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NEON

2016 Annual Report

Neon Underwriting Limited Syndicate 2468

Year ended 31 December 2016

Table of Contents

Directors and administration

Managing agent
Neon Underwriting Limited

Directors
J E Consolino
S Hayes
D M Lednor
A G C Mckay
I P Martin
M R D Reith
M C Stockton
M S D Washington

Syndicate secretary
A G C McKay

Managing agent's registered number
03584320

Managing agent's registered office
20 Gracechurch Street
London
EC3V 0BG

Active underwriter
Darren Lednor

Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
E14 5EY

Bankers
Barclays Bank plc
One Churchill Place
London
E14 5HP

Solicitors
Clyde & Co

Consulting actuaries
Willis Towers Watson

Managing agent's report

The directors of Neon Underwriting Limited ("the Managing Agent") present their report for Syndicate 2468 ("the Syndicate") for the year ended 31 December 2016 ("the Financial Year"). Neon Underwriting Limited was previously called Marketform Managing Agency Limited and changed its name on 10 June 2016.

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

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) for the years of account 2014 and 2007, which will be made available to the Syndicate's members.

Principal activity

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business. There have not been any significant changes to the Syndicate's activities during the year. The Syndicate capacity for the 2016 YOA increased to £235m. This capacity has remained unchanged for the 2017 YOA.

Business review

During the period, Marketform re-launched itself as the Neon group, marking the start of an exciting new chapter in the business. This coincided with the completion of a strategic review, identifying where Neon can deliver sustainable and profitable performance from growth and refocussing parts of the portfolio. A decision was taken to exit from the medical malpractice and general liability classes of business. Reserve strengthening applied for prior years to these classes has attributed significantly to this year's loss. Nevertheless, it now enables Neon to draw a line under the past and focus on the future. Chief Executive Officer, Martin Reith, and the Group's new leadership team continue to progress with their plans to return the business to profitable growth and become a leading specialist Lloyd's insurer. This has involved a number of key new hires this year, strengthening the underwriting teams and the support functions.

The result for the financial year to 31 December 2016 is comprised of the movement on all underwriting years that were open during the year. The Syndicate reports an underwriting loss of £151,717k for the Financial Year and a total recognised loss of £152,042k.

Syndicate result – all years of account	*2016*	*2015*
	£000	*£000*
Gross written premiums	160,179	210,413
Net written premiums	105,781	188,102
Net earned premiums	129,834	166,114
Claims ratio	155%	86%
Commission ratio	39%	31%
Expense ratio	23%	21%
Combined ratio	***217%***	***138%***
Underwriting result	(151,717)	(63,288)
Foreign exchange losses	(2,251)	(1,766)
Investment return	1,926	4,147
Total Loss for the financial year	(152,042)	(60,908)

Managing agent's report (continued)

The combined ratio is stated before investment return and foreign exchange differences. An analysis of the result by underwriting year is presented below. Loss experience on all year of account has been significantly worse than anticipated and reserves have been strengthened to reflect experience. Claims liabilities are analysed by segment in note 18.

The underwriting loss of £151,717k, analysed below, comprises adverse movements on all underwriting years. A segmental analysis, showing the underwriting result by class of business, is presented in note 2 to the accounts.

Underwriting result by year of account	***Total***	*2016*	*2015*	*2014*	*2007*
	£000	*£000*	*£000*	*£000*	*£000*
Gross written premiums	**160,179**	124,243	40,977	(5,041)	-
Net written premiums	**105,781**	94,597	18,047	(6,863)	-
Net earned premiums	**129,834**	36,830	78,143	14,861	-
Incurred claims	**(201,511)**	(36,466)	(72,612)	(86,600)	(5,833)
Commission and expenses	**(80,040)**	(45,434)	(30,783)	(3,823)	-
Underwriting result	**(151,717)**	(45,070)	(25,252)	(75,562)	(5,833)

A separate set of underwriting year accounts has been prepared on the traditional three year accounting for the years of account 2014 and 2007. These separate accounts provide more detail on the underwriting result on those years.

Closure of 2007 underwriting year

The 2007 underwriting year, which previously remained open due to uncertainty over Italian Public Hospitals Medical Malpractice reserves, closed on 15 November 2016 by means of a reinsurance to close (RITC) transaction. The RITC transferred all assets and liabilities to Syndicate 2008. At 31 December 2015, the Syndicate held a members' balance relating to the 2007 underwriting year of £39,325k, owing to the Syndicate. Prior to the external RITC transaction being concluded, liabilities for the 2007 underwriting year were strengthened by £5,833k, taking the total due from members and the Lloyd's Central Fund (LCF) to £45,158k, this amount was settled during the financial year. At 31 December 2016 the Syndicate is carrying assets of £62,369k that remained payable to the external syndicate, the majority of these have been settled in early 2017 with a small amount remaining payable at the date of signing of the financial statements.

Solvency II

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirements of the Syndicate, since this has previously been calculated based on Solvency II principles.

Review of financial position

Financial investments have reduced to £226,734k from £260,507k, reflecting an increased outflow of resources during the year to settle claims and expenses. Debtors from direct insurance have increased to £91,209k from £68,555k reflecting an increased proportion of gross premiums written outstanding at the balance sheet date.

The gross provision for unearned premiums has increased to £114,701k from £112,705k. Net of deferred acquisition costs the unearned premium reserve has increased to £81,476k from £81,070k.

The members' balance has increased to £194,394k from £128,801k as detailed in the statement of changes in members' balance on page 13 of the accounts.

Managing agent's report (continued)

Principal risks and uncertainties
The Managing Agent has in place a risk management framework to ensure that all risks associated with the Syndicate's activities are identified and managed. The Risk Committee (RC) is accountable to the Managing Agent's board. The terms of reference for the RC were approved by the board of the Managing Agent on 9th February 2017. The Board sets the risk appetite annually as part of the Syndicate's business planning and capital setting process.

Own Risk and Solvency Assessment (ORSA)
The RC reviews and recommends annually the approval of the Own Risk & Solvency Assessment (ORSA) and ORSA Policy to the Managing Agent's board. The RC is responsible for overseeing the ORSA process.

The Managing Agent uses an Internal Model to calculate its Solvency Capital Requirement (SCR). Internal Model scope is reviewed annually to ensure that the risk coverage in the Internal Model reflects the risk profile of the Syndicate.

The Managing Agent submits a Lloyd's Capital Return (LCR) to Lloyd's each year which is used by Lloyd's to review Syndicate SCRs and inputs into the Lloyd's Internal Model (LIM). The final LCR submitted to Lloyd's each year is based on the Syndicate Business Forecast (SBF).

Regulatory risk
The Managing Agent is required to comply with the requirements of the PRA and FCA and Lloyd's. Lloyd's requirements included those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a Head of Compliance, supported by a team who carry out a compliance monitoring programme, who monitors regulatory developments and assesses the impact on agency policy.

Insurance risk
The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. The objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme.

The Board monitors performance and exposures against the business plan. Claims reserves are re-assessed quarterly by the Actuarial Function with input from the Syndicate's external actuaries, underwriters, claims personnel and the board.

Credit risk
Credit risk is the risk for potential loss due to the failure of a counterparty to meet its contractual obligation to repay a debt.

Compliance with the policy is monitored and exposures and breaches are reported to the Syndicate Risk Committee. Coverholder, broker and TPA insolvency are considered as a credit risk to the Syndicate. The Managing Agent mitigates the risk of exposure to these risks through robust selection and monitoring processes.

Market risk
Market risk relates to the Syndicate's exposure to fluctuations in asset values, interest rates or exchange rates. The Investment Committee is responsible for recommending investment risk policy and strategy to the board.

The majority of Syndicate funds are invested with Lloyd's Treasury. Investment management services are provided by a number of fund managers, the performance of which is monitored quarterly by the Investment Committee. Independent investment advisors assist with the monitoring of fund performance and to provide advice on investment strategy.

Loss arising from exchange rate fluctuations, due to mismatches between assets and liabilities, is considered a material market risk; the Managing Agent has in place a hedging strategy to mitigate losses arising from exchange rate fluctuations.

Liquidity risk
Liquidity risk is the risk that the Syndicate has insufficient financial resource available to meet obligations as they fall due. The Syndicate's main exposure relates to calls on funds resulting from large claims. The board considers that the size and availability of funds available to meet exposure, in relation to the Syndicate's Realistic Disaster Scenario (RDS), is adequate. Routine cash management ensures that funds are available to meet daily cash requirements.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is prevalent within all of the other risk categories and controls to mitigate these risks are contained throughout the Syndicate's risk register. The Managing Agent manages operational risk through internal compliance monitoring, the Operations Committee and the Risk Committee (RC).

Financial instruments and risk management
Information on the use of financial instruments by the Syndicate and its management of financial risk is disclosed in note 19 to the financial statements.

Future developments and important events since the end of the financial year
The Syndicate continues to transact in the classes of general insurance and reinsurance business that it has transacted in historically.

On 27 February 2017, the Lord Chancellor announced the change in the Ogden discount rates, which reduced from 2.5% to -0.75%. The Ogden discount rate is used to take into account investment returns that a claimant could earn by investing lump-sum claims proceeds. A higher discount rate reflects a higher potential investment return, the reduction in the Ogden rate therefore assumes a lower potential investment return available to claimants, which is compensated for by increasing the lump-sum claims proceeds they receive. As a result of this change, the Syndicate performed an analysis to assess the exposure to it. Following this analysis, it was concluded that the Syndicate was adequately reserved for the change in the rate.

Research and development
The syndicate has not participated in any research and development activity during the period.

