,987	23,005	23,716	27,604
Net claims	(6,454)	(5,461)	(5,817)	(6,209)	(5,761)	(4,941)	(4,489)	(4,983)
Reinsurance to close the year of account (Note 4)	(22,876)	(24,312)	(22,783)	(22,235)	(22,280)	(22,750)	(23,185)	(27,620)
Underwriting result	956	1,999	1,433	1,527	1,701	2,537	1,995	2,383
Syndicate operating expenses	(519)	(550)	(560)	(613)	(583)	(556)	(514)	(525)
Balance on technical account	437	1,449	873	914	1,118	1,981	1,481	1,858
Profit/(Loss) on exchange	604	117	(151)	125	97	(45)	362	(51)
Investment income less investment expenses and charges and investment gains less losses	834	382	750	380	325	179	466	502
Profit before personal expenses	1,875	1,948	1,472	1,419	1,540	2,114	2,309	2,309
Illustrative profit commission (Note 3)	(261)	(271)	(200)	(244)	(284)	(397)	(438)	(438)
Illustrative personal expenses (Note 3)	(132)	(142)	(137)	(140)	(120)	(132)	(121)	(121)
Total standard personal expenses	(393)	(413)	(337)	(384)	(404)	(529)	(559)	(559)
Profit after standard personal expenses	1,482	1,535	1,135	1,035	1,136	1,586	1,750	1,750

Notes:

1. This fourteen year summary of results on this and the previous page shows the result for a £10,000 share of the Syndicate for each year of account from 2001 to 2014.
2. Gross premiums and net premiums above, are stated after brokerage and commissions.
3. The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000 for an individual name.
4. The reinsurance premium received to close an earlier year of account is stated at the exchange rate ruling as to the year-end it transferred the liabilities into the receiving year. The reinsurance to close the current year of account is stated at the average exchange rate for the calendar year in which it closed. The effect of translating it to the closed year end exchange rate is included within the profit or loss on exchange.
5. The figures shown in the above box illustrate the 2014 Year of Account at year end exchange rates.

SYNDICATE 727
2014 YEAR OF ACCOUNT

SYNDICATE UNDERWRITING YEAR ACCOUNTS

31 DECEMBER 2016

CONTENTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

The Managing Agent presents its Report of the Directors together with the Syndicate Underwriting Year Accounts for the 2014 Year of Account of Syndicate 727 for the three years ended 31 December 2016.

REVIEW OF THE 2014 YEAR OF ACCOUNT

ACTIVITIES

The principal activity of the Syndicate is that of underwriting insurance and reinsurance risks and this is conducted wholly within the Lloyd's market. A large percentage of the risks underwritten are located in North America while significant exposures are accepted in the UK and more modest exposures in many other areas of the world. Exposures taken on through reinsurance would have a similar geographic spread with perhaps less emphasis on the UK.

The initial stamp capacity for 2014 was £80.8m which is the same as for the previous year of account. The business plan proposed total gross premium of £58.6 million. Gross Premiums written after brokerage and commissions were £48.5m, 83% of plan. There are no significant lines of business that were discontinued or commenced for the 2014 year of account and the mix of business by type is similar to the previous year of account except for a reduction in property catastrophe reinsurance and smaller reductions in other property reinsurance. Nevertheless, property continues to be the largest category of business at 45% of the whole, with liability, at 41% being the next largest business category.

Very little reinsurance was purchased, in line with our general philosophy of only accepting exposures if they are worth keeping. That reinsurance which was purchased was largely placed with reinsurers whose security is "A" rated by AM Best (the same level as Lloyd's) or better.

RESULTS

The profit for the 2014 year of account was £14.4m equivalent to 17.5% of the final capacity. Note 3 to the Accounts provides an analysis by class of business.

Within this profit, there was a profit arising from the reinsurance to close received from 2013 year of account of £13.3m before expenses and investment return. This arose largely from a reduction in the 2013 and prior years' liability reserves as a result of favourable settlements in 2016. See page 21 for a more detailed analysis of the various sources of profit and loss.

The investment return over the three year period was higher than the previous year of account owing to a more benign investment environment and higher bond yields. See page 32 for a more detailed investment report.

AUDITOR

PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

DISCLOSURE OF INFORMATION TO AUDITOR

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

Approved by the Board of Directors of S A Meacock & Company Limited and signed on its behalf by:

K.W. Jarvis

K W Jarvis
Director
17 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Managing Agent is responsible for preparing Syndicate Underwriting Year Accounts and an accompanying Report of the Directors of the Managing Agent in accordance with applicable law, Lloyd's Byelaws and United Kingdom Generally Accepted Accounting Practice.

Regulation 6 of the Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") requires the Managing Agent to prepare Syndicate Underwriting Year Accounts for a Syndicate in respect of any underwriting year which is being closed by reinsurance to close during or at the end of a financial year.

The Syndicate Underwriting Year Accounts must be prepared on an underwriting year basis which give a true and fair view of the result of the underwriting year at closure.

In preparing the Syndicate Underwriting Year Accounts, the Managing Agent is required by the Syndicate Accounting Byelaw (No. 8 of 2005) to:

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

- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

- make judgements and estimates that are reasonable and prudent; and

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these Syndicate Underwriting Year Accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Underwriting Year Accounts comply with the 2008 Regulations and the Syndicate Accounting Byelaw (No.8 of 2005). It also has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Syndicate and to prevent and detect fraud and other irregularities.

Approved by the Board of Directors of S A Meacock & Company Limited and signed on its behalf by:

K.W. Jarvis

K W Jarvis
Director
17 March 2017

INDEPENDENT AUDITOR'S REPORT

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 727 – 2014 CLOSED YEAR OF ACCOUNT

We have audited the Syndicate Underwriting Year Accounts for the 2014 Year of Account of Syndicate 727 for the three years ended 31 December 2016 as set out on pages 12 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Members on the 2014 Year of Account of the Syndicate, as a body, in accordance with the Regulation 6(4) of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005). 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 Members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND AUDITOR

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 10, the Managing Agent is responsible for the preparation of the Syndicate Underwriting Year Accounts, under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005), which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate Underwriting Year Accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the Syndicate Underwriting Year Accounts sufficient to give reasonable assurance that the Syndicate Underwriting Year Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Managing Agent; and the overall presentation of the Syndicate Underwriting Year Accounts. In addition we read all the financial and non-financial information in the Report of the Directors of the Managing Agent to identify material inconsistencies within the Syndicate Underwriting Year Accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON SYNDICATE UNDERWRITING YEAR ACCOUNTS

In our opinion the Syndicate Underwriting Year Accounts:

- give a true and fair view of the profit for the 2014 Closed Year of Account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005) requires us to report to you if, in our opinion:

- the Managing Agent in respect of the Syndicate has not kept proper accounting records; or
- the Syndicate Underwriting Year Accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

N A Coulson

Neil Coulson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

17 March 2017

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

THREE YEARS ENDED 31 DECEMBER 2016

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

	NOTES	£'000	2014 YEAR OF ACCOUNT £'000
Syndicate allocated capacity			80,688
Earned premiums, net of reinsurance:			
Gross premiums written	3		64,840
Outward reinsurance premiums			(424)
Net premiums written			64,416
Reinsurance to close premiums received, net of reinsurance	5		191,361
			255,777
Allocated investment return transferred from the Non-Technical Account			3,764
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		36,644	
Reinsurers' share		(423)	
		36,221	
Reinsurance to close premiums payable, net of reinsurance	6	187,073	
			(223,294)
Net operating expenses	7		(24,753)
Balance on the Technical Account – for General Business	8		11,494

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

THREE YEARS ENDED 31 DECEMBER 2016

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

	NOTES	2014 YEAR OF ACCOUNT £'000
Balance on the Technical Account – for General Business		11,494
Investment income	9	8,610
Unrealised gains on investments	9	2,475
Investment expenses and charges	9	(6,412)
Unrealised losses on investments	9	(909)
Allocated investment return transferred to General Business Technical Account	9	(3,764)
Other charges		2,919
Profit for the 2014 closed year of account		14,413

As the 2014 Year of Account following a Reinsurance to Close is no longer trading, all operations relate to ceased activities for this Year of Account.

The above profit is stated after a £2,919,509 exchange profit, included within the Non-Technical Account other charges.

There was no Other Comprehensive Income for the 2014 Year of Account.

STATEMENT OF CHANGES IN MEMBERS' BALANCES

THREE YEARS ENDED 31 DECEMBER 2016

	2014 YEAR OF ACCOUNT £'000
Balance at 1 January 2014	–
Profit for the 2014 closed year of account	14,413
Members' agents' fees advances on behalf of Members	(536)
Amounts due to Members at 31 December 2016	13,877

BALANCE SHEET

AT 31 DECEMBER 2016

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

	NOTES	2014 YEAR OF ACCOUNT £'000	2014 YEAR OF ACCOUNT £'000
Assets			
Investments	10		213,972
Debtors	11		7,624
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable	6		545
Other assets			
Tangible assets		–	
Cash at bank and in hand		9,848	
Other *(including overseas deposits)*		6,720	
			16,568
Prepayments and accrued income			
Accrued interest			1,891
Total assets			240,600
Liabilities			
Amounts due to Members			13,877
Reinsurance to close premium payable			
– gross amount	6		223,402
Creditors	12		3,321
Total liabilities			240,600

The Syndicate Underwriting Year Accounts were approved by the Board of Directors of S A Meacock & Company Limited on 17 March 2017 and were signed on its behalf by:

M J Meacock
Director

K W Jarvis
Director

STATEMENT OF CASH FLOWS

THREE YEARS ENDED 31 DECEMBER 2016

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

	2014 YEAR OF ACCOUNT £'000
Cashflow from Operating Activities:	
Profit/(loss) for the closed year account	14,413
Adjustments for:	
Increase in reinsurance to close payable	222,857
(Increase) in debtors, prepayments and accrued interest	(10,051)
Increase in creditors, accruals and deferred income	3,321
Investment return	(3,764)
Net Cash Inflow from Operating Activities	226,776
Cash Flows from Investing Activities:	
Purchase of equity and debt instruments, overseas deposits and other assets	(313,189)
Sale of equity and debt instruments, overseas deposits and other assets	130,310
Investment income received	8,610
Losses on realisation of investments	(6,412)
Investment expenses and charges	1,566
Market value and currency changes	(37,813)
Net Cash Outflow from Investing Activities	(216,928)
Net increase in Cash and Cash Equivalents in the three years	9,848
Cash and cash equivalents at 1 January 2014	–
Effect of exchange rates on cash and cash equivalents	–
Cash and cash equivalents at 31 December 2016	9,848
Cash and cash equivalents comprise:	
Cash at bank and in hand	9,848
Other Financial Investments:	
Short-term deposits with credit institutions	–
Cash and cash equivalents at 31 December 2016	9,848

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

1. STATEMENT OF ACCOUNTING POLICIES

GENERAL INFORMATION

1.1 GENERAL INFORMATION AND PRINCIPAL ACTIVITIES

Syndicate 727 is a Lloyd's Syndicate domiciled in England and Wales. It is managed by S A Meacock & Company Limited a private company limited by shares that was incorporated in England and whose registered office is Hasilwood House, 60 Bishopsgate, London EC2N 4AW.

The Syndicate underwrites a diverse book of general insurance and reinsurance business from around the world as part of the Lloyd's of London insurance market. This activity is carried out primarily from a box in the Lloyd's Building in London and from nearby offices.

The Syndicate is supported by capacity from connected and third party members.

1.2 BASIS OF PREPARATION AND COMPLIANCE WITH ACCOUNTING STANDARDS

These Syndicate Underwriting Year Accounts have been prepared in accordance with United Kingdom Accounting Standards, including both FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" to the extent necessary to produce a true and fair view of the result, as well as the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005).

The Syndicate Underwriting Year Accounts have been prepared on the historical cost basis, except for financial assets at fair value through the profit or loss, which are measured at fair value.

The Syndicate Underwriting Year Accounts are presented in Pounds Sterling which is also the Syndicate's functional currency.

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture. These Syndicate Underwriting Year Accounts relate to the 2014 year of account which has been closed by reinsurance to close into the 2015 year of account of Syndicate 727 at 31 December 2016. Consequently the balance sheet represents the assets and liabilities of the 2014 year of account and the profit and loss account and the Statement of Cash Flows reflect the transactions for that year of account during the 36 months period until closure.

As each Syndicate year of account is a separate annual venture, comparatives do not exist and are therefore not included in these accounts.

