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Coverys Managing Agency Limited

Report and Financial Statements
Syndicate 1110
for the year ended
31 December 2017

Administration

Managing agent
Coverys Managing Agency Limited
71 Fenchurch Street
London EC3M 4BS

Bankers
Lloyds Bank plc
City Office
PO Box 72
Bailey Drive
Gillingham Business Park
Kent ME8 0LS

Investment Managers
Payden & Rygel Global Limited
1 Bartholomew Lane
London EC2N 2AX

Independent Auditors
PKF Littlejohn LLP
1 Westferry Circus
Canary Wharf
London E14 4HD

Managing agent's report

Coverys Managing Agency Limited (trading as "Coverys at Lloyd's") presents its report for Syndicate 1110 for the year ended 31 December 2017. Coverys Managing Agency Limited was formerly known as R&Q Managing Agency Limited (RQMA), until it was purchased by Coverys UK Holding Co. Limited on 30 November 2017. The Company was renamed Coverys Managing Agency Limited on 1 December 2017.

Up to 26 October 2017, the Syndicate was managed by ProSight Speciality Managing Agency Limited (PSMAL). The PSMAL Board was informed on 10 March 2017 by ProSight Global Holdings Limited (the ultimate Parent Company) of its intention to sell the UK subsidiary group, including the Managing Agency of, and the corporate members' providing capital for, Syndicate 1110. The Syndicate went into Run Off on 8 June 2017.

On 26 October 2017 PSMAL and its corporate members were sold to the R&Q group and subsequently PSMAL novated the syndicate to RQMA.

PSMAL was the Managing Agent of the Syndicate from 5 March 2015 when it assumed that role from Argenta Syndicate Management Limited (ASML). ProSight Specialty Underwriters Limited (PSUL), a service company, provided certain services to the Syndicate under a Third Party Syndicate Management Agreement.

Strategic report

The managing agent's report should be read in conjunction with the Strategic report as it includes information required to be disclosed in the managing agent's report. This information is primarily relating to a review of the business and a description of principle risks and uncertainties, although there is more extensive disclosure of risk management on page 21.

Directors

The directors of the managing agent who served during the year ended 31 December 2017 and up to the date of this report were as follows:

E B Bagley	Group non-executive director	Appointed 30.11.2017
M Bell	Executive director	Appointed 23.09.2005
A G Chopourian	Executive director	Appointed 28.09.2012
J P Fox	Non-executive director	Appointed 01.05.2011
M G Gardiner	Non-executive director	Appointed 22.08.2011
P A G Green	Non-executive director	Appointed 02.09.2014* - Resigned 30.11.2017
C A Hewitt	Executive director	Appointed 02.09.2014 - Resigned 30.11.2017
R E McCoy	Executive director	Appointed 12.05.2004
T C Mills	Group non-executive director	Appointed 30.11.2017
K E Randall	Non-executive director	Appointed 20.11.2014**
P M Sloan	Executive director	Appointed 11.01.2012
J P Tilling	Non-executive director	Appointed 12.05.2004 - Resigned 30.11.2017

* P A G Green was first appointed to the Board on 01.01.2006. He resigned on 31.03.2014 and was reappointed on 02.09.2014.
** K E Randall was first appointed to the Board on 28.03.2003. He resigned on 29.01.2014 and was reappointed on 20.11.2014.

Managing agent's report (continued)

Details of the Directors of PSMAL who served during the year up to the date of novation to Coverys at Lloyd's (formerly RQMA) are provided below:

M J Bale	Active Underwriter	Resigned 07.06.2017
J J Beneducci	Non-Executive Director	
M G Furgueson	Managing Director	Resigned 06.09.2017
M E L Goddard	Non-Executive Director	Resigned 07.06.2017
P J Goddard	Non-Executive Director	Resigned 15.10.2017
P J Green	Chief Financial Officer	Resigned 07.06.2017
M J Hewett	Non-Executive Director and Chairman	Resigned 07.06.2017
B W Schnitzer	Non-Executive Director	
V Syal	Chief Risk Officer	Resigned 07.06.2017

Auditors

Ernst & Young LLP resigned as the Syndicate's auditor when PSML novated to Coverys at Lloyd's on 26 October 2017 (renamed from RQMA on 1 December 2017) and PKF Littlejohn LLP were appointed.

PKF Littlejohn LLP have indicated their willingness to continue in office as the Syndicate's auditor.

Disclosure of information to auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the syndicate's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by order of the Board of Coverys at Lloyd's and signed on its behalf:

R E McCoy
Chief Executive Officer
15 March 2018

Strategic Report

The directors of Coverys at Lloyd's present their Strategic Report for Syndicate 1110 for the year ended 31 December 2017.