Managing agent's report (continued)

Directors

The current directors of the managing agent are shown on page 2. Changes to directors since 1 January 2016 are as follows:

Name	Date of appointment
A G C McKay	1 June 2016
D M Lednor	20 May 2016
M S D Washington	20 May 2016
M C Stockton	6 June 2016
I P Martin	4 August 2016
J S Barber	15 September 2016
S Hayes	16 November 2016
J E Consolino	9 February 2017

Name	Date of resignation
V Badal	5 February 2016
A S Ribaudo	5 February 2016
J G F O'Neill	12 February 2016
A J Walker	1 July 2016
P V Olsen	10 February 2017
J E Mumford	10 February 2017
J S Barber	10 February 2017

Disclosure of information to the auditors

In the case of each of the persons who are directors of the Managing Agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditors' report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he or she ought to have taken as director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Reappointment of auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

On behalf of the Board

M. Reith

M R D Reith
Chief Executive Officer
20 March 2017

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the managing agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and
- Prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The managing agent is responsible for keeping adequate accounting records, which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent auditors' report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 2468

We have audited the syndicate annual accounts of syndicate 2468 ('the syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 19. 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 syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditors' 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual 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 annual accounts. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual 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 annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with 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'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Independent auditors' report (continued)

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

In our opinion the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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 accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

20 March 2017

Income Statement
Technical account – General business
For the year ended 31 December 2016

	Notes	2016	2015
		£000	£000
Gross premiums written	2	160,179	210,413
Outward reinsurance premium		(54,398)	(22,311)
Net written premiums		105,781	188,102
Change in provision for unearned premiums			
- Gross amount		13,836	(16,246)
- Reinsurers' share		10,217	(5,742)
Change in the net provision for unearned premiums		24,053	(21,988)
Earned premiums, net of reinsurance		129,834	166,114
Allocated investment return transferred from the non-technical account	10	1,926	4,147
Claims paid			
- Gross amount		(252,571)	(145,449)
- Reinsurers' share		36,737	39,548
		(215,834)	(105,901)
Change in claims outstanding			
- Gross amount		8,402	(21,142)
- Reinsurers' share		5,921	(15,789)
Change in the net provision for claims		14,323	(36,931)
Claims incurred, net of reinsurance		(201,511)	(142,832)
Net operating expenses	6	(80,040)	(86,571)
Balance on technical account - general business		(149,791)	(59,142)

Income Statement
Non-technical account – General business
For the year ended 31 December 2016

	Notes	2016	2015
		£000	£000
Balance on technical account - general business		(149,791)	(59,142)
Investment return		5,546	6,528
Unrealised gains on investments		472	752
Investment expenses and charges		(2,044)	(835)
Unrealised losses on investments		(2,047)	(2,298)
Allocated investment return transferred to the general business technical account		(1,926)	(4,147)
Exchange gains and losses		(2,251)	(1,766)
Loss for the financial year		(152,042)	(60,908)

Other than items reported in the income statement the Syndicate has no other comprehensive income in any of the periods for which the financial statements are presented. In accordance with FRS 102.3.19 the Syndicate only presents an income statement and does not present a statement of comprehensive income.

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

	2016	*2015*
	£000	*£000*
Members' balance at 1 January	(128,801)	(74,843)
Loss for the financial year	(152,042)	(60,908)
2007 & prior year of account results (via cash call)	45,157	-
2013 & prior year of account results	41,292	6,950
Members' balance at 31 December	(194,394)	(128,801)

During the financial year the 2013 underwriting year closed and the final amounts settled by members was £41,292k. The 2007 underwriting year also closed and members settled £45,157k in relation to this year.

Statement of financial position
As at 31 December 2016

	Notes	2016	2015
		£000	£000
ASSETS			
Investments			
Financial investments	11	228,731	260,507
Reinsurers' share of technical provisions			
Provision for unearned premiums		27,527	14,657
Claims outstanding	3	107,864	88,888
		135,391	103,545
Debtors			
Debtors arising out of direct insurance operations	12	91,209	68,555
Debtors arising out of reinsurance operations		7,486	9,111
Other debtors		5,926	2,175
		104,621	79,841
Cash and other assets			
Cash at bank and in hand	13	76,517	10,539
Other assets	14	88,342	74,230
		164,859	84,769
Prepayments and accrued income			
Deferred acquisition costs	5	33,225	31,635
Other prepayments and accrued income		1,514	1,610
		34,739	33,245
Total assets		668,341	561,907

Statement of financial position (continued)
As at 31 December 2016

	Notes	2016	2015
		£000	£000
MEMBERS' BALANCE AND LIABILITIES			
Members' balances		(194,394)	(128,801)
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	114,701	112,705
Claims outstanding	3	621,904	551,198
		736,605	663,903
Creditors			
Creditors arising out of direct insurance operations		7,488	857
Creditors arising out of reinsurance operations		30,247	11,139
Other creditors		77,297	8,485
		115,032	20,481
Accruals and deferred income		11,098	6,324
Total liabilities		862,735	690,708
Total members' balances and liabilities		668,341	561,907

The financial statements and the notes on pages 17 to 41 have been approved by the board of directors on 20 March 2017 and were signed on its behalf by:

M Reith

M R D Reith
Chief Executive Officer

Statement of cash flows
For the year ended 31 December 2016

	Notes	2016	2015
		£000	£000
Loss on ordinary activities		(152,042)	(60,908)
Movement in general insurance unearned premiums and outstanding claims		72,701	17,493
Movement in reinsurers' share of unearned premiums and outstanding claims		(31,846)	23,604
Investment return		(1,926)	(4,147)
Movement in other assets/liabilities		114,984	(23,895)
Net cash inflow from operating activities		1,871	(47,853)
Investing activities			
Purchases of debt and equity instruments		(402,613)	(334,471)
Sale of debt and equity instruments		485,460	359,470
Purchase of derivatives		(1,992)	
Investment income received		1,534	-
Foreign exchange		(65,133)	-
Net cash outflow from investing activities		17,256	24,999
Financing activities			
Open year cash calls made/not paid		86,450	6,290
Other		-	20,757
Net cash outflow from financing activities		86,450	27,047
Increase in cash and cash equivalents		105,577	4,193
Cash and cash equivalents at 1 January		17,527	13,335
Exchange differences on opening cash		(1,092)	-
Cash and cash equivalents at 31 December	13	122,012	17,528

Notes to the financial statements
For the year ended 31 December 2016

1. Accounting Policies
1.1. Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 20 March 2016.

The financial statements are prepared in Sterling which is the functional and presentational currency of the Syndicate and rounded to the nearest £'000. As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that applied prior to this standard for its insurance contracts.

The syndicate has elected to early-apply the March 2016 amendments to FRS 102, *Fair value hierarchy disclosures*. As a result, the fair value hierarchy disclosures, including comparatives, shown in Note 11 are now prepared on a basis consistent with the measurement of the financial instruments.

1.3. Judgements and key sources of estimation uncertainty

Management is required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The Syndicate's key sources of estimation uncertainty are:

Insurance contract technical provisions
For insurance contracts, estimates are made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

Actuarial projection techniques are used to calculate the ultimate cost of outstanding claims. The main assumption underlying these techniques is that past claims development experience can be used to project future claim development and hence ultimate claims cost. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. Provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

1.3. Judgements and key sources of estimation uncertainty continued

Estimates of future premiums
For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

1.4. Significant accounting policies

Financial investments
As permitted by FRS 102, the Syndicate has elected to apply the provisions of FRS 102 Section 11 and Section 12 to account for all of its financial instruments. Details of the financial investments held by the Syndicate at 31 December 2016 are provided in note 11 to the financial statements.

All of the Syndicate's financial investments are measured at fair value through profit and loss. Financial investments are initially measured at cost and subsequently valued each balance sheet date with reference to statements received from Lloyds Treasury and external fund managers.

Derivative financial instruments
Financial assets at fair value through profit or loss include derivative financial instruments. The Syndicate uses derivatives in the form of forward foreign currency contracts. Such derivative financial instruments are initially recognised at fair value on the date that the derivative contract is entered into and are subsequently re-measured at fair value through profit or loss at each balance sheet date. Derivative financial instruments are carried as assets when the fair values are positive and as liabilities when the fair values are negative. The Syndicate employs a hedging strategy of purchasing currency forward contracts to protect against currency fluctuations in the members' balance. The Syndicate has used hedge accounting for the presentation of gains and losses arising from these derivatives.

Cash and cash equivalents
Cash and cash equivalents in the statements of financial position comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Fair value of financial assets
The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: Quoted prices for identical instruments in active market
- Level 2: Prices of recent transactions for identical instruments
- Level 3: Valuation techniques using unobservable market data

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only if there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

1.4. Significant accounting policies continued

Investment return
All of the Syndicate's financial investments are measured at fair value through profit and loss, accordingly unrealised gains and losses are shown as unrealised gains and losses within the non-technical account. Gains and losses on financial investments are realised when the underlying investment is sold and the amount of gain or loss realised is recognised as investment income.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Profit commission
Profit commission is charged by the managing agent at a rate of 15% of the profit on a year-of-account basis subject to the operation of a deficit clause. This is charged to the Syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

Claims
Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical provisions
Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risk.

Claims outstanding
The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Provisions for unearned premiums
Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

1.4. Significant accounting policies continued

Unexpired risks

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date. The Syndicate has an unexpired risk provision in place of £7.2m at 31 December 2016 (2015: Nil).

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement. Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

1.4. Significant accounting policies continued

Foreign currencies
The Syndicate's functional currency and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

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.

Pension costs
Neon Management Services Limited contributes to employees' individual pension plans on behalf of the managing agent. Pension contributions relating to Syndicate employees are charged to the Syndicate, and included within net operating expenses.

Notes to the financial statements
For the year ended 31 December 2016

2. Segmental analysis

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

2016	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Direct insurance:						
Accident and health	4,952	9,007	(3,452)	(3,582)	(2,859)	(886)
Motor - other	30	30	21	-	39	90
Marine aviation and transport	18,420	18,799	(18,956)	(9,401)	1,826	(7,732)
Fire and other damage to property	32,010	26,519	(20,664)	(15,444)	(491)	(10,080)
Third party liability	55,282	77,476	(109,643)	(28,019)	(5,035)	(65,221)
Credit and suretyship	22,117	20,288	(74,206)	(8,574)	18,691	(43,801)
	132,811	152,119	(226,900)	(65,020)	12,171	(127,630)
Reinsurance acceptances	27,368	21,896	(17,269)	(15,020)	(13,694)	(24,087)
	160,179	174,015	(244,169)	(80,040)	(1,523)	(151,717)

2015	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Direct insurance:						
Accident and health	12,211	13,754	(19,191)	(5,686)	804	(10,319)
Motor - other	13	13	(2)	-	(2)	9
Marine aviation and transport	15,472	13,636	(6,766)	(6,833)	(2,525)	(2,488)
Fire and other damage to property	23,283	22,710	(15,386)	(10,315)	(4,129)	(7,120)
Third party liability	112,272	107,213	(94,583)	(47,607)	3,453	(31,524)
Credit and suretyship	27,612	20,065	(15,979)	(8,027)	(1,377)	(5,318)
	190,863	177,391	(151,907)	(78,468)	(3,776)	(56,760)
Reinsurance acceptances	19,550	16,778	(14,686)	(8,102)	(518)	(6,528)
	210,413	194,169	(166,593)	(86,570)	(4,294)	(63,288)

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation. The reinsurance balance includes reinsurance commission receivable. All premiums were concluded in the UK.

Gross operating expenses are the same as net operating expenses shown in the income statement as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2016.