SIGNIFICANT ACCOUNTING POLICIES

1.3 UNDERWRITING TRANSACTIONS

Each account is normally kept open for three years and the underwriting result is ascertained at the end of the third year when the account is closed, normally by reinsurance to close into the following year of account. The accounts include transactions on the following bases:

(a) Gross premiums are allocated to years of account on the basis of the policy inception date. 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 and claims are allocated to the year of account to which the related premiums are allocated. Commissions or brokerage charged to the Syndicate are allocated to the same year of account as the relevant policy. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(b) The reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.

(c) Gross claims paid include internal and external adjustment and settlement expenses. Salvages and reinsurance recoveries are allocated to the year of account to which the related claim was charged.

(d) All underwriting transactions are recognised on the basis of transactions processed up to and including the balance sheet date plus accruals in respect of anticipated additional or return premiums, reinsurance premiums and reinsurance recoveries in respect of paid claims.

(e) A Reinsurance to Close is a contract of insurance which, in return for a premium paid by the closing Year of Account, transfers, normally to the following Year of Account, all known and unknown liabilities arising out of transactions connected with insurance business underwritten by the closing Year of Account. However, it should be noted that a reinsurance to close contract does not extinguish the primary liability of the original underwriter.

The estimate of future liabilities (including internal and external settlement costs) and the premium for the Reinsurance to Close are calculated by the Underwriter based on the latest loss information available at the time of making such calculation. The calculation allows for the estimated net cost of claims which may have been incurred but not yet reported; such allowance is established by the Underwriter exercising his judgment aided by statistical projections based on the history of past claim settlements and by reference to case by case reviews of notified losses. The calculation includes estimates for known outstanding claims, claims which may have been incurred but not reported, and potential reinsurance recoveries. The uncertainties which are inherent in the process of estimating are such that in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ from that presently estimated. Credit is taken for any reinsurance recoveries that are presently estimated to be recoverable. No credit is taken for investment earnings which may be expected to arise in the future on the funds representing either the Reinsurance to Close or the estimate of future liabilities as applicable. Any unearned premiums are taken into account within the calculation of the Reinsurance to Close premium.

1.4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Classification

The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

Investments in shares and other variable yield securities and unit trusts and debt securities and other fixed income securities are classified as fair value through profit and loss as they are managed on a fair value basis. Cash at bank, deposits with credit institutions, debtors and accrued interest are classified as held at amortised cost.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(b) Recognition

Financial assets and liabilities are recognised when the Syndicate becomes party to the contractual provisions of the instrument.

Regular way of 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.

(c) Initial measurement

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

(d) Subsequent measurement

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Investments in shares and other debt instruments are measured at fair value through profit or loss. 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 last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

(e) Derecognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the Syndicates transfer to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Syndicates, despite having retained some significant risks and rewards of ownership, have transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(f) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset or liability in an active market that the entity can access at the measurement date. When quoted prices are unavailable, observable inputs developed using market data, other than quoted prices, for the asset or liability, either directly or indirectly, are used to determine the fair value. If the market for the asset is not active and there are no observable inputs, then the Syndicate estimates the fair value by using unobservable inputs, where market data is unavailable.

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of financial instruments measured at amortised cost or cost

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

(h) Offsetting

Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

1.5 INVESTMENT RETURN

The gross 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 is allocated to 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.

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.

1.6 SYNDICATE OPERATING EXPENSES

Costs incurred by the Managing Agent in respect of the Syndicate are charged to the Syndicate. Where expenses do not relate to any specific year of account they are apportioned between years of account on bases which reflect the benefit obtained by each year of account from each type of expense. Where expenses are incurred jointly by the Managing Agent and the Syndicate, they are apportioned on bases that are considered to fairly reflect the nature and usage of the expense concerned.

1.7 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 individual tax liabilities with the Inland Revenue.

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.

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.8 BASIS OF CURRENCY TRANSLATION

The Syndicate has Pound Sterling as its functional and presentation currency.

Income and expenditure in US dollars and Canadian dollars are translated at average rates of exchange for each calendar year as an equivalent of transaction rates. The exception to this is that the reinsurance to close receivable has been translated at the transaction rates of exchange ruling at the effective dates of the contracts. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Although transactions are translated as described above the monetary assets and liabilities, including any unearned premiums or deferred acquisition costs, within the balance sheet in US dollars and Canadian dollars are translated at the rates of exchange ruling on 31 December 2016. Any differences are included within the profit or loss on exchange account in the Non-Technical Account. Any non-monetary assets or liabilities are retained at their original exchange rate.

Where Canadian Dollars are sold or bought relating to the profit or loss of a closed underwriting account after 31 December 2016, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States Dollars are transferred to or from Members any exchange profit or loss accrues to those Members.

1.9 KEY ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTIES

The key accounting judgements, assumptions and estimates made in the preparation of these Underwriting Year Accounts are those relating to the determination of the Reinsurance to Close to transfer all assets and liabilities from the 2014 Year of Account to the 2015 Year of Account. However as this amount has been contractually committed to since the year-end there can be no further change to the amount in respect of the 2014 Year of Account.

The accounting policy for the Reinsurance to Close is described at 1.3(e) and the related risks relating to the underlying net technical provisions that it transfers are described at Note 2.5 on pages 49 to 51 within the Syndicate Annual Financial Statements. The Reinsurance to Close for net technical provisions after the reinsurers' share is £222.8m. The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either a claim event has occurred but the Syndicate has not yet been notified or where there has been insufficient information to date to be certain regarding its ultimate cost. An analysis of the Reinsurance to Close for net technical provisions after the reinsurers' share including disclosure of the provision for Incurred But Not Reported ("IBNR") after potential related reinsurance recoveries is shown at Note 6.

2. RISK AND CAPITAL MANAGEMENT

Since 31 December 2016 a Reinsurance to Close has been completed which transferred all assets and liabilities from the 2014 year of account to the 2015 year of account. Any change in value of the assets or liabilities or further transactions after 31 December 2016 will be borne by the 2015 year of account. The 2014 year of account therefore bears no further risk and accordingly no disclosures relating to risks are disclosed in these Underwriting Year Accounts. The risks remain within the Syndicate and are borne by the 2015 and subsequent years of account and are disclosed in the Syndicate Annual Financial Statements on pages 27 to 67 and in particular within Note 2 on Risk Management on pages 48 to 55.

The basis on which capital is managed by the Syndicate in accordance with the requirements of the Society of Lloyd's and the Prudential Regulation Authority is also described within the Syndicate Annual Financial Statements within Note 16 on Regulatory Capital Management on page 64.

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

3. ANALYSIS BY CLASS OF BUSINESS

An analysis of the underwriting result before investment return for the three years ended 31 December 2016 is set out below:

2014 YEAR OF ACCOUNT	GROSS PREMIUMS WRITTEN & EARNED £'000	GROSS CLAIMS INCURRED £'000	GROSS OPERATING EXPENSES £'000	REINSURANCE BALANCE £'000	TOTAL £'000
Direct insurance:					
Accident and health	4,298	(3,916)	(1,641)	8	(1,251)
Motor (third party liability)	127	(158)	(48)	0	(79)
Motor (other classes)	2,981	(1,772)	(1,138)	0	71
Marine aviation and transport	717	(275)	(274)	0	168
Fire and other damage to property	20,998	(10,745)	(8,016)	(56)	2,181
Third party liability	19,496	(14,932)	(7,443)	1	(2,878)
Credit and suretyship	69	(523)	(26)	0	(480)
	48,686	(32,321)	(18,586)	(47)	(2,268)
Reinsurance Acceptance	16,154	(13,521)	(6,167)	48	(3,486)
	64,840	(45,842)	(24,753)	1	(5,754)
Reinsurance to Close received	192,127	(178,641)	0	(2)	13,484
Total	256,967	(224,483)	(24,753)	(1)	7,730

4. GEOGRAPHICAL ORIGIN OF GROSS DIRECT PREMIUMS WRITTEN

All contracts of insurance were concluded in the United Kingdom.

5. REINSURANCE TO CLOSE PREMIUMS RECEIVED, NET OF REINSURANCE

	OUTSTANDING CLAIMS REPORTED £'000	IBNR £'000	2014 YEAR OF ACCOUNT TOTAL £'000
Gross reinsurance to close premiums received	38,307	144,597	182,904
Reinsurance recoveries anticipated	(766)	–	(766)
	37,541	144,597	182,138
Provision for internal claims administration expenses			9,223
At 1 January 2016 exchange rate			191,361

IBNR is the provision for claims incurred but not reported.

The value of the RITC received at the 2016 average exchange rate was £182,126.

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

6. REINSURANCE TO CLOSE PREMIUMS PAYABLE NET OF REINSURANCE

	OUTSTANDING CLAIMS REPORTED £'000	IBNR £'000	TOTAL £'000
Gross reinsurance to close premiums payable	33,810	146,749	180,559
Reinsurance recoveries anticipated	(399)	–	(399)
	33,411	146,749	180,160
Provision for internal claims administration expenses			6,913
At 2016 calendar year average exchange rate			187,073
Adjustments to year end foreign exchange rates			35,784
At 31 December 2016 exchange rate			222,857

The amount shown above as the Reinsurance to Close premium payable for closing the 2014 year of account into the 2015 year of account of Syndicate 727 as at 31 December 2016 was subsequently approved by the Board of S A Meacock & Company Limited on 26 January 2017. As can be seen, this is made up of a gross amount of £180.6 million and anticipated recoveries from reinsurers of £0.4 million, but does not include the allowance of £0.1 million for estimated future premium which has been allowed for in arriving at the gross written premium figure of £64.8 million. Including the £6.9 million reserve against future claims handling costs and the expected future premium, it can be seen that the total value of all future liabilities of the 2014 and prior years of account has been reserved at £222.8 million after £0.1 million for estimated future premium.

The table of the development of ultimate claims over the last six years is shown within Note 4 to the Syndicate Annual Financial Statements for the year ended 31 December 2016.

Reconciliation of Reinsurance to Close premiums received to Reinsurance to Close premiums payable

	GROSS CLAIMS £'000	REINSURERS' SHARE £'000	TOTAL £'000
Reinsurance to Close Received at 1-1-16	192,127	(766)	191,361
Claims paid in relation to 2013 and prior	(16,007)	423	(15,584)
Change in provision for 2013 and prior claims	(17,484)	469	(17,015)
Effect of movements in exchange rates	33,669	(543)	33,126
Reinsurance to Close Payable for 2013 and prior at 31-12-16	192,305	(417)	191,888
Provision for claims in relation to 2014 pure	31,097	(128)	30,969
Reinsurance to Close Payable for 2014 and prior at 31-12-16	223,402	(545)	222,857

7. NET OPERATING EXPENSES

	2014 YEAR OF ACCOUNT £'000
Brokerage and commissions	16,388
Other acquisition costs	1,161
Acquisition costs	17,549
Administrative expenses	7,204
	24,753
Included within administrative costs above are the following:	
Auditors' remuneration – audit	141
– taxation services	5
	146
Standard personal expenses (excluding Members' agents' fees)	4,219

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

8. BALANCE ON THE TECHNICAL ACCOUNT BEFORE NET OPERATING EXPENSES AND ALLOCATED INVESTMENT RETURN AND AFTER BROKERAGE AND COMMISSIONS

	2013 & PRIOR YEARS OF ACCOUNT £'000	2014 PURE YEAR OF ACCOUNT £'000	TOTAL 2014 £'000
Technical account balance before allocated investment return and net operating expenses	13,340	19,143	32,483
Brokerage and commission on gross premium (Note 7)	–	(16,388)	(16,388)
Balance after brokerage and commissions	13,340	2,755	16,095

9. INVESTMENT RETURN

	2014 YEAR OF ACCOUNT £'000
Income from investments	8,377
Gains on realisation of investments	233
Investment Income	8,610
Losses on realisation of investments	(6,412)
Investment expenses and charges	(6,412)
Unrealised gains on investments	2,475
Unrealised losses on investments	(909)
Net unrealised gains on investments	1,566
Allocated investment return transferred to the Technical Account from the Non-Technical Account	3,764
The above is comprised of:	
Interest and dividend income from financial assets at fair value through profit or loss	8,377
Net realised and unrealised gains and losses from financial assets at fair value through profit or loss	(4,613)
Total Investment Return	3,764

10. INVESTMENTS

	2014 YEAR OF ACCOUNT MARKET VALUE £'000	COST £'000
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities and unit trusts	16,562	16,157
Debt securities and other fixed income securities	197,410	200,256
	213,972	216,413

Fair value hierarchy

In accordance with FRS 102 paragraph 11.27 the above financial instruments carried at fair value have been classified by valuation method into three levels to estimate their fair values, with Level 1 being the most reliable. The Syndicate has early adopted the following definitions of the fair value hierarchy disclosures of the amendment to FRS102 paragraph 34.22 in accordance with the March 2016 Amendments:

Level 1: The unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

10. INVESTMENTS (CONTINUED)

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data), for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	2014 YEAR OF ACCOUNT TOTAL £'000
Financial assets at fair value through profit or loss:				
Shares and other variable yield securities and units in unit trusts	2,774	13,788	–	16,562
Debt securities and other fixed income securities	197,410	–	–	197,410
	200,184	13,788	–	213,972
Overseas deposits included in other assets:				
Loans and deposits with credit institutions	3,042	2,664	–	5,706
	203,226	16,452	–	219,678

Additional details about the methods and assumptions used to determine the fair value of the financial investments is given in Note 1.4 of these Syndicate Underwriting Accounts and Note 1.13 of the Syndicate Annual Financial Statements for the year ended 31 December 2016 on pages 17 to 19 and pages 45 to 46 respectively.