Review of the business

The capacity of the Syndicate for the 2015 year of account was £210 million. During the 2015 year of account, the Syndicate continued to diversify the overall business across a range of niches, lines of business and territories. The programmes originating from the ProSight Group, either on a delegated authority or inwards reinsurance treaty basis, continued to dominate the profile of the Syndicate.

For the 2016 year of account, the Syndicate's stamp capacity remained unchanged at £210 million. The Syndicate refined its approach and appetite in certain niches and made some choices not to renew select programmes which did not meet strategic and/or performance expectations.

For the 2017 year of account, the Syndicate's stamp capacity was increased to £280 million. The Syndicate continued to develop in the core global niches of Media, Home Services, Contractors, Real Estate, Sport and Accident & Health prior to the ProSight Group's decision to sell the UK operations including the Syndicate's corporate members and managing agent. Following this decision the following arrangements were entered into:

- commuted the Treaty business as at 31 March 2017 that originated from New York Marine and General Insurance Company, Southwest Marine and General Insurance Company and Gotham Insurance Company subsidiaries of the ProSight Group.
- from 1 April 2017, agreed a 100% Quota share for the delegated underwriting authority business placed by a service company of the ProSight Group.
- cancelled an aggregate stop loss policy from a subsidiary of the ProSight Group and entered into an Adverse Development loss Contract with that same subsidiary.
- entered into a 100% Quota share for policies written after 30 June 2017 with a subsidiary of the ProSight Group.

Review of underwriting activities for 2017

The table below summarises the capacity, premium volumes and performance of the Syndicate for 2017, with the comparative numbers for 2016. Other than in respect of capacity, the numbers shown are on an annually accounted basis.

Key performance indicators	**2017** **£m**	**2016** **£m**
Capacity (underwriting year)	280.0	210.0
Gross premiums written	22.6	245.0
Net premiums earned	69.6	209.1
Loss for the year	(5.7)	(12.4)
Combined ratio	111%	108%

The overall loss for the Syndicate in 2017 was £5.7m comprising the following amounts by year of account 2015 Year of Account loss £1.9m, 2016 Year of Account profit £6.8m & 2017 Year of Account loss £10.6m.

Strategic Report (continued)

Post balance sheet events

There have been no significant post balance sheet events.

Other performance indicators

Staff matters

The managing agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is rewarding and safe and complies with appropriate employee legislation. During the year there have been no significant injuries to staff in the workplace nor any significant actions taken by any regulatory bodies with regard to staff matters.

Environmental matters

The managing agent does not consider that a business such as a syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators.

Approved by order of the Board of Coverys at Lloyd's and signed on its behalf:

R E McCoy
Chief Executive Officer
15 March 2018

Statement of managing agent's responsibilities

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

Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (the 2008 Regulations) requires the managing agent to prepare Syndicate Annual Financial Statements at 31 December each year which give a true and fair view of the state of affairs of the syndicate and of its profit or loss for that year.

In preparing those Syndicate Annual Financial Statements, the managing agent is required to:

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

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

Independent auditor's report to the Member of Syndicate 1110

Opinion

We have audited the financial statements of Syndicate 1110 (the 'syndicate') for the year ended 31 December 2017 which comprise the Statement of profit or loss, the balance sheet, the Statement of Retained Earnings, the Statement of Cash Flows, notes to the financial statements, including a summary of significant accounting policies and risk management disclosures. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the syndicate's members, as a body, in accordance with Part 2 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the syndicate and the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion, the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We draw your attention to the Going Concern basis paragraph included within the summary of significant accounting policies included in financial statements, which states that the Syndicate has ceased underwriting beyond the 2017 year of account. The Managing Agent therefore no longer considers the Syndicate to be a going concern.

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the managing agent's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the managing agents have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to operate and adopt the going concern basis for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor's report to the Member of Syndicate 1110 (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The managing agent is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

- the information given in the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the managing agent's has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we have not identified material misstatements in the managing agent's report.

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

- adequate accounting records have not been kept on behalf of the syndicate; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Managing Agent emoluments and other benefits specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of the managing agent

As explained more fully in the statement of managing agent's responsibilities, the managing agent is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view and for such internal control as the managing agent determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the managing agent is responsible for assessing the syndicate's ability to continue in operation, disclosing, as applicable, matters related to its ability to continue in operation and using the going concern basis of accounting unless the managing agent either intends to cease to operate the syndicate, or has no realistic alternative but to do so.