2. Segmental analysis continued – Geographical analysis

The geographical analysis of premiums by situs of risk is as follows:

	2016	2015
	£000	£000
United Kingdom	19,892	41,146
Other EU countries	16,260	28,078
Australia	5,698	24,043
North America	36,816	39,958
Other territories	81,513	77,188
	160,179	210,413

3. Claims outstanding

2016	Gross	Reinsurers' share	Net
	£000	£000	£000
At 1 January 2016	551,198	(88,888)	462,310
Claims incurred in current underwriting year	43,769	(7,303)	36,466
Claims incurred in prior underwriting years	200,399	(35,355)	165,044
Claims paid during the year	(252,571)	36,737	(215,834)
Foreign exchange	79,109	(13,055)	66,054
At 31 December 2016	621,904	(107,864)	514,040

2015	Gross	Reinsurers' share	Net
	£000	£000	£000
At 1 January 2015	549,409	(106,448)	443,061
Claims incurred in current underwriting year	48,119	(5,546)	42,573
Claims incurred in prior underwriting years	118,472	(18,213)	100,259
Claims paid during the year	(145,449)	39,548	(105,901)
Foreign exchange	(19,453)	1,771	(17,682)
At 31 December 2015	551,198	(88,888)	462,310

4. Provision for unearned premiums

2016	Gross	Reinsurers' share	Net
	£000	*£000*	*£000*
At 1 January 2016	112,705	(14,657)	98,048
Premiums written in the year	160,179	(54,398)	105,781
Premiums earned in the year	(174,015)	44,181	(129,834)
Foreign exchange	15,832	(2,653)	13,179
At 31 December 2016	114,701	(27,527)	87,174

2015	Gross	Reinsurers' share	Net
	£000	*£000*	*£000*
At 1 January 2015	96,902	(20,701)	76,201
Premiums written in the year	210,413	(22,311)	188,102
Premiums earned in the year	(194,168)	28,054	(166,114)
Foreign exchange	(442)	301	(141)
At 31 December 2015	112,705	(14,657)	98,048

5. Deferred acquisition costs

	2016	*2015*
	£000	*£000*
At 1 January	31,635	27,967
Change in deferred acquisition costs	(2,353)	3,938
Foreign exchange	3,943	(270)
At 31 December	33,225	31,635

6. Net operating expenses

	2016	2015
	£000	£000
Acquisition costs	48,061	56,079
Change in deferred acquisition costs	2,352	(3,938)
Administrative expenses	29,627	34,430
Net operating expenses	80,040	86,571

Members' standard personal expenses amounting to £3,237k (2015: £3,212k) are included in administrative expenses, these include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

7. Staff costs

All staff costs related to employees of Neon Management Services Limited, a share of which is charged to the Syndicate in accordance with the time spent on Syndicate activities.

	2016	2015
	£000	£000
Wages and salaries	15,818	15,384
Social security costs	2,579	1,890
Other pension costs	1,074	1,128
	19,471	18,402
Restructure provision	838	2,733
	20,309	21,135

The average number of Managing Agent employees working for the Syndicate during the year was as follows:

	2016	2015
Administration and finance	94	79
Underwriting	48	61
Claims	14	23
	156	163

8. Auditors' remuneration

	2016	*2015*
	£000	*£000*
Audit of the Syndicate annual accounts	345	301
Tax compliance services	8	8
	353	309

Auditors' remuneration is included as part of administrative expenses.

9. Directors' emoluments

The directors of the Managing Agent received the following aggregate remuneration charged to the Syndicate and included within net operating expenses.

	2016	*2015*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	3,546	2,103

The amount of £3,546k includes £1,091k paid to directors for loss of office, which was provided for at the previous year end (£1,105k). The amount also includes £300k provided for at the year-end for loss of office. Excluding these payments the remuneration figure is £2,092k (2015: £2,103k).

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

	2016	*2015*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	388	248

No advances or credits were granted by the Managing Agent to any of its directors during the year.

10. Investment return

The Syndicate carries financial investments at market value. Movements in the market value of investments during the financial year are recognised through the income statement as unrealised gains and unrealised losses on investments which only become realised when the underlying investment is sold, at which point investment gains or losses are considered realised and form part of investment return.

	2016	*2015*
	£000	*£000*
Income from other financial investments	4,730	5,388
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	(1,073)	493
Total investment income	3,657	5,881
Net unrealised gains on investments		
- Financial instruments at fair value through profit and loss	(1,575)	(1,547)
Investment expenses and charges	(156)	(187)
Total investment return	1,926	4,147

	2016	*2015*
	£000	*£000*
Average amount of funds available for investment during the year:		
Sterling	29,495	14,202
United States dollars	115,681	120,938
Canadian dollars	280,055	264,111
Euro	82,055	104,042
Australian dollars	103,600	101,058
Combined in sterling	422,212	351,591
Gross calendar year investment yield:		
Sterling	0.43%	2.14%
United States dollars	0.27%	0.21%
Canadian dollars	0.53%	1.85%
Euro	(2.01)%	(0.41)%
Australian dollars	2.21%	3.02%
Combined in sterling	0.46%	1.21%

Average funds are calculated as the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices.

11. Financial investments

Investment risk appetite is established by the Board via the Investment Committee. The majority of Syndicate investments are managed by Lloyd's Treasury. The remaining investment portfolio is managed by a number of external fund managers, who are appointed by the Investment Committee. Decisions taken in respect of these investments are made in conjunction with external investment advisors.

At 31 December 2016	*Carrying value £000*	*Purchase price £000*
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	45,496	45,495
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	183,235	185,093
	228,731	230,588

At 31 December 2015	*Carrying value £000*	*Purchase price £000*
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	134,940	135,142
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	124,058	124,715
	258,998	259,857

The figures above do not include derivative contracts, these are included within the tables on page 29.

11. Financial investments (continued)

The following table shows financial investments recorded at fair value analysed between the three classifications in the fair value hierarchy.

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2016	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	-	45,496	-	45,496
Debt securities and other fixed income securities	32,981	150,254	-	183,235
	32,981	195,750	-	228,731
Loans and deposits with credit institutions	15,824	72,518	-	88,342
Derivative Liabilities	-	(1,997)	-	(1,997)
	48,805	266,271	-	315,076

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2015	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	-	134,940	-	134,940
Debt securities and other fixed income securities	12,825	111,233	-	124,058
Derivatives	-	1,509	-	1,509
	12,825	247,682	-	260,507
Loans and deposits with credit institutions	10,386	63,844	-	74,230
	23,211	311,526	-	334,737

Level 1: The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

Level 2: When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value, that price is adjusted.

Level 3: If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

12. Debtors arising out of direct insurance operations

	2016	2015
	£000	£000
Due from intermediaries within one year	91,127	68,429
Due from intermediaries after one year	82	126
	91,209	68,555

13. Cash and cash equivalents

	2016	2015
	£000	£000
Cash at bank and in hand	76,517	10,539
Cash equivalents held in collective investment schemes	45,495	6,989
	122,012	17,528

Cash and cash equivalents comprises deposits not subject to time restrictions on withdrawal, with approved credit institutions and approved financial institutions and local authorities. The prior year balance has been restated (from £10,539k to £17,528k) to include cash equivalents which were previously excluded from this balance.

14. Other assets

Other assets of £88,342k comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

15. Other creditors

Other creditors of £75,300k includes £3,405k relating to profit commission due to coverholders.

16. Related parties

Managing agency fees of £1,762,500 (2015: 1,500,000) were charged to the Syndicate by the Managing Agent. These fees are calculated as 0.75% of the Syndicate's approved stamp capacity of each underwriting year.

SCOR Underwriting Limited is a corporate underwriting member for the 2002 to 2015 years of account. SCOR Group P&C France (a SCOR group company) has a 7.5% line on a historical political risk (trade credit) reinsurance. The premiums paid to that reinsurer during the year amounted to £223,618 (2015: £108,800)

Great American Insurance Co. (GAIC) is a wholly owned subsidiary of American Financial Group (AFG) and participates as a reinsurer of the Syndicate. The premiums paid to that reinsurer in 2016 amounted to £1,574,455 (2015: £1,094,295) which represents 2.8% of outward reinsurance spend of the Syndicate. Reinsurance recoveries received from GAIC amounted to £791,569. The Syndicate also has inwards reinsurance agreements with GAIC which amounted to premiums of £143,184 in the 2016 financial year.

GAI Indemnity Limited (GAII) is a wholly owned subsidiary of GAI Holdings Bermuda Ltd, the ultimate parent of both of these companies is AFG. GAII is a corporate member of the Syndicate and participates on years 2013 onwards.

There are no other transactions or arrangements to disclose.

17. Funds at Lloyd's

Every member of the Syndicate is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

18. Off-balance sheet items

The Syndicate has not been party to an arrangement, which has not been reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

19. Risk management

(a) Governance framework

The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Managing Agent has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

(b) Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. This change has not significantly impact the Solvency Capital requirement of the Syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives. Although 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 the Syndicate 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 (99.5% confidence over a one year time frame), 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.

19. Risk Management (continued)

The SCRs of each Syndicate are subject to review and approval by Lloyd's. Lloyd's applies an uplift to the members' capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members of Syndicate 2468

The Syndicate is comprised of a number of underwriting members of Lloyd's. Each member is only liable for its own share of underwriting liabilities on the Syndicate on which it participates. Each member's SCR is determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Each member provides 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. All of the assets required by the members of the Syndicate (over and above their share of the Syndicate's Solvency II net assets), are held as funds at Lloyds (FAL).

At 31 December 2016, the Syndicate's agreed ECA was £269.1m, representing 114% of the agreed underwriting capacity for the 2017 year of account. The Syndicate also benefits from mutualised capital within the Lloyd's Central Funds, for which an annual levy of 0.5% of Syndicate gross premium is payable.

Participation for each underwriting year that was open during 2016, and for the 2017 underwriting year, is as follows:

Members' participations (% of Syndicate stamp capacity)	*2017* *£000*	*2016* *£000*	*2015* *£000*	*2014* *£000*	*2007* *£000*
Lavenham Underwriting Limited	35%	35%	20%	20%	15.5%
Sampford Underwriting Limited	36%	36%	21%	21%	16.5%
GAI Indemnity Limited	29%	29%	29%	29%	-
SCOR Underwriting Limited	-	-	30%	30%	39%
Hermanus Underwriting Limited	-	-	-	-	15%
Ebury Underwriting Limited	-	-	-	-	14%
Total	100%	100%	100%	100%	100%

Members' premium limits	*2017* *£000*	*2016* *£000*	*2015* *£000*	*2014* *£000*	*2007* *£000*
Lavenham Underwriting Limited	82,250	82,250	40,000	35,000	15,500
Sampford Underwriting Limited	84,600	84,600	42,000	36,750	16,500
GAI Indemnity Limited	68,150	68,150	58,000	50,750	-
SCOR Underwriting Limited	-	-	60,000	52,500	39,000
Hermanus Underwriting Limited	-	-	-	-	15,000
Ebury Underwriting Limited	-	-	-	-	14,000
Syndicate stamp capacity	235,000	235,000	200,000	175,000	100,000

19. Risk Management (continued)

All of the corporate members providing capital to support the 2017 year of account are subsidiaries wholly owned by the Managing Agent's ultimate parent, American Financial Group.

(c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the riming thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefit paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities. Risk exposure is mitigated by diversification across a large portfolio of insurance contracts.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme and the agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

Claims concentration

The table below shows the concentration of claims liabilities at the balance sheet date, by type of contract. These figures include claims outstanding and an incurred but not reported claims (IBNR), consistent with the figures reported in the statement of financial position.