11. DEBTORS

	2014 YEAR OF ACCOUNT £'000
Arising out of direct insurance operations:	
Intermediaries	261
Arising out of reinsurance operations	606
Other debtors	6,757
	7,624

All amounts are due within one year.

12. CREDITORS

	2014 YEAR OF ACCOUNT £'000
Creditors arising out of direct insurance operations	50
Creditors arising out of reinsurance operations	15
Other creditors	3,256
Financial liabilities at amortised cost	3,321

All amounts are payable within one year.

13. RELATED PARTIES

(a) S A Meacock and Company Limited (the company) is a Managing Agent which has managed Syndicate 727 since 1 January 1997 with standard agency terms as follows:

	FEE	£'000's	PROFIT COMMISSION	£'000's
2014	0.6%	484	20%	3,240

Profit commission is not charged to staff, Executive Directors of the company or Meacock LLP, a corporate vehicle.

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

13. RELATED PARTIES (CONTINUED)

From the 2011 year of account onward, profit commission is calculated based on a seven year rolling average result as a percentage of capacity:

10% or greater	20%
Less than 10% but greater than 5%	17.5%
5% or less	15%

(b) Certain expenses amounting to £3,747,762 were incurred by the company and then recharged to the Syndicate.

(c) The balance due to the company at 31 December 2016 was £3,239,617.

(d) In 2006 Meacock LLP was formed to enable Executive Directors and staff to participate in the Syndicate. Directors' participations are included in Note 13(e) below. For 2014, the aggregate capacity of the Meacock LLP was £2,190,859.

(e) The combined Syndicate participations of the Directors and staff of the Managing Agent, both as individual names (unlimited and Nameco) and through the Meacock LLP, are shown below:

	2014 ACCOUNT	
	£'000s	% OPL
M P Bartlett	130	100
N N S Ford	350	100
K W Jarvis	450	100
D J Jones	200	100
J M Meacock	193	26
M J Meacock	4,086	48
A Taylor	736	100
Sir David Thomson Bt	1,480	30
D A Thorp	450	100
Meacock LLP (other than those shown above, both current and former staff)	285	100

None of these participations were through a MAPA and none has been protected by personal stop loss arrangements. Standard terms have been applied to them with the exception that profit commission has not been charged to staff, Executive Directors of the company or Meacock LLP.

(f) Meacock Capital plc (MC) which has a total issued share capital of 5,295,146 ordinary 25 pence shares owns 100% of Meacock Underwriting Limited (MU) which participated on Syndicate 727 on standard terms and with the following capacity:

	£
2014	12,633,183

The following Directors or connected persons held shares in MC:

	2014	
	ORD. 25P	% SHARE CAP
C N Jarvis (wife of K W Jarvis)	83,000	1.57
C E Meacock	529,000	9.99
J M Meacock	529,000	9.99
J W S Meacock	529,000	9.99
M J Meacock	1,125,886	21.26
W T R Meacock	529,000	9.99
Sir David Thomson Bt	156,600	2.96
D A Thorp	56,000	1.06

NOTES TO THE SYNDICATE UNDERWRITING YEAR ACCOUNTS

2014 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2016

13. RELATED PARTIES (CONTINUED)

(g) Mr M J Meacock is a Non-Executive Director of Alpha Insurance Analysts Limited (Alpha), a Lloyd's Members' agency. Neither Mr M J Meacock nor the company have a financial interest in Alpha.

(h) For the period 1 January 2014 to 30 June 2016, Mr J M Meacock was a senior broker with JLT Re, a JLT Re Ltd company, which placed business with Syndicate 727. Mr J M Meacock was not personally involved in the transaction of any business with Syndicate 727 and did not receive any form of direct remuneration or commission for this business. In view of the potential conflict of interest from this activity and the fact that his father, Mr M J Meacock is the Active Underwriter and 67.2% shareholder of the company, Mr J M Meacock did not participate on any of the board sub-committees that provided 'oversight' to operations or governance. With effect from 1 July 2016, Mr J M Meacock resigned from his position with JLT Re and following Board and regulatory approval was appointed an Executive of the company (previously Non-Executive Director) which commenced on 3 October 2016.

(i) Mr W T R Meacock, was appointed a Director of Meacock Capital plc and Meacock Underwriting Limited on 1 October 2010. He is also a Director of Guy Carpenter & Company LLC, a Marsh McLennan company, which does place business with Syndicate 727. Mr W T R Meacock is not personally involved in the placing of any business with Syndicate 727 and does not receive any form of direct remuneration or commission for this business.

(j) The following other 'close family' members of Mr M J Meacock also participated on Syndicate 727, on standard terms:

	2014 ACCOUNT £'000s
C E Meacock (son)	182
J W S Meacock (son)	193
Mrs R J R Meacock (wife)	626
W T R Meacock (son)	160

(k) There were no unpaid balances due to the Syndicate at 31 December 2016 from any of the Members detailed in Notes 13(e) and 13(j) above.

(l) Mr D K L White, Non-Executive Director, acts in the capacity of expert reviewer on underwriting issues and chairs the Underwriting and Claims Review Committee, Reinsurance Security and Recovery Committee, Risk Committee and Conduct Risk Committee.

(m) The company managed the Small Business Consortium (SBC) in which Syndicate 727 participated until 31 December 2012. Consortium members (participating Syndicates) reimburse the company (consortium manager) for expenses of management and pay profit commission to the consortium manager on the profits of the consortium. Members' agents (on behalf of the Members for whom they act) and direct participants have given their written agreement to the retention by the company of sums received under the consortium agreement. During the year ended 31 December 2016 the company received profit commission of £nil (2015: £nil).

14. PENSION OBLIGATIONS

The company operates a defined contribution scheme for its employees including Syndicate staff. The cost of the contributions charged to the 2014 year of account was £178,595 and there were no outstanding or prepaid contributions at 31 December 2016 in respect of the 2014 year of account. As the 2014 year of account has now been reinsured to close, no further pension contributions are chargeable to the Members of this year of account.

SYNDICATE 727

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

31 DECEMBER 2016

SA MEACOCK
SYNDICATE 727

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AT 31 DECEMBER 2016

DIRECTORS AND ADVISERS

31 DECEMBER 2016

MANAGING AGENT:

Managing agent	S A Meacock & Company Limited Hasilwood House 60 Bishopsgate London EC2N 4AW
Directors	Sir David Thomson Bt (Non-Executive Chairman) M P Bartlett N N S Ford K W Jarvis D J Jones J M Meacock (Non-Executive Director until 3 October 2016, thereafter Executive) M J Meacock A Taylor D A Thorp (Non-Executive Director) D K L White (Non-Executive Director)

SYNDICATE:

Active underwriter	M J Meacock
Independent Auditor	PKF Littlejohn LLP Statutory Auditor 1 Westferry Circus Canary Wharf London E14 4HD

STRATEGIC REPORT

31 DECEMBER 2016

The Directors of S A Meacock & Company Limited present their Strategic Report for Syndicate 727 for the year ended 31 December 2016.

Syndicate Underwriting Year Accounts

In addition to these Syndicate Annual Financial Statements there is also a separate set of Underwriting Year Accounts shown at pages 7 to 26 drawn up on the three year funded basis which have been prepared to show the cumulative result for the 2014 closed underwriting account as at 31 December 2016 which is being distributed in 2017.

REVIEW OF THE BUSINESS

Activities

The principal activity of the Syndicate is that of underwriting insurance and reinsurance risks and this is conducted wholly within the Lloyd's market. A large percentage of the risks underwritten are located in North America while significant exposures are accepted in the UK and more modest exposures in many other areas of the world. Exposures taken on through reinsurance would have a similar geographic spread with perhaps less emphasis on the UK. Note 3 to the Financial Statements provides an analysis of the business by class. There are no significant lines of business that have been discontinued or commenced during the year.

Key Performance Indicators

The Managing Agent considers the following to be key performance indicators of the Syndicate:

Calendar year	2016	2015
Capacity (underwriting year)	£80.6m	£80.7m
Gross premiums written (Note 3)	£59.6m	£67.8m
Gross premium (less reinsurance) earned	£64.9m	£67.7m
Acquisition costs earned (Note 5)	£17.2m	£17.4m
Profit for the year earned on the General Business Technical Account	£14.8m	£7.6m
Claims ratio (net)	45.3%	55.6%
Combined ratio (net)	83.7%	91.4%
Cash and investments	£287.0m	£254.6m

The 2016 Account capacity finished at £80.6m and the capacity for the 2017 Underwriting Year of Account is initially at £80.8m. The gross premiums underwritten in the year ended 31 December 2016 were £59.6 million, a 12% decrease over the previous year. Casualty has now become the largest line of business, developing 47.0% of the earned premium, while property is 45.3% of the earned premium. All other business categories are quite small in comparison. In line with the stated philosophy of taking on only exposures worth keeping, very little reinsurance has been purchased. That reinsurance which has been purchased is largely placed with reinsurers whose security is "A" rated by AM Best (the same level as Lloyd's) or better.

As the rating integrity in the excess of loss reinsurance business has steadily disappeared over the last few years, in both property and casualty, the share of the Syndicate done through binding authorities has steadily increased. In 2016, 62% of the £64.9m of net earned premium came from this way of doing business.

Results

The profit on the General Business Technical Account for the calendar year 2016 is higher than that achieved in calendar year 2015 by £7.2m, the increase being 11.1% of the net earned premium, largely because of releases from reserves on some of the Syndicate's older business. (Comparing claims recognised during 2016 with the premium earned during 2016 produces ratios of 58% for the property book and 105% for the liability book.)

STRATEGIC REPORT

31 DECEMBER 2016

Current Trading Conditions and Future Developments

The current trading conditions are showing decreases in premium rates for most lines of business and this is not expected to level off over the next 12 months. The Syndicate intends to underwrite a largely similar mix of business in 2017 subject to any changes in market conditions and any opportunities that may arise. A similar level of reinsurance protection is proposed for 2017 to that purchased in 2016. The initial stamp capacity has been maintained at £80.8 million for 2017.

There have been no significant post-balance-sheet events other than the proposed distribution of profits to Members detailed in Note 14 to the Financial Statements.

In addition to changes in market conditions there continue to be changes in regulatory requirements from the European Union, the Prudential Regulation Authority and Lloyd's. As Managing Agents we monitor these developments closely and plan our future strategy to ensure we are prepared for these changes. We are continuing to spend significant time on improving our risk modelling, which we hope will have a beneficial effect on the accuracy of our capital projections. Solvency II requirements came into effect within the European Union from 1 January 2016.

The impact on the Syndicate as a consequence of Brexit is considered to be negligible as little business from the EU is written by the Syndicate. In any case Lloyd's is planning to establish an office in the EU to ensure that as a market it is not disadvantaged.

As a Syndicate that underwrites over 70% of its business in the USA we are keenly watching the developments arising from the Trump Administration. Lloyd's and the broking community in particular have a healthy presence in the USA that should ensure effective management of any issues that may arise to challenge the existing arrangements regarding Excess and Surplus Line and Reinsurance Markets.

Analysis of Risk Management and Underwriting Analysis

The key risks for the business are related to insurance and comprise business volumes and pricing levels, claims levels from catastrophic events and attritional claims and reserving adequacy. Investment risks are the next largest element of risk for the business.

The Annual Financial Statements include further details of risks and risk management at Note 2. In addition details of the underwriting business written and claims development are included within Notes 3 and 4 respectively.

OTHER PERFORMANCE INDICATORS

Staff Matters

The Managing Agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is safe and complies with appropriate employee legislation. During the year there have been no significant actions taken by any regulatory bodies with regard to staff matters.

Environmental Matters

The Managing Agent does not consider that a business such as a Syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators. Directors and employees of the Managing Agent are not provided with company cars and travel requisitions and expenses are subject to review as to whether the journey is necessary for the business. The Agent seeks to maintain a high proportion of its records electronically. To help achieve this the Agent is a party to the current electronic data exchange programme in the London market, which is intended to reduce the amount of paper records circulating in the market. The Agent also seeks to recycle over 80% of its paper consumption by the use of recycling bags for all business waste paper and shredding.

STRATEGIC REPORT

31 DECEMBER 2016

Investment return

	2016 £'000	2015 £'000
Income from investments	9,100	8,250
Net losses on realised investments	(6,622)	(7,652)
Net (losses)/gains on unrealised investments	2,019	833
Total investment return, expressed at year end rates for the purpose of calculating the calendar year investment yield	4,497	1,431

Average amount of syndicate funds available for investment during the year (expressed in Sterling at year-end rates):

	2016	2015
Sterling	18,583	20,814
US Dollar (in Sterling)	250,999	219,306
Canadian Dollar (in Sterling)	15,562	11,797
Combined in sterling at year-end rates	285,144	251,917

Gross calendar year investment yield:	%	%
Sterling	2.9%	0.4%
US Dollar	1.5%	0.6%
Canadian Dollar	0.6%	0.7%
Combined	1.6%	0.6%

The above investment returns are calculated using average funds based on the monthly balances of bank accounts and investments as revalued to month-end market prices including accrued interest. The investment return was higher than 2015 and there is a general trend of increasing interest rates in the USA where most of the investments are held. The return achieved was well above the average return on short-dated government securities during the period in US$ and Sterling. The available funds were mostly held in US Dollars with much smaller amounts held in the other two currencies.

The investments are managed in-house and the custodians for investments were Hargreaves Lansdown, Citibank and Royal Bank of Canada.

Approved by the Board of Directors of S A Meacock & Company Limited, and signed on its behalf by:

K W Jarvis
Director
17 March 2017

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

31 DECEMBER 2016

The Managing Agent presents its Report of the Directors for Syndicate 727 for the year ended 31 December 2016.

Strategic Report

The Managing Agent's Report of the Directors should be read in conjunction with the Strategic Report as it includes information required to be disclosed in the Managing Agent's Report. This information is primarily relating to a review of the business and a description of principal risks and uncertainties, although there is more extensive disclosure of risk management in Note 2 to the Annual Financial Statements.

Directors Serving in the Year

The Directors of the Managing Agent, who served during the year ended 31 December 2016 and up to the date of this report were as follows:

Sir David Thomson Bt (Non-Executive Chairman)
M P Bartlett
N N S Ford
K W Jarvis
D J Jones
J M Meacock (Non-Executive Director until 3 October 2016, thereafter Executive)
M J Meacock
A Taylor
D A Thorp (Non-Executive Director)
D K L White (Non-Executive Director)

Annual General Meeting

The Directors do not propose to hold an Annual General Meeting for the Syndicate. If any Members' agent or direct corporate supporter of the Syndicate wishes to meet them, the Directors will be happy to do so.

Auditor

PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

Disclosure of Information to Auditor

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

Approved by the Board of Directors of S A Meacock & Company Limited, and signed on its behalf by:

K.W. Jarvis

K W Jarvis
Director
17 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

31 DECEMBER 2016

The Managing Agent is responsible for preparing the Annual Report and the Syndicate Annual Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") requires the Managing Agent to prepare Syndicate Annual Financial Statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate Annual Financial Statements are required by law to give a true and fair view of the state of affairs of the Syndicate and of its profit or loss for that year.

In preparing those Syndicate Annual Financial Statements, the Managing Agent is required to:

- select suitable accounting policies, and apply them consistently except where relevant accounting requirements change in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate Annual Financial Statements; and
- prepare the Syndicate Annual Financial Statements on a going concern basis, unless it is inappropriate to do so.

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

Approved by the Board of Directors of S A Meacock & Company Limited, and signed on its behalf by:

K W Jarvis
Director
17 March 2017

INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2016

Independent Auditor's Report to the Members of Syndicate 727

We have audited the Syndicate Annual Financial Statements for the year ended 31 December 2016 as set out on pages 37 to 67. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

This report is made solely to the Members of the Syndicate as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's Members those matters that 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 opinion we have formed.

Respective Responsibilities of the Managing Agent and Auditor

As explained more fully in the Statement of Managing Agent's Responsibilities, the Managing Agent is responsible for the preparation of the Annual Financial Statements which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate Annual Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Syndicate Annual Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Annual Financial Statements sufficient to give reasonable assurance that the Annual Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Managing Agent; and the overall presentation of the Annual Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Annual Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Syndicate Annual Financial Statements

In our opinion the Annual Financial Statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2016

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

In our opinion based upon the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors of the Managing Agent for the financial year for which the Annual Financial Statements are prepared is consistent with the Annual Financial Statements; and

- the Strategic Report and the Report of the Directors of the Managing Agent have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Syndicate and its environment obtained in the course of the audit we have not identified any material misstatements in the Strategic Report and the Report of the Directors of the Managing Agent.

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

- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or

- the Syndicate Annual Financial Statements are not in agreement with the accounting records; or

- we have not received all the information and explanations we require for our audit.

N A Coulson

Neil Coulson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

17 March 2017

PROFIT AND LOSS ACCOUNT
TECHNICAL ACCOUNT – GENERAL BUSINESS

YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Earned premiums, net of reinsurance					
Gross premiums written	3	59,569		67,774	
Outward reinsurance premiums		(535)		(478)	
Net premiums written			59,034		67,296
Change in the provision for unearned premiums					
Gross amount	4	5,917		492	
Reinsurers' share	4	(9)		(77)	
Change in the net provision for unearned premiums			5,908		415
Earned premiums, net of reinsurance			64,942		67,711
Allocated investment return transferred from the Non-Technical Account			4,175		1,386
Claims Incurred, Net of Reinsurance					
Claims paid					
Gross amount		(42,901)		(38,194)	
Reinsurers' share		423		482	
Net claims paid		(42,478)		(37,712)	
Change in the provision for claims					
Gross amount	4	13,466		1,032	
Reinsurers' share	4	(408)		(735)	
Change in the net provision for claims		13,058		297	
Claims incurred, net of reinsurance			(29,420)		(37,415)
Net Operating Expenses	5		(24,915)		(24,091)
Balance on the Technical Account – for General Business			14,782		7,591

There are no discontinued operations.

PROFIT AND LOSS ACCOUNT NON-TECHNICAL ACCOUNT

YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 £'000	2015 £'000
Balance on the General Business Technical Account		14,782	7,591
Investment income	8	8,603	8,200
Unrealised gains on investments	8	2,460	1,818
Investment expenses and charges	8	(6,315)	(7,612)
Unrealised losses on investments	8	(573)	(1,020)
Allocated investment return transferred to General Business Technical Account	8	(4,175)	(1,386)
Other charges, including value adjustments – Profit/(loss) on foreign exchange		2,686	531
Profit for the financial year		17,468	8,122

There is no Other Comprehensive Income for 2016 or 2015.

STATEMENT OF CHANGES IN MEMBERS' BALANCES

YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
Balance due to Members at 1 January	1,763	2,873
Profit for the financial year	17,468	8,122
Profit distributed to Members – 2013 (2012) Year of Account	(12,423)	(8,676)
Advances of fees to Members' Agents on behalf of members	(552)	(556)
Balance due to Members at 31 December	6,256	1,763

BALANCE SHEET – ASSETS

AT 31 DECEMBER 2016

	NOTES	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Investments					
Other financial investments	9		268,439		233,360
Reinsurers' share of technical provisions					
Provision for unearned premiums	4	125		117	
Claims outstanding	4	659		916	
			784		1,033
Debtors					
Debtors arising out of direct insurance operations	10	6,733		8,803	
Debtors arising out of reinsurance operations	11	10,474		11,895	
Other debtors	12	754		809	
			17,961		21,507
Other assets					
Cash at bank and in hand		9,848		12,370	
Other (including overseas deposits)		8,705		8,831	
			18,553		21,201
Prepayments and accrued income					
Accrued interest and rent		2,236		2,307	
Deferred acquisition costs	4	9,514		9,332	
Other prepayments and accrued income		61		2	
			11,811		11,641
Total assets			317,548		288,742

BALANCE SHEET – LIABILITIES

AT 31 DECEMBER 2016

	NOTES	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Capital and reserves					
Members' balances			6,256		1,763
Technical provisions					
Provision for unearned premiums	4	35,750		36,507	
Claims outstanding	4	271,047		245,893	
			306,797		282,400
Creditors payable within one year					
Creditors arising out of direct insurance operations	13	329		363	
Creditors arising out of reinsurance operations	13	539		777	
Other creditors including taxation and social security	13	3,627		3,439	
			4,495		4,579
Creditors payable after one year					
Other creditors including taxation and social security			–		–
Total Liabilities			311,292		286,979
Total Liabilities and Equity			317,548		288,742

The Syndicate Annual Financial Statements were approved by the Board of Directors of S A Meacock & Company Limited on 17 March 2017 and signed on its behalf by:

M J Meacock
Director

K W Jarvis
Director

STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 £'000	2015 £'000
Cash Flow from Operating Activities:			
Profit for the financial year		17,468	8,122
Adjustments for:			
Increase/(decrease) in gross technical provisions		24,397	10,025
(Increase)/decrease in reinsurers' share of technical provisions		249	754
(Increase)/decrease in debtors, prepayments & accrued income		3,134	29
Increase/(decrease) in creditors		(84)	(1,309)
(Increase)/decrease in other assets		(550)	(556)
Investment return		(4,175)	(1,386)
Net cash generated from Operating Activities		40,439	15,679
Cash flows from Investing Activities:			
Purchase of equity & debt instruments		(116,230)	(120,471)
Sale of equity & debt instruments		113,797	117,443
Investment income received		2,287	588
Other changes in value of investments		(30,392)	(10,625)
Net cash used in Investing Activities		(30,538)	(13,065)
Cash flows from Financing Activities:			
Distribution of 2013 (2012) Closed Year Profit		(12,423)	(8,676)
Net cash used in Financing Activities		(12,423)	(8,676)
Net (decrease) in cash and cash equivalents in year		(2,522)	(6,062)
Cash and cash equivalents at beginning of the year		12,370	18,432
Cash and cash equivalents at end of the year		9,848	12,370
Cash and cash equivalents comprise:			
Cash at bank and in hand		9,848	12,370
Cash and cash equivalents		9,848	12,370

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2016

1. STATEMENT OF ACCOUNTING POLICIES

General Information

1.1 General Information and principal activities

Syndicate 727 is a Lloyd's Syndicate domiciled in England and Wales. It is managed by S A Meacock & Company Limited a private company limited by shares that was incorporated in England and whose registered office is Hasilwood House, 60 Bishopsgate, London, EC2N 4AW.

The Syndicate underwrites a diverse book of general insurance and reinsurance business from around the world as part of the Lloyd's of London insurance market. This activity is carried out primarily from our box in the Lloyd's Building in London and our nearby offices.

The Syndicate is supported by capacity from related and third party members.

Significant Accounting Policies

1.2 Basis of Preparation and Compliance with Accounting Standards

These Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

The underwriting results are determined on an annual basis of accounting. Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance.

The Financial Statements have been prepared on the historical cost basis, except for financial assets at fair value through the profit or loss which are measured at fair value.

The Financial Statements are presented in Pounds Sterling which is also the Syndicate's functional currency.

1.3 Change to Accounting Policies

The previous year's Financial Statements for the year-ended 31 December 2015 were the first Financial Statements that complied with FRS 102 and 103. The date of transition was 1 January 2014 and the comparative figures in the 2015 Financial Statements were restated accordingly. The transition has resulted in a small number of changes in accounting policies from 2015 onwards to those used previously.

1.4 Going Concern Basis

These Financial statements are prepared on a going concern basis.