	31 December 2016			31 December 2015		
	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000
Accident and health	20,386	(2,699)	17,687	24,881	(4,132)	20,748
Motor - other	186	-	186	29	-	29
Marine aviation and transport	52,956	(10,969)	41,987	35,250	(5,521)	29,729
Fire and other damage to property	24,981	(9,587)	15,394	16,338	(8,478)	7,860
Third-party liability	448,535	(55,896)	392,639	464,428	(69,308)	395,121
Credit and suretyship	69,630	(27,952)	41,678	10,083	(1,628)	8,455
	616,674	(107,102)	509,572	551,009	(89,067)	461,941
Reinsurance acceptances	5,230	(762)	4,468	189	179	369
Total	621,904	(107,864)	514,040	551,198	(88,888)	462,310

The geographic concentration of outstanding claims liabilities is shown below, these figures are prepared on the same basis of the segmentation analysis above. Where reinsurance liabilities are held to cover all classes of business, these liabilities have been apportioned to territories based on the value of outstanding claims (excluding IBNR) at the balance sheet date, this is considered to be the most appropriate means to allocate the reinsurance element liabilities as shown below.

	31 December 2016			31 December 2015		
	Gross Liabilities	Re-insurance of liabilities	Net Liabilities	Gross Liabilities	Re-insurance of liabilities	Net Liabilities
	£000	£000	£000	£000	£000	£000
United Kingdom	167,813	(28,266)	139,547	244,218	(25,988)	218,229
Other EU countries	123,063	(23,216)	99,847	72,438	(5,766)	66,672
Australia	81,230	(12,707)	68,522	64,973	(4,855)	60,118
North America	44,551	(8,938)	35,612	24,833	(1,928)	22,905
Other territories	205,248	(34,736)	170,512	144,737	(50,706)	94,031
Total	621,904	(107,864)	514,040	551,198	(88,888)	462,310

Claims development table

The following table shows the estimate of cumulative incurred claims, including both notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. All of the amounts shown in the tables are in converted sterling amounts.

The Syndicate has taken advantage of transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016-2020.

In setting claims provisions the Syndicate considers the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Notes to the financial statements
For the year ended 31 December 2016

19. Risk Management (continued)

Gross outstanding claims provision at 31 December 2016 *Underwriting year*	*Before 2011* *£000*	*2011* *£000*	*2012* *£000*	*2013* *£000*	*2014* *£000*	*2015* *£000*	*2016* *£000*	*Total* *£000*
Estimate of cumulative claims incurred								
At end of underwriting year		37,010	33,305	36,925	39,334	48,682	46,535	
12 months later		104,150	82,962	95,721	119,939	151,198		
24 months later		112,789	89,502	116,644	196,329			
36 months later		112,619	95,033	143,339				
48 months later		118,333	115,578					
60 months later		152,751						
Current estimate of cumulative claims incurred		152,751	115,578	143,339	196,329	151,198	46,535	
Cumulative paid claims								
At end of underwriting year		(7,446)	(2,797)	(3,961)	(4,948)	(5,610)	(5,456)	
12 months later		(33,969)	(15,637)	(21,403)	(28,712)	(33,838)		
24 months later		(47,848)	(26,892)	(44,228)	(57,811)			
36 months later		(60,129)	(38,609)	(64,959)				
48 months later		(67,161)	(55,123)					
60 months later		(83,574)						
Cumulative payments to date		(83,574)	(55,123)	(64,959)	(57,811)	(33,838)	(5,456)	
Total gross outstanding claims provision per the statement of financial position	116,935	69,177	60,455	78,380	138,518	117,360	41,079	621,904

Net outstanding claims provision at 31 December 2016 *Underwriting year*	*Before 2011* *£000*	*2011* *£000*	*2012* *£000*	*2013* *£000*	*2014* *£000*	*2015* *£000*	*2016* *£000*	*Total* *'000*
Estimate of cumulative claims incurred								
At end of underwriting year		29,646	28,112	30,073	33,296	43,053	38,738	
12 months later		81,401	71,344	77,363	96,575	125,676		
24 months later		86,255	80,772	101,820	158,022			
36 months later		87,879	87,943	125,608				
48 months later		90,587	107,455					
60 months later		113,474						
Current estimate of cumulative claims incurred		113,474	107,455	125,608	158,022	125,675	38,738	
Cumulative paid claims								
At end of underwriting year		(4,967)	(2,783)	(3,870)	(4,229)	(5,527)	(5,456)	
12 months later		(25,182)	(14,241)	(15,899)	(21,258)	(31,169)		
24 months later		(35,118)	(25,410)	(34,604)	(45,201)			
36 months later		(44,244)	(36,637)	(52,778)				
48 months later		(52,045)	(52,451)					
60 months later		(66,255)						
Cumulative payments to date		(66,255)	(52,451)	(52,778)	(45,201)	(31,169)	(5,456)	
Total net outstanding claims provision per the statement of financial position	98,379	47,220	55,004	72,830	112,821	94,505	33,281	514,040

19. Risk Management (continued)

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The tables below show the maximum exposure to credit risk for the components of the statement of financial position.

31 December 2016	*Neither past due nor impaired*	*Impaired*	*Past due*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	45,495	-	-	45,495
Other financial investments				
- Debt securities	183,236	-	-	183,236
- Derivative assets	(1,997)	-	-	(1,997)
Overseas deposits	88,342	-	-	88,342
Reinsurers' share of claims outstanding	107,864	-	-	107,864
Debtors arising out of direct insurance operations	87,517	-	3,692	91,209
Debtors arising out of reinsurance operations	7,899	(413)	-	7,486
Other debtors	5,926	-	-	5,926
Cash at bank and in hand	76,517	-	-	76,517
	601,816	(413)	2,675	604,078

31 December 2015	*Neither past due nor impaired*	*Impaired*	*Past due*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	134,940	-	-	134,940
Other financial investments				
- Debt securities	124,058	-	-	124,058
- Derivative assets	1,509	-	-	1,509
Overseas deposits	74,230	-	-	74,230
Reinsurers' share of claims outstanding	89,553	(665)	-	88,888
Debtors arising out of direct insurance operations	66,417	-	2,138	68,555
Debtors arising out of reinsurance operations	7,645	(632)	-	7,013
Other debtors	2,175	-	-	2,175
Cash at bank and in hand	10,539	-	-	10,539
	511,066	(1,297)	2,138	511,907

19. Risk Management (continued)

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

31 December 2016	*AAA*	*AA*	*A*	*BBB*	*Less than BBB*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities						45,495	45,495
Other financial investments							
- Debt securities	108,667	28,564	28,732	17,273	-	-	183,236
- Derivative assets	-	-	(1,997)	-	-	-	(1,997)
Overseas deposits	48,482	15,303	7,945	8,687	-	7,925	88,342
Reinsurers' share of claims outstanding	-	12,933	94,853	-	-	78	107,864
Debtors arising out of reinsurance operations	-	878	6,601	-	-	7	7,486
Cash at bank and in hand	-	-	76,517	-	-	-	76,517
	157,149	57,678	212,651	25,960	-	53,505	506,943

31 December 2015	*AAA*	*AA*	*A*	*BBB*	*Less than BBB*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities						134,940	134,940
Other financial investments							
- Debt securities	71,440	24,095	19,383	9,140	-	-	124,058
- Derivative assets	-	-	1,509	-	-	-	1,509
Overseas deposits	44,127	18,316	6,842	4,810	10	125	74,230
Reinsurers' share of claims outstanding	-	7,114	81,173	-	-	601	88,888
Debtors arising out of reinsurance operations	-	508	6,468	-	-	39	7,015
Cash at bank and in hand	-	-	10,539	-	-	-	10,539
	115,567	50,033	125,914	13,950	10	135,705	441,179

19. Risk Management (continued)

(e) Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with the financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

31 December 2016	*Carrying amount £000*	*Up to one year £000*	*1-3 years £000*	*3-5 years £000*	*5-10 years £000*	*Over 10 years £000*
Outstanding claim liabilities	621,904	218,104	190,621	104,104	89,190	19,885
Creditors arising out of direct insurance	7,488	7,479	9	-	-	-
Creditors arising out of reinsurance	30,247	30,247	-	-	-	-
Other creditors	75,300	71,530	3,770	-	-	-

31 December 2015	*Carrying amount £000*	*Up to one year £000*	*1-3 years £000*	*3-5 years £000*	*5-10 years £000*	*Over 10 years £000*
Outstanding claim liabilities	551,198	102,368	158,133	99,941	120,331	70,425
Creditors arising out of direct insurance	857	826	31	-	-	-
Creditors arising out of reinsurance	11,139	11,139	-	-	-	-
Other creditors	8,745	5,068	3,677	-	-	-

Other creditors include net liabilities on certain derivative contracts.

19. Risk Management (continued)

(f) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk, and equity price risk. These risks are discussed below:

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, US dollars, Australian dollars, and Canadian dollars.

The table below summarises the exposure of the financial assets and liabilities to foreign exchange risk at the reporting date (as converted Sterling amounts), as follows:

Converted £'000	UK £	US $	EUR €	CAD $	AUD $	Total
As at 31 December 2016						
Total assets	105,925	229,641	65,954	183,599	81,225	666,344
Total liabilities	(255,770)	(309,475)	(93,127)	(137,057)	(65,309)	(860,738)
Net assets	(149,845)	(79,834)	(27,173)	46,542	15,916	(194,394)

Converted £'000	UK £	US $	EUR €	CAD $	AUD $	Total
As at 31 December 2015						
Total assets	84,540	144,560	117,307	151,419	64,081	561,907
Total liabilities	(11,112)	(136,076)	(308,226)	(135,769)	(99,525)	(690,708)
Net assets	73,428	8,484	(190,919)	15,650	(35,444)	(128,801)

The Syndicate employs a hedging strategy of purchasing currency forward contracts to protect against currency fluctuations in the members' balance.

Notes to the financial statements
For the year ended 31 December 2016

19. Risk Management (continued)

(ii) Interest rate risk

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on:

Changes in variables	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2016		
+50 basis points	(1,585)	(1,585)
-50 basis points	1,585	1,585
31 December 2015		
+50 basis points	(1,666)	(1,666)
-50 basis points	1,666	1,666

(iii) Equity price risk

The analysis below is performed for reasonable possible movements in market indices on financial instruments, insurance assets and liabilities with all other variables held constant, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities.

Changes in stock market prices	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2016		
+50 basis points	227	227
-50 basis points	(227)	(227)
31 December 2015		
+50 basis points	6,747	6,747
-50 basis points	(6,747)	(6,747)

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

2014 Underwriting Year Accounts

Neon Underwriting Limited Syndicate 2468

At 31 December 2016

Table of contents

Directors and administration

Managing agent
Neon Underwriting Limited

Directors
J E Consolino
S Hayes
D M Lednor
A G C Mckay
I P Martin
M R D Reith
M C Stockton
M S D Washington

Syndicate secretary
A G C McKay

Managing agent's registered number
03584320

Managing agent's address
20 Gracechurch Street
London
EC3V 0BG

Active underwriter
Darren Lednor

Auditors
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Bankers
Barclays Bank plc
One Churchill Place
London
E14 5HP

Solicitors
Clyde & Co

Consulting actuaries
Willis Towers Watson

Registered office
20 Gracechurch Street
London
EC3V 0BG

Managing agent's report

The directors of Neon Underwriting Limited ("the Managing Agent") present their report at 31 December 2016 for the 2014 closed year of account of Syndicate 2468 ("the Syndicate"). The Syndicate underwriting year accounts have been prepared under the 2008 Regulations (Lloyd's Regulations 2008) and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

Review of the 2014 closed year of account
The principal activity of the Syndicate is that of underwriting insurance and reinsurance risks and this is conducted through the Lloyd's market. The classes underwritten by the Syndicate are Bloodstock, Directors and Officers, Employers Liability, General Liability, Marine Liability, Hull, Cargo, War, Medical Malpractice, Personal Accident, Political Violence and Political Risk businesses, Professional Indemnity and Specie.