Syndicates by their nature only underwrite for single underwriting years on behalf of their supporting Members, however this is within a context of not finalising results until after 36 months so that typically there are three underwriting years in progress at any given time. In addition syndicates will normally expect to continue to trade for more underwriting years into the future.

The Syndicate's business activities, together with the factors likely to affect its future development are set out in the Review of Business within the Strategic Report. In addition at Note 2 below information on Risk Management is provided detailing the insurance and financial risks the Syndicate is exposed to and how those risks are managed.

The Syndicate has considerable financial resources together with long term relationships with a number of brokers and policyholders across different classes of business and geographical areas. As a consequence, the Directors of the Managing Agent believe that the Syndicate is well placed to manage its business risks successfully despite the current uncertain economic outlook.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

The Directors have a reasonable expectation that the Syndicate has adequate resources including the Funds at Lloyd's of the Members supporting the Syndicate (as explained in Note 16) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Annual Financial Statements.

1.5 Premiums Written

Premiums written comprise premiums on contracts of insurance incepted during the financial year in respect of direct and inwards reinsurance business. Premiums written include any adjustments made in the year to estimates of premiums written in prior years and estimates are also made for pipeline premiums, including amounts due to the Syndicate not yet notified. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

1.6 Unearned Premiums

Written premium is earned according to the risk profile of the policy. Unearned premium reserves (UPR) 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.

1.7 Reinsurance Premium Ceded

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

1.8 Claims Incurred and Reinsurers' Share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties. The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). 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.

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 provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities.

Reinsurance assets are assessed for impairment at the balance sheet date, based upon an assessment of the likely amount to be recovered. Any impairment will be charged to the profit or loss for the period in which it is recognised.

The methods used, and the estimates made in arriving at the amounts for technical provisions in respect of outstanding claims, are more fully described in Note 2.5.

1.9 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 unexpired risk provision is included within technical provisions in the balance sheet.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2016

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.10 Net Operating Expenses (including Acquisition Costs)

Net operating expenses include acquisition costs and amounts charged to Members through the Syndicate. Profit commission is charged by the Managing Agent as it is incurred but is not payable until the year of account closes, normally at 36 months.

Acquisition costs, comprising commission and other 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, representing Deferred Acquisition Costs (DAC).

Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the Managing Agent considers to be attributable to this Syndicate.

1.11 Balance due to Members and distribution of profits and collection of losses

The balance due to Members represents Syndicate profits or losses attributable to Members net of any early releases to Members or cash calls received from Members.

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between Syndicates and their Members. Lloyd's continues to require membership of Syndicates to be on an underwriting year of account basis and profits and losses belong to Members according to their membership of a year of account. Normally profits and losses are transferred between the Syndicate and Members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The Syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

1.12 Foreign currencies

The presentation currency of the Syndicate is Pounds Sterling.

The functional currency of the Syndicate is Pounds Sterling.

Income and expenditure in US Dollars and Canadian Dollars are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which in accordance with FRS 103 are deemed to include unearned premiums and deferred acquisition costs) are translated into the Sterling functional currency at the rates of exchange at the balance sheet date and the resulting foreign exchange gains and losses are recognised in the Profit and Loss Account - Non-Technical Account.

Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the original transaction. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rate of any non-monetary assets and liabilities denominated in foreign currencies are recognised in Other Comprehensive Income for those items which are required to be recognised within Other Comprehensive Income and in the Non-Technical Account when the gain or loss is required to be recognised in the Profit and Loss Account.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2016

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.13 Financial assets and liabilities

(a) Classification

The full provisions of FRS102 have been applied to the treatment of financial instruments. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

Investments in shares and other variable yield securities and unit trusts and debt securities and other fixed income securities are classified as fair value through profit and loss as they are managed on a fair value basis. Cash at bank, deposits with credit institutions, debtors and accrued interest are classified as held at amortised cost.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the asset after deducting all of its liabilities.

(b) Recognition

Financial assets and liabilities are recognised when the Syndicate becomes party to the contractual provisions of the instrument. Regular way of 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.

(c) Initial measurement

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate if interest for a similar debt instrument.

(d) Subsequent measurement

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Investments in shares and other debt instruments are measured at fair value through profit or loss. 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 last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

(e) Derecognition of financial assets and liabilities

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the Syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Syndicate, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2016

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

(f) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset or liability in an active market that the entity can access at the measurement date. When quoted prices are unavailable, observable inputs developed using market data, other than quoted prices, for the asset or liability, either directly or indirectly, are used to determine the fair value. If the market for the asset is not active and there are no observable inputs, then the Syndicate estimates the fair value by using unobservable inputs, where market data is unavailable.

(g) Impairment of financial instruments measured at amortised cost or cost

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

(h) Offsetting

Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

1.14 Investment Return

The gross 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 is allocated to 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.

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.

Dividend income is recognised when the right to receive income is established and interest income is recognised as it accrues on the next coupon payment. For assets measured at fair value, gains and losses are the difference between the purchase price and the net sale proceeds and unrealised gains and losses are the difference between the latest valuation and purchase price. Movements in unrealised gains and losses in the period represent the change in value of investments still held from their previous period end value or purchase price if acquired in the period and the reversal of any gains or losses in previous periods in relation to investments sold in the current period. For any investments at amortised cost realised gains are the difference between the carrying value at the previous year end or purchase price if acquired in the period and the sale proceeds or carrying value at the end of the current period.

1.15 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date and are carried at amortised cost.

1. STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

1.16 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. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

1.17 Pension Costs

S A Meacock & Company Limited operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate as incurred and included within net operating expenses.

1.18 Key Accounting Judgements and Estimation Uncertainties

Of the various accounting judgements, assumptions and estimates made in the preparation of these Financial Statements those relating to the determination of the technical provisions, premium income and investment valuations are considered to be those most critical to understanding the Syndicate's results and financial position.

Technical provisions: The net technical provisions shown in Note 4 after the reinsurers' share is £306m (2015: £281m). The most uncertain element within these technical provisions is the amount for the incurred but not reported (IBNR) element of claims outstanding which covers amounts where either the claim has not yet been notified to the Syndicate or where there has been a notification but there is insufficient information to date to be certain regarding its ultimate cost. This amounted to £217m (2015: £196m). As described in the risk management note there is a thorough review process of claims notifications and reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments. This is mitigated by a mixed spread of different types of business from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions may be mitigated by the element that is reinsurer's share, although there are also uncertainties in calculating that.

Premium income: The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten through binding authorities but not yet notified. The earning of this written premium has then been calculated on a basis of time apportionment and seeking to take account of when underlying binding authority risks incepted. The Directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management note there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid with brokers until they are received. This risk is mitigated by a granular evaluation of estimated income from the bottom up and the income arising from a large number of policies and brokers which lessens the impact of variances in individual estimates. Certain quota share reinsurances would further mitigate the effect of any error in this estimate. The premium debtor for insurance and reinsurance business amounted to £17m (2015: £21m).

Investment valuations: Most investments are shown at their market value as described in the accounting policy at Note 1.13 and details of the risks relating to investments are disclosed at Notes 2.7 to 2.12. As the majority of investments are highly rated securities and regularly traded on major stock exchanges the risks in their valuations are reduced for most of them. As shown in Note 9 investments amount to £268m (2015: £233m). The nature of the underlying investments, their short date to maturity and the close monitoring of the Syndicate's investment committee, together with these amounts being spread across a number of investments are considered by the Directors to reduce this risk.

2. RISK MANAGEMENT

2.1 Risk Background

The Syndicate's activities expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the Syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the Managing Agent is required to prepare a Solvency Capital Requirement (SCR) for the Syndicate, the purpose of this being to agree capital requirements with Lloyd's, based on an agreed assessment of the risks impacting the Syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are all reflected in the SCR; over 90% of the total assessed value of the risks concerned is attributable to Insurance Risk.

The Managing Agent sets the risk appetite annually as part of the Syndicate's business planning and capital setting process. A Risk Committee meets regularly to monitor performance against risk appetite using a series of key risk indicators.

The Syndicate's core business is to accept significant insurance risk: the appetite for other risks is low.

2.2 Insurance Risk

The very nature of the Syndicate's business exposes it to the possibility that claims will arise on business written. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract. The main insurance risks which affect the Syndicate are:

- Catastrophic events: the risk that catastrophic events occur which will lead to claims at a level not anticipated by the Syndicate.
- Rating levels: the risk that the expected attritional losses and anticipated catastrophic events, together with the cost of reinsurance, will result in net claims which exceed the premium income of the Syndicate.
- Business volume: the risk that the Syndicate will not be able to write as much business as planned.
- Reserving: the risk that the reserves established by the Syndicate at the previous year-end prove to be inadequate.

2.3 Catastrophic Events

The Managing Agent has developed underwriting guidelines which express limits to the authority of the underwriters and to exposure analysed geographically and by assured entities. The Syndicate has also developed Realistic Disaster Scenarios ("RDS"s) which provide an estimate of the effect on the Syndicate results of an aggregation of claims arising from a number of disasters specified by Lloyd's. The Syndicate uses a number of modelling tools to monitor the aggregation of exposure and to simulate catastrophe losses, in order to measure the effectiveness of the underwriting guidelines in limiting exposure to these scenarios and the effectiveness of the Syndicate's reinsurance programmes.

The anticipated effect of three Lloyd's specified RDS on the Syndicate results for 2016 are as follows:

Description of RDS	Gross loss to Syndicate US$m	Net loss to Syndicate US$m	Net loss as % of forecast Gross written premium	
2016 (as at 01/12/16)				
Florida windstorm – Pinellas	20,065	18,827	18.57%)	
Gulf of Mexico windstorm	23,111	22,081	21.78%)	using £1=$1.47
California earthquake – S.F.	25,596	24,168	23.84%)	
2015 (as at 01/12/15)				
Florida windstorm – Pinellas	24,796	23,720	23.62%)	
Gulf of Mexico windstorm	23,779	22,764	22.66%)	using £1=$1.56
California earthquake – S.F.	21,487	20,245	20.16%)	

These exchange rates are used in the Lloyd's Realistic Disaster Scenario return.

2. RISK MANAGEMENT (CONTINUED)

These numbers do not represent any material change since last year's report. On the basis of the planned underwriting focus, line structure and reinsurance programme applicable for 2017, and the planned business volumes, the comparable RDS retentions for the Syndicate would be expected to be slightly lower in dollar terms although slightly higher in percentage terms for 2017 as compared to 2016.

2.4 Business Volumes and Rating Levels

The Managing Agent produces an annual business plan for the Syndicate. The plan is produced by anticipating rating levels and terms and conditions attaching to risks expected to be underwritten by the Syndicate. In the context of the market in which the Syndicate operates, it might be possible to underwrite the required volume of business if rating levels and terms were to be compromised, although the underlying profitability would worsen.

Performance against the plan is monitored on a regular basis through a system of underwriting committees, as well as regular review by the Board. If market conditions change significantly after the plan is produced, a revised plan is prepared and authorised by the Board. In this way, rating levels of both business written and reinsurance purchased are subject to constant review. Should risks be assessed as uneconomical, they will be declined.

If the volume of business underwritten is less than that planned by the Managing Agent, the expense ratio is likely to increase, although this risk is mitigated by the operating structure of the Syndicate, in which the material element of the acquisition costs which flows through brokers is accordingly variable. Achieved business volumes may be linked to rating levels, for instance because of easier or tougher market conditions, in which case the effects of changes in both rating levels and business volumes will accumulate.

The effect of rating levels being lower than planned is, all other things being equal, to reduce income levels in respect of the risks underwritten, and hence increase both the claims ratio and the expense ratio. If profitability were maintained but only volume reduced the impact upon results would be fairly modest but if price rating reductions cause the volume of business to reduce there is likely to be a more significant impact upon the results.

	2016 £'000	2015 £'000
Net premiums earned	64,942	67,711
Technical Account result (excluding investment return)	10,607	6,205
1% reduction in volume pro-rata Technical result (exc. Investment return)	(106)	(62)
1% rating price reduction in profit per £1 of earned premium	(649)	(677)

2.5 Reserving risk

In order to mitigate reserving risk, the Syndicate uses a number of approaches, including actuarial techniques, to project gross and net premiums written and gross and net insurance liabilities. The results of these techniques are then subject to formal peer review to independently check the integrity of the estimates produced by the underwriting team. In addition, the Syndicate commissions an external independent actuary to perform his own assessment of the Syndicate's ultimate gross and net premiums and insurance liabilities. The results of the actuary's projections are then compared to the underwriting team's assessment before determining the levels of reserve to be held.

The provision for claims yet to be paid comprises amounts separately set aside for claims reported and for claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's in-house reserving team 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 level of uncertainty with regard to the estimations within these provisions generally decreases with time after the underlying contracts were exposed to risk. By the nature of short tail claims such as property where claims are typically notified and settled within a short period of time, there will normally be materially less uncertainty after a view years than long tail risks such as some liability business where it is usually at least several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

2. RISK MANAGEMENT (CONTINUED)

Whilst projections of claims can be made by an insurer based upon data relating to claims settled by that insurer in earlier years, with some small allowance permitted for events not in data, the rules of the Solvency II reserving regime do not readily link known events suffered by other insurers to materially influence what are called 'best estimate' assessments for ultimate claims on existing years of account. The history of claims from asbestos and pollution show that changing scientific knowledge and legal frameworks can completely transform expected claims outcomes on any book of business. Today, one just has to look around to see people and human habitats damaged by everyday activities, so why should there be a statistical assumption that there cannot be future occurrences of claims scenarios similar to these historical events? For example, while it has not yet been decided if any wrong has been committed, or any error made, the currently developing understanding of brain damage arising from certain sporting activity has already produced many plaintiffs who have plainly suffered real harm from their sporting activity. Legal action has commenced in the USA to determine questions of responsibility. The events being complained of allegedly took place in the 1970s and in almost every year since. Certain theoretically possible outcomes of this litigation could cause claims to be brought against many thousands of occurrence form policies issued over the same period, some directly involving this Syndicate as insurer, though more likely to involve entities reinsured by the Syndicate.

Accordingly the Syndicate considers it appropriate to maintain a reserve that has a significant margin above a simplistic 'best estimate' reserve that does not allow for the possibility of claims developments on policies decades after those policies have expired. For a Syndicate such as 727 which has remained at a similar size for several years the latent exposure from past years has the potential to have a significant effect on the Syndicate's reserves should losses materialise. The allowance for such latent exposures within reserves means that the Syndicate does not suddenly suffer a shock to its reserves every time a new potential source of latent exposure is identified. Rather than merely hoping that a general level of prudence would see the capital providers through any storm, there has been a specific analysis done this year on what effect an asbestos-like scenario would have on the business written since 1993 and the probabilities thereof. The outcome of this has assisted in the reserve setting process.

The Syndicate's technical provisions are set according to the Syndicate's reserving policy, which specifies that they should be set on a conservative basis. These technical provisions are shown in these Financial Statements and are designed to be consistent with accounting regulations; the Signing Actuary provides statements of actuarial opinion on the sufficiency of these provisions.

The Syndicate also assesses its liabilities on a best-estimate basis, the results of which are not intended to be conservative, and which are designed to be used in certain returns to Lloyd's. These estimates are designed to comply with the technical provisions requirements of Solvency II, which also require other elements to be added to the technical provisions. The estimated unpaid claims on the best-estimate basis are lower than those used by the Syndicate for accounting purposes; these differences tend to be greatest in long-tailed lines of business, such as liability, and smallest in the short-tail property-related lines. The best-estimate provisions are set using a variety of standard and adapted actuarial methods. Both sets of estimates are considered by the Board, which adopts them for their particular uses.

For Solvency II reporting purposes the technical provisions are separately submitted to Lloyd's on an underwriting-year basis rather than an earnings basis, and starts with a best estimate amount. This is then adjusted to include allowance for certain extra expenses and a provision for losses arising from events not in the data and then discounted for the time value of money. These technical provisions also are required to include a risk margin calculated in accordance with Solvency II principles to reflect the uncertainty inherent in the run-off of claims.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

2. RISK MANAGEMENT (CONTINUED)

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 provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

The Syndicate continues to refine its evaluation of its exposure to latent losses emerging particularly from its long tail US business.

	2016 £'000	2015 £'000
Gross Outstanding Claims Provision	271,047	245,893
Net Outstanding Claims Provision	270,388	244,977
Net Unearned Premium Provision	35,625	36,390
1% movement in Net Outstanding Claims	2,704	2,450

The above assumes that the reinsurers share pro-rata in any deterioration in outstanding claims which may not be the case, as excess of loss reinsurance will mitigate deteriorations in large losses more significantly than for attritional losses. Unearned premiums should not be affected by such movements in outstanding claims, however larger movements in loss ratios could trigger a need for an Unexpired Risk Provision if future expected claims rose above the level of the unearned premiums.

2.6 Reinsurance Risk

Reinsurance risks arise from two different sources. The first relates to concentration risk whereby recoveries from claims paid are due from a limited number of reinsurers. To mitigate this risk, the Syndicate places its reinsurance in line with policy guidelines established by the Managing Agent and managed by reference to counterparty limits that are set each year and are subject to regular reviews.

The second source of reinsurance risks relates to credit risk. Credit risk arises where reinsurers fail to meet their financial obligations in full as they fall due. The Syndicate monitors its credit exposures by reference to the ratings, which are analysed into the ratings tiers used by Lloyd's in its reporting.

2.7 Financial Instruments Risk

The Syndicate has debtors, creditors, bank balances and investments in various currencies in the normal course of its business. The risks with regard to these transactions are detailed above and none of these financial instruments are considered to present any risks that are exceptional in their nature for their type of instrument. The Syndicate does not actively enter into derivatives, hedging or other uses of financial instruments as part of its financial risk management.

Investment Risks

The investment of Syndicate funds is managed by internal investment managers. The Managing Agent monitors the performance of the internal investment managers on a regular basis. The investment strategy to be adopted is to mitigate risks of interest rate fluctuation and credit risks and to provide appropriate liquidity.

The investment objective is to achieve a before tax return for US Dollar and Sterling funds, better than a twelve month Government Security issued in that currency. The principal constraints agreed are that, subject to maintaining adequate working capital in readily realisable deposits with major credit institutions, the maximum weighted portfolio duration is five years.

Market Risk

Market risk arises where the value of assets and liabilities change as a result of movements in foreign exchange rates, interest rates, inflation rates and market prices. Detailed guidelines for the in-house investment managers are in place and the Managing Agent Board and its Investment Committee regularly monitor investment performance and the associated risks. Financial investments represent a significant proportion of the Syndicate's assets.

2. RISK MANAGEMENT (CONTINUED)

Price Risk

Investments are made depending on the Syndicate's appetite for risk. The investments are well diversified with high quality, liquid securities. The Managing Agent has established guidelines that set out maximum investment limits, diversification requirements and concentration limits in any one company. Listed investments are recognised on the balance sheet at quoted bid price. If the market for the investment is not considered to be active, then the Managing Agent has established fair value using valuation techniques. This includes using recent arm's length market transactions, reference to current fair value of other investments that are substantially the same, discounted cash flow models and other valuation techniques that are commonly used by market participants. As at 31 December 2016 the fair value of equity securities on the balance sheet was £nil (2015: £nil).

2.8 Liquidity Risk

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due, or to ensure compliance with the Syndicate's obligations under the various trust deeds to which it is party.

The Syndicate's aim is to manage its liquidity position so that it can fund claims arising from significant catastrophic events, as modelled in its Lloyd's realistic disaster scenarios ("RDS").

The Syndicate's approach is to maintain an adequate level of liquid assets that can be translated into cash at short notice without any significant capital loss. These funds are monitored by management on a daily basis and as a result the Managing Agent does not consider that there is a material risk of loss arising from liquidity risk.

2.9 Liquidity Risk – Maturity Profiles of future payments excluding technical provisions

No payments are contractually deferred other than the £3,240m (2015: £2,909m) profit commission due to the Managing Agent in respect of the closing year, which are not due for payment until 3 months after closure.

The expected cashflows in respect of outstanding claims is set out separately in Note 4.

2.10 Currency Risk

The Syndicate's main exposure to foreign currency risk arises from insurance business originating overseas, particularly in US Dollars. The Syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The Syndicate deals in three main currencies, UK Sterling, Canadian Dollars and US Dollars. Transactions also take place in other currencies, although these are immediately converted to UK Sterling.

A 10% fall in the in the value of all overseas net assets would lead to a £2.264m loss (2015: £1.713m) with US Dollar net assets being the largest element of that at £1.599m (2015: £1.632m). The Syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The Syndicate has not taken out any transactions to hedge these balances.

Due to the US Dollar Trust Fund requirements a large proportion of the overall net assets are held in US Dollars, and there is a deficit in Sterling due to expenses. The total net assets held by the Syndicate in US Dollars represented 91% compared with 95% at the end of 2015.

Recent key exchange rates to Pounds Sterling have been:

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

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2. RISK MANAGEMENT (CONTINUED)

	£ £'000	US$ £'000	Can$ £'000	Total £'000
As at 31-12-16				
Financial investments	6,063	248,643	13,733	268,439
Reinsurers' share of Technical provisions	(229)	1,011	2	784
Insurance & reinsurance debtors	4,171	11,777	1,259	17,207
Cash at bank & overseas deposits	10,399	5,339	1,799	17,537
Other assets	2,810	9,329	1,442	13,581
Total assets	23,214	276,099	18,235	317,548
Technical provisions	(35,388)	(259,310)	(12,099)	(306,797)
Insurance & reinsurance creditors	(50)	(785)	(33)	(868)
Other creditors	(3,610)	(17)	–	(3,627)
Total liabilities	(39,048)	(260,112)	(12,132)	(311,292)
Surplus/(deficiency) of assets	(15,834)	15,987	6,103	6,256

	£ £'000	US$ £'000	Can$ £'000	Total £'000
As at 31-12-15				
Financial investments	5,658	216,536	11,166	233,360
Reinsurers' share of Technical provisions	72	959	2	1,033
Insurance & reinsurance debtors	5,651	13,941	1,106	20,698
Cash at bank & overseas deposits	13,124	5,953	1,351	20,428
Other assets	7,855	7,655	(2,287)	13,223
Total assets	32,360	245,044	11,338	288,742
Technical provisions	(44,136)	(227,751)	(10,513)	(282,400)
Insurance & reinsurance creditors	(169)	(950)	(21)	(1,140)
Other creditors	(3,419)	(20)	–	(3,439)
Total liabilities	(47,724)	(228,721)	(10,534)	(286,979)
Surplus/(deficiency) of assets	(15,364)	16,323	804	1,763

All other currencies are converted to Sterling and no significant balance is held.

2.11 Interest Rate Risk

The Syndicate's main exposure to fluctuation in interest rates arises from its effect on the valuation of funds invested in bonds. In order to mitigate this risk, the Board, monitors the economic situation to seek to anticipate any future interest rate movement and to take appropriate action to mitigate its effect on the value of investments held.

A large element of the Syndicate's investments comprise fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the Syndicate's fixed interest investments would tend to rise and vice versa. Fixed income assets are predominantly invested in high quality corporate, government and supranational securities. The investments typically have relatively short durations and terms to maturity.

The fair value of the Syndicate's fixed income assets as at 31 December 2016 was £230m (2015: £198m). If interest rates increase bond values will fall, although future interest earnings should increase including on balances with banks and credit institutions. The following analysis shows only the sensitivity of bond values to movements in interest rates.

2. RISK MANAGEMENT (CONTINUED)

	2016 £'000	2015 £'000
Impact of a 50 basis point increase in interest rates on result & net assets	(1,022)	(1,083)
Impact of a 50 basis point decrease in interest rates on result & net assets	1,011	1,047

2.12 Credit Risk

Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Syndicate are:

- Reinsurers: reinsurers may fail to pay valid claims against a reinsurance contract held by the Syndicate.
- Brokers and Intermediaries: counterparties fail to pass on premiums collected or claims paid on behalf of the Syndicate.
- Investments: issuer default results in the Syndicate losing all or part of the value of a financial instrument.

The following ratings are based upon Standard & Poors classifications or other rating agencies classifications equivalents with AAA being the highest.