Underwriting capacity for 2014 was £175 million. The gross premium income, after acquisition costs, underwritten against this was £190,373k. The business written by the Syndicate is set out in note 2.

The result for this year of account is a loss of £92,833k, which represents a loss of 53% as a percentage of stamp capacity. The 2014 pure year of account loss (before expenses and investment return) was £37,515k; there was an underwriting loss of £37,641k (before expenses and investment return) attributable to the reinsurance to close of the 2008 to 2013 pure years of accounts. The Syndicate produced an investment return of £2,272k.

Managing agent's report (continued)

Directors

The current directors of the Managing Agent are shown on page 2. Changes to directors since 1 January 2016 are as follows:

Name	Date of appointment
A G C McKay	1 June 2016
D M Lednor	20 May 2016
M S D Washington	20 May 2016
M C Stockton	6 June 2016
I P Martin	4 August 2016
J S Barber	15 September 2016
S Hayes	16 November 2016
J E Consolino	9 February 2017

Name	Date of resignation
V Badal	5 February 2016
A S Ribaudo	5 February 2016
J G F O'Neill	12 February 2016
A J Walker	1 July 2016
P V Olsen	10 February 2017
J E Mumford	10 February 2017
J S Barber	10 February 2017

Disclosure of information to the auditors

In the case of each of the persons who are directors of the Managing Agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditors' report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency and the Syndicate's auditor, each director has taken all the steps that he or she ought to have taken as director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Reappointment of auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

On behalf of the Board

M. Reith

M R D Reith
Chief Executive Officer

20 March 2017

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Syndicate underwriting year accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in the 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005). It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Syndicate 2468 – 2014 closed year of account

We have audited the syndicate underwriting year accounts for the 2014 year of account of syndicate 2468 ('the syndicate') for the three years ended 31 December 2016 which comprise the Income Statement, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows, the related notes 1 to 20 and the Statement of Managing Agent's Responsibilities. The financial reporting framework that has been applied in their preparation is applicable law, the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) 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 syndicate's members, as a body, in accordance with the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 5, 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 legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material 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 Underwriting Year Accounts to identify material inconsistencies with the audited 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.

Independent auditors' report to the members of Syndicate 2468 – 2014 closed year of account (continued)

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the loss for the 2014 closed year of account;
- have been properly prepared in accordance with 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'; 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.

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

20 March 2017

Income Statement
Technical account – General business
For the 2014 closed year of account for the three years ended 31 December 2016

	Notes	Cumulative balance to 31 December 2016 £000
Gross premiums written	2	190,373
Outward reinsurance premium		(31,215)
Earned premiums net of reinsurance		159,158
Reinsurance to close premium received, net of reinsurance	3	278,507
		437,665
Allocated investment return transferred from the non-technical account	10	2,272
Claims paid		
- Gross amount		(100,666)
- Reinsurers' share		15,135
Claims incurred, net of reinsurance		(85,531)
Reinsurance to close premium payable, net of reinsurance	4	(386,254)
Net operating expenses	5	(72,166)
Balance on technical account - general business	9	(104,014)

Income Statement
Non-technical account – General business
For the 2014 closed year of account for the three years ended 31 December 2016

	2016
	£000
Balance on technical account - general business	(104,014)
Investment income	3,896
Unrealised gains on investments	523
Investment expenses and charges	(9)
Unrealised losses on investments	(2,138)
Allocated investment return transferred to the general business technical account	(2,272)
Exchange gains and losses	11,181
Loss for the 2014 closed year of account	(92,833)

Other than items reported in the income statement the Syndicate has no items of other comprehensive income in any of the periods for which the financial statements have been presented. In accordance with FRS 102.3.19 the Syndicate only presents an income statement and does not present a statement of comprehensive income.

Statement of changes in members' balances
For the 2014 closed year of account for the three years ended 31 December 2016

	£000
Loss for the 2014 closed year of account	(92,833)
Amounts due from members	(92,833)

There have been no cash calls or distributions to members relating to the 2014 closed year of account. The cumulative loss of £92,833k therefore represents the members' balance on the 2014 year of account as at 31 December 2016.

Statement of financial position
For the 2014 closed year of account at 31 December 2016

	Notes	2016
		£000
ASSETS		
Investments		
Financial investments	11	183,844
Reinsurers' share of technical provisions		
Provision for unearned premiums		2,958
Claims outstanding		77,211
		80,169
Debtors		
Debtors arising out of direct insurance operations		12,898
Debtors arising out of reinsurance operations		2,408
Other debtors		15,562
	12	30,868
Cash and other assets		
Cash at bank and in hand		34,214
Other assets	13	69,060
		103,274
Prepayments and accrued income		
Accrued interest		
Deferred acquisition costs		1,429
Other prepayments and accrued income		-
		1,429
Total assets		399,584

Statement of financial position (continued)
As at 31 December 2016

	Notes	2016 £000
MEMBERS' BALANCE AND LIABILITIES		
Members' balances		(92,833)
Technical provisions		
Provision for unearned premiums		7,197
Claims outstanding		463,465
		470,662
Creditors		
Creditors arising out of direct insurance operations		2,373
Creditors arising out of reinsurance operations		9,967
Other creditors		8,574
	14	20,914
Accruals and cash income		841
Total liabilities		492,417
Total members' balances and liabilities		399,584

The financial statements and the notes on pages 14 to 26 were approved by the board of directors on 20 March 2017 and were signed on its behalf by:

M. Reith.

M R D Reith
Chief Executive Officer

Statement of cash flows
For the 2014 closed year of account for the three years ended 31 December 2016

	Notes	2016
		£000
Loss for closed year of account		(92,833)
Operating activities		
Reinsurance to close premium payable, net of reinsurance	4	386,254
Increase in debtors		(30,868)
Increase in creditors		20,914
Decrease in net derivative balance		4,108
Increase in accruals and deferred income		841
Net cash inflow from operating activities		288,416
Investing activities		
Changes in market value and exchange rates		4,633
Net cash outflow from investing activities		4,633
Increase in cash and cash equivalents	16	293,049
Cash flows were invested as follows		
Increase in cash holdings		34,214
Increase in overseas deposits		69,060
Net portfolio investments	17	189,775
Net cash inflow		293,049

The increase in cash holdings of £34,214k is the figure shown on the statement of financial position as cash at bank and in hand. The net cash inflow of £293,049k represents the cumulative inflow of cash and cash equivalents relating to the 2014 underwriting year, as at 31 December 2016.

Notes to the financial statements
For the 2014 closed year of account at 31 December 2016

1. Accounting Policies

1.1. Statement of compliance

The Syndicate underwriting year accounts have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

The 2014 year of account has closed and all assets and liabilities have been transferred to a reinsuring year of account. The result for the year of account was declared in sterling so there is no exchange rate risk. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the Syndicate Annual Accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and by section 4 of FRS 103. Full disclosures relating to these risks are provided in the Syndicate Annual Accounts.

1.2. Basis of preparation

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016; consequently, the statement of financial position, represents the assets and liabilities of the 2014 year of account, and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period until closure.

The financial statements for the period ended 31 December 2016 were approved for issue by the board of directors on 20 March 2017.

The financial statements are prepared in sterling which is the functional and presentational currency of the Syndicate and rounded to the nearest £'000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

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

1.3. Significant accounting policies

Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account. Where it is not deemed to be possible to determine the outstanding liabilities with sufficient accuracy, the year of account will not be closed by way of reinsurance to close.

Premiums written

Gross premiums written are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Premiums written are treated as fully earned.

Reinsurance premium ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Amount retained to meet all known and unknown outstanding liabilities

The net amount retained to meet all known and unknown outstanding liabilities is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. It also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

The reinsurers' share is based on the 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. A number of statistical methods are used to assist in making these estimates.

1.3. Significant accounting policies (continued)

The two most critical assumptions as regards claims estimates are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the amount retained so determined.

Foreign currencies
The Syndicate's functional currency and presentational currency is Sterling. Transactions, other than reinsurance to close and amounts retained to meet all known and unknown liabilities, in US dollars, Canadian dollars, Australian dollars and Euro are translated at the average rates of exchange for the period. Reinsurance to close premiums receivable, and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the transaction date. The amounts retained to meet all known and unknown liabilities are included at the rate ruling on the date the amounts are first reflected in the accounts.

All monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate. Exchange differences are recorded in the non-technical account.

Investments
Investments are stated at current value at the balance sheet date. Listed investments and overseas deposits are stated at bid market value. All investments are considered portfolio investments.

Investment return
Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on the Overseas Deposits are allocated to the year of account as notified by Lloyd's. The returns on other assets are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price.

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. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

1.3. Significant accounting policies (continued)

Operating expenses

Expenses are incurred by the Managing Agent in the administration of managed syndicates. These expenses are incurred jointly for the Managing Agent and the Syndicate and are apportioned according to the amount of work performed, resources used and the volume of business transacted. Syndicate expenses are allocated to the year of account for which they are incurred, regardless of when they are actually paid.

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 are included in the technical account under the heading 'net operating expenses'. No provision has been made for any other overseas tax payable by Members on underwriting results.

Pension costs

Neon Management Services Limited, on behalf of the Managing Agent, makes contributions to employees' individual pension plans. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

1.4 Judgements and key sources of estimation uncertainty

Management makes judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for cumulative revenues and expenses. Actual outcomes could differ from those estimates. Key sources of estimation uncertainty are:

Insurance contract technical provisions
Estimates are made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

Actuarial projection techniques are used to calculate the ultimate cost of outstanding claims. The main assumption underlying these techniques is that past claims development experience can be used to project future claim development and hence ultimate claims cost. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. Provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

Estimates of future premiums
For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

2. Segmental analysis

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

	Gross premiums written	*Gross claims incurred*	*Gross operating expenses*	*Reinsurance balance*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Accident & Health	14,490	(9,525)	(5,455)	678	188
Motor	30	26	-	15	71
Marine, aviation and transport	14,584	(18,903)	(5,894)	2,250	(7,963)
Fire and other damage to property	19,320	(14,584)	(7,506)	(2,781)	(5,551)
Third party liability	108,794	(92,130)	(41,367)	(9,205)	(33,908)
Credit and suretyship	19,620	(38,903)	(6,348)	14,926	(10,704)
Reinsurance acceptances	13,536	(13,694)	(5,596)	(245)	(5,999)
	190,373	(187,712)	(72,166)	5,639	(63,866)
RITC brought forward	278,507	(49,583)	-	7,163	236,087
Total	468,880	(237,295)	(72,166)	12,802	172,221

Gross premiums written are treated as fully earned. Gross claims incurred comprise gross claims paid and gross reinsurance to close premium payable. Gross operating expenses are the same as net operating expenses shown in the income statements, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses. The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on the reinsurance to close payable. All premiums written are in respect of contracts concluded in the UK.

The geographical analysis of premiums is as follows:

	£000
United Kingdom	27,714
Other EU countries	19,309
Australia	28,233
North America	41,223
Other territories	73,894
	190,373

3. Reinsurance to close premium receivable

At 31 December 2016	*£000*
Gross notified outstanding claims	163,747
Reinsurance recoveries anticipated	(29,512)
Net notified outstanding claims	134,235
Provision for gross claims incurred but not reported	125,275
Reinsurance recoveries anticipated	(13,775)
Provision for net claims incurred but not reported	111,500
Foreign exchange	32,772
Reinsurance premium to close receivable, net of reinsurance	278,507

4. Reinsurance to close premium payable

At 31 December 2016	*£000*
Gross notified outstanding claims	237,040
Reinsurance recoveries anticipated	(52,011)
Net notified outstanding claims	185,029
Provision for gross claims incurred but not reported	226,425
Reinsurance recoveries anticipated	(25,200)
Provision for net claims incurred but not reported	201,225
Reinsurance premium to close payable, net of reinsurance	386,254

The reinsurance to close is effected to the 2014 year of account of Syndicate 2468.

5. Net operating expenses

	Cumulative to 31 December 2016 £000
Administrative expenses	
- Audit of Syndicate accounts and Lloyd's returns	127
- Other administrative expenses	15,358
Total administrative expenses	15,485
Members' standard personal expenses	2,764
Brokerage and commission on gross premium	50,983
Acquisition costs	2,934
Net operating expenses	72,166

6. Auditors' remuneration

	Cumulative to 31 December 2016 £000
Audit of the Syndicate annual accounts	127
	127

7. Staff costs

All staff are employed by Neon Management Services Limited, a fellow group company of the Managing Agent. The following amounts were recharged to the 2014 year of account:

	Cumulative to 31 December 2016 £000
Wages and salaries	7,155
Social security costs	923
Other pension costs	618
	8,696

The average number of employees employed by the Managing Agent, working for the Syndicate during the three years was:

	Three years number
Administration and Finance	79
Underwriting	52
Claims	19
	150

8. Directors' emoluments

The directors of the Managing Agent received the following aggregate remuneration charged to the Syndicate and included within net operating expenses.

	Cumulative to 31 December 2016 £000
Aggregate remuneration in respect of qualifying services	1,516

The active underwriter received the following remuneration charged as a Syndicate expense:	*Cumulative to 31 December 2016 £000*
Aggregate remuneration in respect of qualifying services	338

9. Analysis of underwriting result:

	2008 to 2013 pure years of account £000	*2014 pure year of account £000*	*Total 2014 year of account £000*
Technical account balance before allocated investment return and net operating expenses	(48,376)	14,256	(34,120)
Brokerage and commissions on gross premiums	(2,147)	(51,770)	(53,917)
	(50,523)	(37,514)	(88,037)
Allocated investment return transferred from the non-technical account	(639)	2,911	2,272
Net operating expenses other than acquisition costs	-	(18,249)	(18,249)
Balanced on technical account – general business	(51,162)	(52,852)	(104,014)

10. Investment return

	Cumulative balance to 31 December 2016 £000
Income from investments	4,731
Realised gains and losses from investments	(835)
Unrealised gains and losses from investments	(1,615)
Investment management charges	(9)
	2,272

11. Investments

Investment risk appetite is established by the board via the Investment Committee. The majority of Syndicate investments are managed by Lloyd's Treasury. The remaining investment portfolio is managed by a number of external fund managers, who are appointed by the Investment Committee. All decisions taken in respect of these investments are made in conjunction with external investment advisors.

	Market value at 31 December 2016	*Purchase price*
	£000	*£000*
Shares and other variable yield securities	12,561	12,561
Debt and other fixed income securities	175,391	177,214
	187,952	189,775
Derivatives	(4,108)	(4,108)
	183,844	185,667

12. Debtors arising out of direct insurance operations

	£000
Due within year	
Arising out of direct insurance operations, due from intermediaries	12,819
Arising out of reinsurance operations, due from intermediaries	2,408
Other Debtors	15,562
	30,789
Due after one year	
Arising out of direct insurance operations, due from intermediaries	79
	30,868

13. Other assets

Other assets comprise of overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

14. Creditors

	£000
Due within one year	
Arising out of direct insurance operations, due to intermediaries	2,367
Arising out of reinsurance operations	9,967
Other creditors	(2,402)
	9,932
Due after one year	
Arising out of direct insurance operations, due to intermediaries	6
Other creditors	10,976
	20,914

15. Movement in opening and closing portfolio investments, net of financing

	Cumulative to 31 December 2016 £000
Net cash inflow from the three years	34,214
Cash flow from overseas deposits	69,060
Cash flow from portfolio investments	189,775
Movement arising from cash flows	293,049
Changes in market value and exchange rates	(1,823)
Portfolio at 31 December 2016	291,226

The balance above of £291,226k does not include the net liability on derivatives.

16. Movement in cash, portfolio investments and financing

	Cash flow £000	*Changes to market value and currency £000*	*At 31 December 2016 £000*
Shares and other variable yield securities	12,561	-	12,561
Debt and other fixed income securities	177,214	(1,823)	175,391
	189,775	(1,823)	187,952
Cash at bank and in hand	34,214	-	34,214
Overseas deposits	69,060	-	69,060
	293,049	(1,823)	291,226

17. Net cash flow on portfolio investments

	Cumulative to 31 December 2016 £000
Purchase of shares and other variable yield securities	126,418
Purchase of debt securities and other fixed income securities	476,574
Sale of shares and other variable yield securities	(113,857)
Sale of debt securities and other fixed income securities	(299,360)
Net cash inflow on portfolio investments	189,775

18. Related Parties

The Managing Agent's immediate parent company is Neon Holdings (U.K) Limited. The Managing Agent's ultimate UK holding company is Neon Capital Limited. Both the immediate and ultimate UK parent company are registered in England and Wales at 20 Gracechurch Street, London, EC3V 0BG, United Kingdom. The ultimate parent company is American Financial Group Inc, a company incorporated in Ohio, USA. Copies of their Financial Statements may be obtained from 301 E 4th Street, Cincinnati, Ohio.

Managing agency fees of £1,313k were charged to the Syndicate by the Managing Agent. These fees are calculated as 0.75% of the Syndicate's approved stamp capacity of the 2014 underwriting year. The approved stamp capacity of the 2014 underwriting year was £175 million.

SCOR Underwriting Limited is a corporate underwriting member for the 2014 year of account. SCOR Group P&C France participates as a reinsurer of the Syndicate. The cumulative premiums paid to that reinsurer amount to £1,116k, representing 0.54% of the outward reinsurance spend of the Syndicate.

Great American Insurance Co. (GAIC) is a wholly owned subsidiary of American Financial Group (AFG) and participates as a reinsurer of the Syndicate. The cumulative premiums paid to GAIC for the 2014 underwriting year amount to £15,022k, representing 7.2% of the outward reinsurance spend of the Syndicate.

Key management personnel are working for the Syndicate are employed by Neon Managements Services Ltd, which is a fellow group company of the Managing Agent. The cost of such personnel has been allocated to the 2014 underwriting year in proportion to the time spent on Syndicate activities pertaining to the underwriting year.

There are no other transactions or arrangements to disclose.

19. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a Member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the Member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the Members' FAL to meet liquidity requirements or to settle losses suffered by the Syndicate. In the event that a Members FAL is exhausted the application can be made for any shortfall to be met from the Lloyd's Central Fund.

20. Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

Seven-year summary

Summary of Closed Years' Results

SYNDICATE 2468 at 31 December 2016

Year of Account	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*
Syndicate allocated capacity (£'000)	100,000	100,000	120,000	145,000	145,000	145,000	145,000	175,000
Number of participating Members	5	4	4	4	4	4	4	4
Aggregate net premiums (£'000)	69,316	78,191	84,839	98,318	96,906	99,791	100,371	105,241
Illustrative share of £10,000								
Gross premiums	8,294	9,497	9,248	8,842	8,677	8,695	9,137	9,411
Net premiums	6,932	7,819	7,070	6,781	6,683	6,882	6,922	7,258
Reinsurance to close earlier account	19,541	0	6,726	8,826	11,004	12,056	14,287	16,947
Net claims	(47,843)	(1,624)	(3,117)	(3,549)	(4,506)	(3,946)	(5,283)	(3,639)
Reinsurance to close	0	(8,072)	(10,622)	(11,004)	(12,056)	(14,287)	(16,947)	(26,638)
Underwriting result	**(21,370)**	**(1,877)**	**57**	**1,054**	**1,125**	**705**	**(1,021)**	**(6,071)**
Profit/(loss) on exchange	(119)	217	(121)	(198)	(364)	(288)	(677)	771
Syndicate operating expenses	(1,528)	(839)	(898)	(1,003)	(1,188)	(1,156)	(1,206)	(1,068)
Balance on technical account	(23,017)	(2,499)	(962)	(147)	(426)	(738)	(2,905)	(6,368)
Investment return	2,579	409	325	611	434	447	227	157
Profit/(loss) before illustrative personal expenses	(20,437)	(2,090)	(637)	464	8	(291)	(2,678)	(6,212)
Corporate Member								
Illustrative personal expenses								
Managing agent's fee	(75)	(75)	(75)	(75)	(75)	(75)	(75)	(74)
Lloyd's central fund contribution	(100)	(44)	(45)	(45)	(46)	(23)	(46)	(46)
Lloyd's subscription	(50)	(44)	(45)	(45)	(46)	(45)	(46)	(46)
Profit commission	0	0	0	0	0	0	0	0
Total illustrative personal expenses	(225)	(163)	(165)	(165)	(168)	(143)	(167)	(166)
Profit/(Loss) after illustrative personal expenses	(20,662)	(2,253)	(802)	299	(160)	(434)	(2,846)	(6,378)
Total of syndicate operating expenses, managing agent's fee and profit commission	1,603	914	973	1,078	1,263	1,231	1,281	1,142
Capacity utilised % Gross premiums/allocated capacity	83	95	92	88	87	87	91	78
Net capacity utilised % Net premiums/allocated capacity	69	78	71	68	67	69	69	60
Balance on technical account % Balance on technical account/allocated capacity	(230)	(25)	(10)	(1)	(4)	(7)	(29)	(53)

Notes:

1. The summary has been prepared from the audited accounts of the syndicate. However brokerage and commissions have been excluded from both gross and net premiums and syndicate operating expenses from the 2003 year of account onwards so as to make the figures comparable to earlier years.
2. The illustrative share represents a gross premium limit.
3. Investment expenses for all years of account have been deducted from investment return and are not included in syndicate operating expenses.
4. The result after illustrative personal expenses (managing agent's remuneration and standard Lloyd's charges) takes no account of any UK or overseas taxation liabilities, which are the personal responsibility of the Member.
5. The 2002 and 2004 years include whole account quota share syndicate 3579.
6. The results for the 2012 year of account and prior are on the basis of the accounting policies prevailing at the time and have not been restated to reflect the current accounting policies.