	AAA £000	AA £`000	A £'000	BBB £'000	Unrated £'000	Total £'000
As at 31-12-2016						
Debt securities and other fixed income securities	–	13,537	100,942	117,916	–	232,395
Shares and other variable yield securities	1,456	7,284	26,423	–	880	36,043
Overseas deposits	4,963	635	1,309	338	445	7,690
Reinsurers' share of claims outstanding	–	(34)	41	–	652	659
Cash at bank and in hand	–	–	9,848	–	–	9,848
Reinsurance debtors	–	245	(2)	–	–	243
Total credit risk	6,419	21,667	138,561	118,254	1,977	286,878
As at 31-12-2015						
Debt securities and other fixed income securities	–	16,018	98,790	83,217	–	198,025
Shares and other variable yield securities	205	7,143	27,798	–	189	35,335
Overseas deposits	5,821	654	1,268	303	12	8,058
Reinsurers' share of claims outstanding	–	49	411	–	456	916
Cash at bank and in hand	12,370	–	–	–	–	12,370
Total credit risk	18,396	23,864	128,267	83,520	657	254,704

Insurance receivables are not shown above but would be categorised as 'not rated' as a majority of the balance relates to insurance broker debt which falls outside credit rating requirements.

No Syndicate assets are classified as past due except for insurance debtors of £199,966 (2015: £372,290), and reinsurance debtors of £342,432 (2015: Nil).

Assets are classified as past due when the contractual payment is in arrears. An assessment is performed on all assets, which may result in an impairment charge being recorded in the profit and loss account if the Managing Agent considers this to be appropriate.

2. RISK MANAGEMENT (CONTINUED)

2.13 Annual Venture Risk

Under the Lloyd's annual venture regime, the Syndicate has to show annually that it has enough supporting capital to carry on underwriting. To mitigate the risk that the Syndicate will not have sufficient backing to continue to trade, the Managing Agent has adopted a policy of diversifying the Syndicate's capital base, including using funds supplied by related parties to support the Syndicate's underwriting.

2.14 Solvency Risk

In the event of extreme adverse claims experience, it is possible that the Syndicate may not be able to settle its claim liabilities out of its own funds. In that event, the capital structure underpinning the Syndicate is such that any deficits can be called from the Syndicate's capital providers (Members) in accordance with Lloyd's rules. In the event of any Member being unable to fulfil its share of such a call, Lloyd's Central Guarantee Fund may, at Lloyd's discretion, be applied to make good any deficits for the benefit of policyholders.

2.15 Regulatory Risk

The Managing Agent is regulated by the PRA and Lloyd's in respect of its management of the Syndicate. Failure to comply with applicable regulations could result in a variety of sanctions, the most extreme being a withdrawal of the right to underwrite business. The Managing Agent has established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance. Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard. An internal audit function supports the monitoring process, and the Compliance Officer and Risk Manager have direct reporting lines to the Audit Committee, itself composed of Non-Executive Directors of the Managing Agent.

2.16 Operational Risk

Much of the effect of the Syndicate's exposure to operational risks is reflected in the various other risk headings above, and is mitigated and managed through the exercise of the management controls and actions described above. The main additional exposures are in relation to business continuity, the risk that the ability of the Syndicate to continue in business will be affected by events not reflected under other headings, for example the impact of terrorist activity, and in the management of relationships and arrangements with key individuals. In relation to the former, the Managing Agent maintains a Business Continuity Plan (BCP) which sets out the main anticipated risks, including those relating to the robustness and sustainability of IT infrastructure and business applications, and the arrangements to mitigate those risks. The BCP is monitored and updated regularly. In relation to the latter, the Managing Agent has established arrangements designed to achieve an appropriate commonality of interest between the Syndicate and the individuals concerned, and these arrangements are reviewed periodically. In addition, the Managing Agent seeks to maintain a sufficient personnel resource with appropriate experience and expertise to reduce the dependence on any one individual so far as is practicably possible.

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3. ANALYSIS BY CLASS OF BUSINESS

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

2016	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct Insurance						
Accident and health	3,625	4,060	(1,342)	(1,773)	(67)	878
Motor (third party liability)	147	108	(115)	(44)	0	(51)
Motor (other classes)	3,212	2,848	(1,724)	(985)	0	139
Marine aviation and transport	62	594	430	(350)	0	674
Fire and other damage to property	16,619	19,200	(2,060)	(8,434)	(115)	8,591
Third party liability	18,560	17,848	(9,491)	(6,899)	1	1,459
Credit and suretyship	(615)	42	918	(123)	(11)	826
Totals Direct	41,610	44,700	(13,384)	(18,608)	(192)	12,516
Reinsurance inwards	17,959	20,786	(16,051)	(6,307)	(337)	(1,909)
Total	59,569	65,486	(29,435)	(24,915)	(529)	10,607

2015	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct Insurance						
Accident and health	4,851	3,623	(2,105)	(1,486)	(13)	19
Motor (third party liability)	(301)	(155)	(4)	(29)	–	(188)
Motor (other classes)	2,135	2,308	(1,158)	(784)	–	366
Marine aviation and Transport	477	698	(698)	(332)	–	(332)
Fire and other damage to property	20,821	21,162	(5,816)	(8,645)	(678)	6,023
Third party liability	18,364	16,933	(24,952)	(5,846)	63	(13,803)
Credit and suretyship	320	879	237	(288)	(14)	815
Total Direct	46,667	45,448	(34,496)	(17,410)	(642)	(7,100)
Reinsurance inwards	21,107	22,818	(2,666)	(6,681)	(166)	13,305
Total	67,774	68,266	(37,162)	(24,091)	(808)	6,205

Total commissions for direct insurance written in the year amounted to £9.3m (2015: £9.6m).

All premiums written are in respect of contracts concluded in the UK.

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3. ANALYSIS BY CLASS OF BUSINESS (CONTINUED)

To provide some indication of geographic spread of risks, the following is an analysis of gross premiums earned by currency, which has been used as a proxy for risk location.

	2016 £'000	2015 £'000
United Kingdom	8,545	9,898
European Union (excluding UK)	2,008	2,000
United States	47,306	48,928
Other	7,627	7,440
Total	65,486	68,266

	2016 £'000	2015 £'000
Reinsurers' share of earned premiums	(544)	(555)
Reinsurers' share of incurred claims	15	(253)
(Loss) / profit arising from reinsurance ceded	(529)	(808)

4. TECHNICAL PROVISIONS

	2016 £'000	2015 £'000
Gross Technical Provisions		
Provision for unearned premiums	(35,750)	(36,507)
Claims outstanding	(271,047)	(245,893)
	(306,797)	(282,400)
Reinsurers' Share of Technical Provisions		
Provision for unearned premiums	125	117
Claims outstanding	659	916
	784	1,033
Net Technical Provisions		
Provision for unearned premiums	(35,625)	(36,390)
Claims outstanding	(270,388)	(244,977)
	(306,013)	(281,367)

Reconciliation of Movements in Year

2016	At 01-01-2016 £'000	Mvt in Tech Ac £'000	Exch Mvt £'000	At 31-12-16 £'000
Gross provision for claims	(245,893)	13,466	(38,620)	(271,047)
Reinsurers' share of provision	916	(408)	151	659
Unearned premium	(36,507)	5,917	(5,160)	(35,750)
Reinsurers' share of unearned premium	117	(9)	17	125
Deferred acquisition costs (Note 5)	9,332	(1,048)	1,230	9,514

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4. TECHNICAL PROVISIONS (CONTINUED)

2015	At 01-01-15 £'000	Mvt in Tech Ac £'000	Exch Mvt £'000	At 31-12-15 £'000
Gross provision for claims	(236,448)	1,302	(10,747)	(245,893)
Reinsurers' share of provision	1,600	(735)	51	916
Unearned premium	(35,928)	492	(1,071)	(36,507)
Reinsurers' share of unearned premium	187	(77)	7	117
Deferred acquisition costs (Note 5)	9,827	(716)	221	9,332

Claims development triangulations

Gross Claims Development as at 31 December 2016

Pure underwriting year Incurred gross claims	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At the end of the underwriting year	44,640	43,118	34,436	27,663	24,838	21,233	
After one year	76,962	73,176	58,228	54,293	51,092		
After two years	80,256	72,634	58,501	54,696			
After three years	73,885	68,070	55,958				
After four years	71,285	66,410					
After five years	67,987						
Gross ultimate claims on premium earned to date	67,987	66,410	55,958	54,696	51,092	21,233	317,376
Gross ultimate claims on premium earned to date for 2010 and prior years							1,466,319
Less gross claims paid	(50,131)	(41,848)	(29,882)	(23,556)	(19,976)	(4,703)	(1,512,648)
Gross outstanding claims reserve	17,856	24,562	26,076	31,140	31,116	16,530	271,047

Net Claims Development as at 31 December 2016

Pure underwriting year Incurred net claims	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
At the end of the underwriting year	44,589	43,012	34,382	27,612	24,787	21,182	
After one year	76,763	72,905	58,023	54,165	51,028		
After two years	80,086	72,375	58,314	56,216			
After three years	73,748	67,811	55,223				
After four years	71,148	65,602					
After five years	67,301						
Net ultimate claims on premium earned to date	67,301	65,602	55,223	56,216	51,028	21,182	316,552
Net ultimate claims on premium earned to date for 2010 and prior years							1,317,571
Less net claims paid	(49,996)	(41,597)	(29,770)	(23,556)	(19,976)	(4,703)	(1,363,735)
Net outstanding claims reserve	17,305	24,005	25,453	32,660	31,052	16,479	270,388

The table above utilises the transition provisions available on adoption to show only 6 years development history.

The above analysis is shown in Sterling. Paid claims have been accounted for at historical exchange rates for each calendar year with the reserves at each year end retranslated using the latest reporting date exchange rate so as to prevent foreign exchange fluctuations obscuring the view of the claims development.

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4. TECHNICAL PROVISIONS (CONTINUED)

The expected cashflows of the gross technical provisions for outstanding claims as at 31 December 2016, is as follows:

	Less than 1 Year £'000	1-2 Years £'000	3-5 Years £'000	Over 5 Years £'000	Total £'000
Gross technical provisions for outstanding claims	(59,338)	(78,139)	(44,086)	(89,484)	(271,047)

The expected cashflows of the gross technical provisions for outstanding claims as at 31 December 2015, is as follows:

	Less than 1 Year £'000	1-2 Years £'000	3-5 Years £'000	Over 5 Years £'000	Total £'000
Gross technical provisions for outstanding claims	(41,401)	(85,987)	(54,630)	(62,959)	(244,977)

Significant movements in net claims provisions created at previous year end (positive values show increases in provisions):

	2016 £'000	2015 £'000
Accident and health	(1,349)	(1,192)
Fire & other damage to property	(6,153)	(4,903)
Third party liability	(3,533)	8,898
Property Reinsurance	(2,915)	(4,751)
Liability Reinsurance	2,206	(8,547)

With only two exceptions, the picture painted above is what should be expected with a conservative reserving policy. The first exception, the strengthening of the third party liability reserves during 2015, was a consequence of it becoming clear that changes to the policy wordings given to contractors were not producing the forecast ultimate loss ratios. The second exception, the strengthening of the liability reinsurance reserves during 2016 reflects the recent emergence of some new sources of claims in the liability book.

5. NET OPERATING EXPENSES

	2016 £'000	2015 £'000
Brokerage and commissions	14,953	15,593
Other acquisition costs	1,233	1,135
Acquisition costs	16,186	16,728
Change in deferred acquisition costs (Note 4)	1,048	716
Administrative expenses	7,681	6,647
	24,915	24,091
Administrative expenses include:		
Members' personal expenses	4,185	3,528
Fees Payable to the Syndicate's Auditors for:		
The audit of the Syndicate's Financial Statements	90	80
Other services pursuant to legislation (e.g. Returns to Lloyd's)	50	51
Services relating to taxation	5	5
All other services	–	–
	145	136

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6. EMPLOYEES

All staff are employed by the Managing Agency. The following amounts were recharged to the Syndicate in respect of salary costs (this excludes any benefits where the costs are retained elsewhere in the Managing Agency):

	2016 £'000	2015 £'000
Wages and salaries	2,691	2,467
Social security costs	313	285
Other pension costs	140	217
	3,144	2,969

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

	No.	No.
Administration and finance	20	19
Underwriting	4	4
Claims	3	3
	27	26

7. DIRECTORS' AND ACTIVE UNDERWRITER'S EMOLUMENTS

The Directors of S A Meacock & Company Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2016 £'000	2015 £'000
Emoluments	1,468	1,408
Contributions to defined contribution pension schemes	57	32
	1,525	1,440

The above total also represents Key Management Personnel Compensation as there are no other staff who are considered key management and there is no other compensation receivable by the Directors recharged to this Syndicate.

Active Underwriter's emoluments:

The active underwriter received the following aggregate remuneration charged as a syndicate expense:

Emoluments	244	244

The above amounts exclude any benefits not recharged to the Syndicate.