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

NEON

2007 Underwriting year Accounts

Neon Underwriting Limited Syndicate 2468

At 31 December 2016

Table of contents

Directors and administration

Managing agent
Neon Underwriting Limited

Directors
J E Consolino
S Hayes
D M Lednor
A G C Mckay
I P Martin
M R D Reith
M C Stockton
M S D Washington

Syndicate secretary
A G C McKay

Managing agent's registered number
03584320

Managing agent's address
20 Gracechurch Street
London
EC3V 0BG

Active underwriter
Darren Lednor

Auditors
Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Bankers
Barclays Bank plc
One Churchill Place
London
E14 5HP

Solicitors
Clyde & Co

Consulting actuaries
Willis Towers Watson

Registered office
20 Gracechurch Street
London
EC3V 0BG

Managing agent's report

The directors of Neon Underwriting Limited ("the Managing Agent") present their report at 31 December 2016 for the 2007 closed year of account of Syndicate 2468 ("the Syndicate").

The Syndicate underwriting year accounts have been prepared under Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

Review of the 2007 closed year of account

The Syndicate's allocated stamp capacity for the 2007 underwriting year was £100m. The balance on the technical account at 31 December 2016 is a £205.4m deficit, which represents a deterioration in the year of £5.8m.

The 2007 underwriting year, which previously remained open due to uncertainty over Italian Public Hospitals Medical Malpractice reserves, closed on 15 November 2016 by means of a reinsurance to close (RITC) transaction. The RITC transferred all assets and liabilities of the 2007 underwriting year to Syndicate 2008. At 31 December 2015, the Syndicate held a members' balance relating to the 2007 underwriting year of £39,325k, owing to the Syndicate. Prior to the external RITC transaction being concluded, liabilities for the 2007 underwriting year were strengthened by £5,833k, taking the total due from members and the Lloyd's Central Fund (LCF) to £45,158k, this amount was settled during the financial year. At 31 December 2016 the Syndicate is carrying assets of £62,369k that remain payable to the external syndicate, to be settled in early 2017.

Managing agent's report (continued)

Directors

The current directors of the managing agent are shown on page 2. Changes to directors since 1 January 2016 are as follows:

Name	**Date of appointment**
A G C McKay	1 June 2016
D M Lednor	20 May 2016
M S D Washington	20 May 2016
M C Stockton	6 June 2016
I P Martin	4 August 2016
J S Barber	15 September 2016
S Hayes	16 November 2016
J E Consolino	9 February 2017

Name	**Date of resignation**
V Badal	5 February 2016
A S Ribaudo	5 February 2016
J G F O'Neill	12 February 2016
A J Walker	1 July 2016
P V Olsen	10 February 2017
J E Mumford	10 February 2017
J S Barber	10 February 2017

Disclosure of information to the auditors

In the case of each of the persons who are directors of the Managing Agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditors' report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency and the Syndicate's auditor, each director has taken all the steps that he or she ought to have taken as director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Reappointment of auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

On behalf of the Board

M. Reith

M R D Reith
Chief Executive Officer

20 March 2017

Statement of managing agent's responsibilities

The Lloyd's Syndicate Accounting Byelaw (No 8 of 2005) requires the Managing Agent to prepare closed underwriting year accounts at 31 December in respect of any syndicate year that is closed.

In preparing the closed underwriting year accounts, the managing agent is required 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 account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in these 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 Byelaw. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Syndicate 2468 – 2007 closed year of account

We have audited the syndicate underwriting year accounts for the 2007 year of account of syndicate 2468 ('the syndicate') for the three years ended 31 December 2016 which comprise the Income Statement, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows, the related notes 1 to 19 and the Statement of Managing Agent's Responsibilities. The financial reporting framework that has been applied in their preparation is applicable law, the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) 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 syndicate's members, as a body, in accordance with the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 5, 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 legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material 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 Underwriting Year Accounts to identify material inconsistencies with the audited 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.

Independent auditors' report to the members of Syndicate 2468 – 2007 closed year of account

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the loss for the 2007 closed year of account;
- have been properly prepared in accordance with 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'; 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.

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

20 March 2017

Income Statement
Technical account – General business
For the ten years ended 31 December 2016

	Notes	*Cumulative balance to 31 December 2016 £000*
Gross premiums written	2	114,831
Outward reinsurance premium		(13,626)
Net written premiums		101,205
Reinsurance to close premium received Net of reinsurance	3	198,087
		299,292
The amount retained to meet all known and unknown outstanding liabilities, net of reinsurance, brought forward		-
Allocated investment return transferred from the non-technical account		25,789
Claims paid		
- Gross amount		(474,383)
- Reinsurers' share		112,663
Claims incurred, net of reinsurance		(361,720)
Reinsurance to close premium paid, net of reinsurance	4	(116,714)
Net operating expenses	5	(52,093)
Balance on technical account - general business		(205,446)

Income Statement
Non-technical account – General business
For the ten years ended 31 December 2016

	Notes	Cumulative balance to 31 December 2016 £000
Balance on technical account - general business		(205,446)
Investment return	10	29,701
Unrealised gains on investments		9,958
Investment expenses and charges	10	(7,742)
Unrealised losses on investments		(6,128)
Allocated investment return transferred to the general business technical account		(25,789)
Foreign exchange gains and losses		(1,188)
Result for the 2007 closed year of account		(206,634)

Other than items reported in the income statement the Syndicate has no items of other comprehensive income in any of the periods for which the financial statements have been presented. In accordance with FRS 102.3.19 the Syndicate only presents an income statement and does not present a statement of comprehensive income.

Statement of changes in members' balances
For the ten years ended 31 December 2016

	£000
Loss for the 2007 closed year of account	(206,634)
Cash calls made	210,158
Interim transfers to members' personal reserve funds	(3,524)
Amounts due from members at 31 December 2016	-

The interim transfer of £3,524k relates to a distribution that took place during 2008 at a time when the year was expected to be profitable. The members' balance on the 2007 year of account was settled by Lloyd's corporate members and the Lloyd's central fund during the financial year.

Statement of financial position
As at 31 December 2016

	Notes	2016 £000
ASSETS		
Investments		
Financial investments	11	32,210
Cash and other assets		
Cash at bank and in hand		28,043
Other assets	12	2,116
		30,159
Total assets		62,369
MEMBERS' BALANCE AND LIABILITIES		
Members' balances		-
Creditors		
Other creditors	13	62,369
Total liabilities		62,369
Total members' balances and liabilities		62,369

In accordance with the Syndicate Accounting Byelaw, certain headings and sub-headings have been omitted where there is no amount to be shown.

The financial statements and the notes on pages 13 to 23 were approved by the board of directors on 20 March 2017 and were signed on its behalf by:

M Reith

M R D Reith
Chief Executive Officer

Statement of cash flows
For the ten years ended 31 December 2016

	Notes	2016
		£000
Reconciliation of Operating loss to net cash inflow from operating activities		
Loss on ordinary activities		(206,634)
Net amount retained to meet all known and unknown liabilities	4	-
Increase in debtors / creditors		62,369
Net cash inflow from operating activities		(144,265)
Financing activities		
Transfer to members in respect of underwriting participations		(3,524)
Cash calls		210,158
Net cash inflow from financing activities		206,634
Increase in cash and cash equivalents	17	62,369
Cash flows were invested as follows:		
Cash and cash equivalents		28,043
Overseas deposits		2,116
Net portfolio investments	18	32,210
Net investment of cash flows		62,369

The increase in cash holdings of £28,043k is the figure shown on the statement of financial position as cash at bank and in hand. The net cash inflow of £62,369k represents the cumulative inflow of cash and cash equivalents, net of transfers to and from members, relating to the 2007 underwriting year, as at 31 December 2016.

Notes to the financial statements
For the 2007 year of account at 31 December 2016

1. Accounting policies

1.1. Statement of compliance

The Syndicate underwriting year accounts have been prepared under the Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

The 2007 year of account has closed and all assets and liabilities have been transferred to an external syndicate into a reinsuring year of account. The result for the year of account was declared in sterling so there is no exchange rate risk. To this extent, the risks it is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the Syndicate Annual Accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102 and by section 4 of FRS 103. Full disclosures relating to these risks are provided in the Syndicate Annual Accounts.

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

1.2. Basis of preparation

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2007 closed year of account. Consequently the balance sheet represents the assets and liabilities of the 2007 closed year of account and the profit and loss account and cash flow statement reflect the transactions for that year of account during the eight year period from inception to the reference date.

1.3. Significant accounting policies

Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account. Where it is not deemed to be possible to determine the outstanding liabilities with sufficient accuracy, the year of account will not be closed by way of reinsurance to close.

Premiums written

Gross premiums written are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Premiums written are treated as fully earned.

1.3. Significant accounting policies (continued)

Reinsurance premium ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Amount retained to meet all known and unknown outstanding liabilities

The net amount retained to meet all known and unknown outstanding liabilities is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. It also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

The reinsurers' share is based on the 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. A number of statistical methods are used to assist in making these estimates.

The two most critical assumptions as regards claims estimates are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred. The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the amount retained so determined.

Foreign currencies

The Syndicate's functional currency and presentational currency is Sterling. Transactions, other than reinsurance to close and amounts retained to meet all known and unknown liabilities, in US dollars, Canadian dollars, Australian dollars and Euro are translated at the average rates of exchange for the period. Reinsurance to close premiums receivable, and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the transaction date. The amounts retained to meet all known and unknown liabilities are included at the rate ruling on the date the amounts are first reflected in the accounts. All monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate. Exchange differences are recorded in the non-technical account.

1.3. Significant accounting policies (continued)

Investments

Investments are stated at current value at the balance sheet date. Listed investments and overseas deposits are stated at bid market value. All investments are considered portfolio investments.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on the Overseas Deposits are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price.

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. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Operating expenses

Expenses are incurred by the Managing Agent in the administration of managed syndicates. These expenses are incurred jointly for the Managing Agent and the Syndicate and are apportioned according to the amount of work performed, resources used and the volume of business transacted. Syndicate expenses are allocated to the year of account for which they are incurred, regardless of when they are actually paid.

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 are included in the technical account under the heading 'net operating expenses'. No provision has been made for any other overseas tax payable by Members on underwriting results.

Pension costs

Neon Management Services Limited, on behalf of the Managing Agent, makes contributions to employees' individual pension plans. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses.