8. INVESTMENT RETURN

	2016 £'000	2015 £'000
Income from investments	8,370	7,940
Gains on the realisation of investments	233	260
Investment income	8,603	8,200
Losses on realisation of investments	(6,315)	(7,612)
Investment expenses and charges	(6,315)	(7,612)
Unrealised gains on investments	2,460	1,818
Unrealised losses on investments	(573)	(1,020)
Net unrealised gains/(losses) on investments	1,887	798
Allocated investment return transferred to the Technical Account from the Non-Technical Account	4,175	1,386
Total Investment Return	4,175	1,386
The above is comprised of:		
Interest and dividend income from financial assets at fair value through profit or loss	8,370	7,940
Net realised and unrealised gains and losses from financial assets at fair value through profit or loss	(4,195)	(6,554)
	4,175	1,386

9. OTHER FINANCIAL INVESTMENTS

	Valuation		Cost	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Financial assets at fair value through profit or loss:				
Shares and other variable yield securities and units in unit trusts	36,044	35,335	35,639	35,394
Debt securities and other fixed income securities	232,395	198,025	235,875	202,103
	268,439	233,360	271,514	237,497

Fair value hierarchy

In accordance with FRS 102 paragraph 11.27 the above financial instruments and deposits with credit institutions carried at fair value have been classified by valuation method into three levels to estimate their fair values, with Level 1 being the most reliable. The Syndicate has early adopted the following definitions of the fair value hierarchy disclosures of the amendment to FRS102 paragraph 34.22 in accordance with the March 2016 Amendments:

- Level 1: The unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data), for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

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9. OTHER FINANCIAL INVESTMENTS (CONTINUED)

2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss				
Shares and other variable yield securities and units in unit trusts	5,590	30,454	–	36,044
Debt securities and other fixed income securities	232,395	–	–	232,395
	237,985	30,454	–	268,439
Overseas deposits as other assets				
Deposits with credit institutions	3,660	4,031	–	7,691
	241,645	34,485	–	276,130
2015				
Financial assets at fair value through profit or loss				
Shares and other variable yield securities and units in unit trusts	7,655	27,667	13	35,335
Debt securities and other fixed income securities	198,025	–	–	198,025
Deposits with credit institutions	7,025	1,033	–	8,058
	237,985	30,453	13	268,438
Overseas deposits as other assets				
Deposits with credit institutions	3,660	4,030	–	7,690
	212,705	28,700	13	241,418

The investments within the 3 levels mainly comprise the following:

Level 1 includes government and corporate bonds and equities based on listed prices on active markets.

Level 2 includes government and corporate bonds based upon prices supplied by investment managers and custodians and mutual funds invested in moneymarket investments.

Level 3 includes unquoted equities and other investment funds based upon net asset values provided by fund administrators.

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016 £'000	2015 £'000
Due within one year:		
Intermediaries	6,733	8,803

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2016 £'000	2015 £'000
Due within one year	10,474	11,895

12. OTHER DEBTORS

	2016 £'000	2015 £'000
Other debtors	754	809

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13. CREDITORS

	2016 £'000	2015 £'000
Creditors arising out of Direct Insurance Operations:		
Due within one year:		
Intermediaries	329	363
Creditors arising out of Reinsurance Operations		
Due within one year:		
Intermediaries	539	777
Financial liabilities at amortised cost	868	1,140

Other creditors amounting to £3.627m (2015: £3.439m) include Syndicate profit commission of £3.240m (2015: £2.909m).

14. POST BALANCE SHEET EVENTS

The following amounts are proposed to be transferred to the Members' personal reserve funds during 2017 (2016).

	2016 £'000	2015 £'000
2014 Year of account (2013 Year of account)	13,877	12,423

15. YEAR OF ACCOUNT DEVELOPMENT

	2013 £'000	2014 £'000	2015 £'000	Calendar Years 2016 £'000	Cumulative Result £'000
Year of Account					
2013	(6,508)	7,435	12,036	–	12,963
2014		(5,657)	1,678	18,392	14,413
2015			(5,592)	3,903	(1,689)
2016				(4,827)	(4,827)
Calendar Year Result			8,122	17,468	

16. REGULATORY CAPITAL REQUIREMENTS

Funds at Lloyd's

Every Member of Lloyd's is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are required primarily in case Syndicate assets prove insufficient to meet Members' underwriting liabilities.

The level of FAL that Lloyd's requires a Member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the Member and the assessment of the reserving risk in respect of that business. 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.

In addition to the FAL and any additional funds a Member may introduce to meet losses, there is a New Central Fund controlled by Lloyd's which they may utilise to meet any Syndicate liabilities that are not met by a Member.

16. REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation from 1 January 2016.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and Member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 727 is not disclosed in these Financial Statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting Members of Lloyd's. Each Member is liable for its own share of underwriting liabilities on the Syndicate(s) on which it participates but not other Members' shares. Accordingly, the capital requirement that Lloyd's sets for each Member operates on a similar basis. Each Member's SCR shall thus be determined by the sum of the Member's share of the Syndicate SCR 'to ultimate'. Where a Member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that Member. Over and above this, Lloyd's applies a capital uplift to the Member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 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), held within 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.

There are no funds in the Syndicate held for this Syndicate, accordingly all of the assets less liabilities of the Syndicate, as represented by the Members' balances reported on the balance sheet represent resources available to meet Members' and Lloyd's capital requirements.

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17. RELATED PARTIES

(a) Lloyd's market regulations require that a Managing Agent is responsible for employing the underwriting staff and managing the affairs of each Syndicate at Lloyd's on behalf of the Syndicate Members. The Managing Agent of Syndicate 727 is S A Meacock & Company Limited.

The underwriting participations of the Directors of S A Meacock & Company Limited, both as individual Names (unlimited and Nameco) and through their share in Meacock LLP, a corporate vehicle, are shown below:

Underwriting Participations in years of account (£000s):

	2017 Account		2016 Account		2015 Account		2014 Account		2013 Account	
	£000's	%OPL	£000's	%OPL	£000's	%OPL	£000's	%OPL	£000's	%OPL
M P Bartlett (appointed 1 January 2014)	130	100	130	100	130	100	130	100	100	100
N N S Ford	350	100	350	100	350	100	350	100	300	100
K W Jarvis	450	100	450	100	450	100	450	100	450	100
D J Jones	200	100	200	100	200	100	200	100	150	100
J M Meacock	218	28	193	27	193	27	193	26	200	26
M J Meacock	4,327	52	4,227	55	4,086	53	4,086	48	4,086	51
A Taylor	736	100	736	100	736	100	736	100	886	100
Sir David Thomson Bt	1,594	31	1,594	34	1,480	32	1,480	30	1,380	28
D A Thorp	450	100	450	100	450	100	450	100	450	100
D K L White	–	–	–	–	–	–	–	–	–	–
Meacock LLP (other than those shown above, both current and former staff)	185	100	285	100	285	100	285	100	265	100

(b) Corporate member related to the Managing Agent:

Meacock Capital plc (MC) which has a total issued share capital of 5,295,146 ordinary 25 pence shares owns 100% of Meacock Underwriting Limited (MU) which participates on Syndicate 727 on standard terms and with the following capacity:

	£
2013	12,633,183
2014	12,633,183
2015	13,088,183
2016	13,088,183
2017	13,202,112

The following Directors, related parties or connected persons, hold shares in MC:

	2013-2017	
	ORD. 25P	%SHARE CAP
C N Jarvis (wife of K W Jarvis)	83,000	1.57
C E Meacock	529,000	9.99
J M Meacock	529,000	9.99
J W S Meacock	529,000	9.99
M J Meacock	1,125,886	21.26
W T R Meacock	529,000	9.99
Sir David Thomson Bt	156,600	2.96
D A Thorp	56,000	1.06

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17. RELATED PARTIES (CONTINUED)

(c) Amounts due to/from Members for each underwriting year for the above Members are calculated and distributed in the same way as for all other Members, and are included in the total of £6.257m (2015: £1.763m) shown as Members' Balances in the balance sheet as at 31 December 2016.

Directors of S A Meacock & Company Limited and related companies of S A Meacock & Company Limited entered into transactions with the Syndicate as follows:-

(d) Members' expenses, being agent's fees and profit commission payable to the Managing Agent, and subscriptions and Central Fund contributions paid to Lloyd's, are charged on an underwriting year of account, rather than calendar year basis. For the 2016 underwriting year of account S A Meacock & Company Limited has charged an agent's fee of 0.6% of capacity and, when the year of account result is finalised, usually after 36 months, will charge a profit commission of 20% of the relevant profit (2015: 0.6% and profit commission 20%). Within the annual accounts for the 2016 calendar year, fees of £0.484m and profit commission of £3.240m have been reflected within net operating expenses (2015: fees £0.480m and profit commission £2.678m). At 31 December 2016 there are no unpaid fees but profit commission of £3.240m (2015: £2.909m) was unpaid.

(e) The Managing Agent incurs a large proportion of the expenses incurred in operating the Syndicate and recharges them to the Syndicate on a basis that reflects the Syndicates use of resources. The recharges are included within amounts disclosed as net operating expenses, acquisition costs, claims incurred and investment expenses and charges. Included within the recharges are amounts relating to the remuneration of Directors of S A Meacock & Company Ltd. The total amount recharged by the Managing Agent to the Syndicate during 2016 was £3.747m (2015: £3.269m) excluding agent fees and profit commission. As at 31 December 2016 an amount of £Nil was due to the Managing Agent in relation to expenses (2015: £0.075m).

(f) Mr M J Meacock is a Non-Executive Director of Alpha Insurance Analysts Limited (Alpha), a Lloyd's Members' agency. Neither Mr M J Meacock nor the company have a financial interest in Alpha.

(g) For the period 1 January 2014 to 30 June 2016, Mr J M Meacock was a senior broker with JLT Re, a JLT Re Ltd company, which placed business with Syndicate 727. Mr J M Meacock was not personally involved in the transaction of any business with Syndicate 727 and did not receive any form of direct remuneration or commission for this business. In view of the potential conflict of interest from this activity and the fact that his father, Mr M J Meacock is the active underwriter and 67.2% shareholder of the company, Mr J M Meacock did not participate on any of the Board sub-committees that provided 'oversight' to operations or governance. With effect from 1 July 2016, Mr J M Meacock resigned from his position with JLT Re and following Board and regulatory approval was appointed an Executive Director of the company (previously Non-Executive Director) which commenced on 1 October 2016.

(h) Mr W T R Meacock, was appointed a Director of Meacock Capital plc and Meacock Underwriting Limited on 1 October 2010. He is also a Director of Guy Carpenter & Company LLC, a Marsh McLennan company, which does place business with Syndicate 727. Mr W T R Meacock is not personally involved in the placing of any business with Syndicate 727 and does not receive any form of direct remuneration or commission for this business.

(i) The following other 'close family' members of Mr M J Meacock also participated on Syndicate 727, on standard terms:

	2017 ACCOUNT £000's	2016 ACCOUNT £000's	2015 ACCOUNT £000's	2014 ACCOUNT £000's	2013 ACCOUNT £000's
C E Meacock (son)	182	182	182	182	182
J W S Meacock (son)	193	193	193	193	175
Mrs R J R Meacock (wife)	626	626	626	626	626
W T R Meacock (son)	160	160	160	160	160

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17. RELATED PARTIES (CONTINUED)

(j) There were no unpaid balances due to the Syndicate at 31 December 2016 from any of the Members detailed in Notes 17(a) and 17(i) above.

(k) Mr D K L White, Non-Executive Director, acts in the capacity of expert reviewer on underwriting issues and chairs the Underwriting and Claims Review Committee, Reinsurance Security and Recovery Committee, the Risk Committee and the Conduct Risk Committee.

(l) The company managed the Small Business Consortium (SBC) in which Syndicate 727 participated until 31 December 2012. Consortium members (participating Syndicates) reimburse the company (consortium manager) for expenses of management and pay profit commission to the consortium manager on the profits of the consortium. Members' agents (on behalf of the Members for whom they act) and direct participants have given their written agreement to the retention by the company of sums received under the consortium agreement. During the year ended 31 December 2016 the company received profit commission of £nil (2015: £nil).

18. PENSION OBLIGATIONS

The Managing Agent operates a defined contribution scheme for its employees including Syndicate staff. The cost of the contributions made for the year recharged to the Syndicate was £0.14m (2015: £0.22m) and there were no outstanding or prepaid contributions at the end of this year or the previous year.

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