Notes to the financial statements
For the 2007 year of account at 31 December 2016

1.4 Judgements and key sources of estimation uncertainty

Management makes judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for cumulative revenues and expenses. Actual outcomes could differ from those estimates. Key sources of estimation uncertainty are:

Insurance contract technical provisions
Estimates are made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

Actuarial projection techniques are used to calculate the ultimate cost of outstanding claims. The main assumption underlying these techniques is that past claims development experience can be used to project future claim development and hence ultimate claims cost. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. Provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

Estimates of future premiums
For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

2. Segmental analysis

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

	Gross premiums written	*Gross claims incurred*	*Gross operating expenses*	*Reinsurance balance*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Third party liability	106,160	(326,281)	(43,652)	36,654	(227,119)
Accident & Health	5,174	(2,727)	(725)	276	1,998
Reinsurance acceptances	3,497	(4,431)	(5,039)	(141)	(6,114)
	114,831	(333,439)	(49,416)	36,789	(231,235)
RITC brought forward	198,087	(284,506)	(2,677)	89,096	-
Total	312,918	(617,945)	(52,093)	125,885	(231,235)

Gross premiums are fully earned. Gross claims incurred comprise gross claims paid and gross reinsurance to close premium payable. Gross operating expenses are the same as net operating expenses shown in the income statements, as no commission in respect of outward reinsurance has been received or netted off against gross operating expenses.

The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on the reinsurance to close payable. All premiums written are in respect of contracts concluded in the UK.

Gross operating expenses are the same as net operating expenses shown in the income statement as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses.

The geographical analysis of the premiums is as follows:

	£000
UK	65,713
EU	85,740
Other	161,465
	312,918

Notes to the financial statements
For the 2007 year of account at 31 December 2016

3. Reinsurance to Close premium receivable

At 31 December 2016	*£000*
Gross notified outstanding claims	190,566
Reinsurance recoveries anticipated	(54,516)
Net notified outstanding claims	136,050
Provision for gross claims incurred but not reported	96,320
Reinsurance recoveries anticipated	(34,283)
Provision for net claims incurred but not reported	62,037
Reinsurance premium to close the 2006 year of account	198,087

4. Reinsurance to Close premium paid

At 31 December 2016	*£000*
Gross notified outstanding claims	98,468
Reinsurance recoveries anticipated	(20,180)
Net notified outstanding claims	78,288
Provision for gross claims incurred but not reported	45,095
Reinsurance recoveries anticipated	(6,669)
Provision for net claims incurred but not reported	38,426
Reinsurance premium to close paid, net of reinsurance	116,714

The 2007 underwriting year, which includes Italian Public Hospitals Medical Malpractice reserves, was closed by means of a reinsurance to close (RITC) transaction on 15 November 2016, which transferred all assets and liabilities to an Syndicate 2008.

Notes to the financial statements
For the 2007 year of account at 31 December 2016

5. Net operating expenses

	Cumulative to 31 December 2016 *£000*
Administrative expenses	
- Audit of Syndicate accounts and Lloyd's returns	304
- Taxation compliance services	23
- Other administrative expenses	13,932
Total administrative expenses	14,259
Members' standard personal expenses	2,250
Acquisition costs	32,906
	49,415
RITC balance brought forward	2,678
Net operating expenses	52,093

6. Auditors' remuneration

	Cumulative to 31 December 2016 *£000*
Audit of the Syndicate annual accounts	304
Tax compliance services	23
	327

7. Staff costs

All staff are employed by the Managing Agent. The following amounts were charged to the 2007 year of account:

	Cumulative to 31 December 2016 *£000*
Wages and salaries	13,639
Social security costs	490
Other pension costs	1,229
	15,358

The average number of employees employed by the Managing Agent, working for the Syndicate during the nine years was:

	Ten years Number
Administration and Finance	50
Underwriting	38
Claims	17
	105

Notes to the financial statements

For the 2007 year of account at 31 December 2016

8. Directors' emoluments

The directors of the Managing Agent received the following aggregate remuneration charged to the Syndicate and included within net operating expenses.

	Cumulative to 31 December 2016
	£000
Aggregate remuneration in respect of qualifying services	1,908

The active underwriter received the following remuneration charged as a Syndicate expense:	*Cumulative to 31 December 2016*
	£000
Aggregate remuneration in respect of qualifying services	324

9. Analysis of underwriting result

	2006 and prior pure years of account	*2007 pure year of account*	*Total 2007 year of account*
	£000	*£000*	*£000*
Technical account balance before allocated investment return and net operating expenses	(144,145)	(36,666)	(180,111)
Brokerage and commissions on gross premiums	-	(35,687)	(35,687)
	(144,145)	(72,353)	(216,498)
Allocated investment return transferred from the non-technical account	-	26,121	26,121
Net operating expenses other than acquisition costs	-	(15,069)	(15,069)
Balance on technical account – general business	(144,145)	(61,301)	(205,446)

10. Investment return

	Cumulative balance to 31 December 2016 £000
Investment income	
Income from investments	22,890
Gains on realisation of investments	6,810
	29,701
Investment expenses and charges	
Investment management expenses, including interest	(1,691)
Losses on the realisation of investments	(6,051)
	(7,742)

11. Investments

	Market value at 31 December 2016 £000	Purchase price £000
Shares and other variable yield securities	32,210	32,210
Debt and other fixed income securities	-	-
	32,210	32,210
Derivatives	-	-
	32,210	32,210

12. Other assets

Other assets of £2,116k comprise of overseas deposits, lodged as a condition of conducting underwriting business in certain countries.

13. Creditors due within one year

	£000
Other Creditors	62,369

This balance is the amount payable to external Syndicate 2008, in connection with the RITC that took place on 15 November 2016.

14. Movement in opening and closing portfolio investments, net of financing

	Cumulative to 31 December 2016 *£000*
Net cash inflow from the nine years	28,043
Cash flow from overseas deposits	2,116
Cash flow from portfolio investments	32,210
Portfolio at 31 December 2016	62,369

15. Movement in cash, portfolio investments and financing

	Cash flow *£000*	*Changes to market value and currency* *£000*	*At 31 December 2016* *£000*
Shares and other variable yield securities	32,210	-	32,210
Cash at bank and in hand	28,043	-	28,043
Overseas deposits	2,116	-	2,116
	62,369	-	62,369

16. Net cash flow on portfolio investments

	Cumulative to 31 December 2016 *£000*
Purchase of shares and other variable yield securities	231,401
Purchase of debt securities and other fixed income securities	1,233,047
Sale of shares and other variable yield securities	(199,191)
Sale of debt securities and other fixed income securities	(1,233,047)
Net cash inflow on portfolio investments	32,210

17. Related Parties

The Managing Agent's immediate parent company is Neon Holdings (U.K.) Limited. The Managing Agent's ultimate UK holding company is Neon Capital Limited. Both the immediate and ultimate UK parent company are registered in England and Wales at 20 Gracechurch Street, London, EC3V 0BG, United Kingdom. The ultimate parent company is American Financial Group Inc., a company incorporated in Ohio, USA. Copies of their Financial Statements can be obtained from 301 E 4th Street, Cincinnati, Ohio.

Managing agency fees of £750k were charged to the Syndicate by the Managing Agent. These fees are calculated as 0.75% of the Syndicate's approved stamp capacity of the 2007 underwriting year. The approved stamp capacity of the Syndicate for the 2007 underwriting year was £100 million.

Key management personnel are working for the Syndicate are employed by Neon Management Services Ltd, a fellow group company to the Managing Agent. The cost of personnel has been allocated to the 2007 underwriting year in proportion to the time spent on Syndicate activities relating to the 2007 underwriting year.

There are no other transactions or arrangements to disclose.

18. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a Member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the Member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the Members' FAL to meet liquidity requirements or to settle losses suffered by the Syndicate. In the event that a Members FAL is exhausted the application can be made for any shortfall to be met from the Lloyd's Central Fund.

19. Off-balance sheet items

The Syndicate has not been party to any arrangement, not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

Seven-year summary

Year of Account	Note	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Syndicate allocated capacity (£'000)		20,000	53,800	91,000	99,400	100,000	100,000	100,000
Number of participating Members		1	3	5	5	5	5	5
Aggregate net premiums (£'000)	1	13,048	32,355	60,577	61,428	58,558	77,822	69,316
Results for an Illustrative share of £10,000	2							
Gross premiums	1	12,875	10,565	8,035	7,535	7,125	9,246	8,294
Net premiums	1	6,524	6,014	6,657	6,180	5,856	7,782	6,932
Premiums for reinsurance to close earlier year of account		6,692	4,749	4,881	7,261	10,578	15,899	19,541
Net claims		(3,425)	(1,730)	(2,171)	(1,645)	(2,158)	(4,008)	(47,843)
Premiums for reinsurance to close the year of account		(12,821)	(8,111)	(8,128)	(10,076)	(13,570)	(20,840)	-
Amounts retained to meet all known and unknown outstanding liabilities		-	-	-	-	-	-	-
Underwriting result		**(3,030)**	**922**	**1,239**	**1,720**	**706**	**(1,167)**	**(21,370)**
Profit/(loss) on exchange		591	186	122	(211)	345	(134)	(119)
Syndicate operating expenses		(1,099)	(693)	(542)	(503)	(528)	(574)	(1,528)
Balance on technical account		**(3,538)**	**415**	**819**	**1,006**	**523**	**(1,875)**	**(23,017)**
Investment return	3	682	642	478	433	725	1,015	2,579
(Loss)/Profit before illustrative personal expenses	4	**(2,856)**	**1,057**	**1,297**	**1,439**	**1,248**	**(860)**	**(20,437)**
Corporate Member illustrative personal expenses								
Managing agent's fee		(75)	(75)	(75)	(75)	(75)	(75)	(75)
Lloyd's Central Fund contribution		(75)	(100)	(100)	(125)	(50)	(100)	(100)
Lloyd's subscription		(25)	(25)	(18)	(50)	(50)	(50)	(50)
Profit commission		-	(129)	(166)	(178)	(161)	-	-
Total illustrative personal expenses		(175)	(329)	(359)	(428)	(336)	(225)	(225)
(Loss)/Profit after illustrative personal expenses		**(3,031)**	**728**	**938**	**1,011**	**912**	**(1,085)**	**(20,662)**
Total of syndicate operating expenses, managing agent's fee and profit commission		(1,174)	(897)	(783)	(756)	(764)	(649)	(1,603)
Capacity utilised % Gross premium/allocated capacity		129	106	80	75	71	92	83
Net capacity utilised % Net premiums/allocated capacity		65	60	67	62	59	78	69
Balance on technical account % Balance on technical account / allocated capacity		(35)	4	8	10	5	(19)	(230)

1. The summary has been prepared from the audited accounts of the syndicate. However brokerage and commissions have been excluded from both gross and net premiums and syndicate operating expenses from the 2003 year of account onwards so as to make the figures comparable to earlier years.
2. The illustrative share represents a gross premium limit.
3. Investment expenses for all years of account have been deducted from investment return and are not included in syndicate operating expenses.
4. The result after illustrative personal expenses (managing agent's remuneration and standard Lloyd's charges) takes no account of any UK or overseas taxation liabilities, which are the personal responsibility of the Member.
5. The 2002 and 2003 years include whole account quota share syndicate 3579.
6. The result for the 2006 year of account and prior are on the basis of accounting policies prevailing at the time and have not been restated to reflect current accounting policies.