Independent auditor's report to the Member of Syndicate 1110 (continued)

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Carmine Papa (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

16 March 2018

Statement of profit or loss
Technical account - General business
Year ended 31 December 2017

	Notes	2017 £000	2017 £000	2016 £000	2016 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	22,574		245,024	
Outward reinsurance premiums		(58,302)		(15,888)	
Net written premiums		(35,728)		229,136	
Change in the provision for unearned premiums					
Gross amount	10	112,946		(6,061)	
Reinsurers' share	10	(7,657)		(13,960)	
Net change in the provision for unearned premium		105,289		(20,021)	
Earned premiums net of reinsurance			69,561		209,115
Allocated investment return transferred from the non-technical account			3,708		2,260
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	11	(243,575)		(98,085)	
Reinsurers' share	11	33,674		11,529	
Net claims paid		(209,901)		(86,556)	
Change in the provision for claims					
Gross amount	11	153,468		(70,191)	
Reinsurers' share	11	28,821		13,244	
Net change in the provision for claims		182,289		(56,947)	
Claims incurred net of reinsurance			(27,612)		(143,503)
Net operating expenses	3		(49,613)		(83,227)
Balance on the technical account for general business			(3,956)		(15,355)

All items related to discontinued operations.

The accounting policies and notes on pages 16 to 37 form part of these financial statements.

Statement of profit or loss
Non-technical account
Year ended 31 December 2017

	Notes	*2017* *£000*	*2016* *£000*
Balance on the technical account for general business		(3,956)	(15,355)
Investment income	7	4,470	3,975
Unrealised gains on investments	7	-	651
Unrealised losses on investments	7	(331)	(1,963)
Investment expenses and charges	7	(431)	(403)
Allocated investment return transferred to technical account – general business		(3,708)	(2,260)
Non-technical account charges		(1,711)	2,957
Loss for the financial year		(5,667)	(12,398)

Statement of other comprehensive income for the year ended 31 December 2017

Loss for the financial year		(5,667)	(12,398)
Total comprehensive income for the financial year		(5,667)	(12,398)

Statement of Retained earnings

Balance due from members at 1 January		(21,170)	(7,043)
Total comprehensive income for the financial year		(5,667)	(12,398)
Loss/(distribution) in the year		8,642	(1,711)
Members' agents fees		35	(18)
Cash call made in the year		25,778	-
Balance due to/(from) members at 31 December	17	7,618	(21,170)

The accounting policies and notes on pages 16 to 37 form part of these financial statements.

Balance Sheet - Assets
at 31 December 2017

	Notes	2017 £000	2016 £000
Investments			
Other financial investments	8	32,488	224,951
Reinsurers' share of technical provisions			
Provision for unearned premiums	10	3,953	12,119
Claims outstanding	11	60,403	36,267
		64,356	48,386
Debtors			
Debtors arising out of direct insurance operations	13	6,947	25,413
Debtors arising out of reinsurance operations	13	-	45,012
Other debtors	14	2,496	361
		9,443	70,786
Other assets			
Cash at bank and in hand	19	22,226	6,755
Overseas deposits	15	17,808	22,958
		40,034	29,713
Prepayments and accrued income			
Deferred acquisition costs	16	2,922	35,303
Other prepayments and accrued income		142	907
		3,064	36,210
Total assets		149,385	410,046

The accounting policies and notes on pages 16 to 37 form part of these financial statements.

Balance Sheet - Liabilities
at 31 December 2017

	Notes	***2017*** ***£000***	***2016*** ***£000***
Capital and reserves			
Members' balances	17	7,618	(21,170)
Technical provisions			
Provision for unearned premiums	10	10,584	127,264
Claims outstanding	11	111,035	275,500
		121,619	402,764
Creditors			
Creditors arising out of direct insurance operations	18	-	13,590
Creditors arising out of reinsurance operations	18	19,255	10,770
Other creditors	18	-	1,586
		19,255	25,946
Accruals and deferred income		893	2,506
Total liabilities		149,385	410,046

The accounting policies and notes on pages 16 to 37 form part of these financial statements.

The Syndicate Annual Financial Statements were approved by the Board of Directors of Coverys at Lloyd's and were signed on its behalf:

R E McCoy
Chief Executive Officer

M Bell
Finance Director
15 March 2018

Statement of cash flows
Year ended 31 December 2017

	Notes	*2017* *£000*	*2016* *£000*
Cash flow from operating activities			
Loss for the financial year		(5,667)	(12,398)
Exclude investment return		(3,708)	(2,260)
Increase/(decrease) in technical provisions		(297,115)	117,724
(Increase)/decrease in debtors		61,343	(23,334)
(Increase)/decrease in prepayments and accrued income		33,146	(5,843)
(Increase)/decrease in other assets		5,150	(13,245)
Increase/(decrease) in creditors		(6,691)	(7,810)
Increase/(decrease) in accruals and deferred income		(1,613)	1,631
Net cash generated from operating activities		(215,155)	54,465
Cash flows from investing activities:			
Investment income received		3,927	3,152
Purchases of debt and equity instruments		-	(158,032)
Sales of debt and equity instruments		191,032	90,096
Foreign exchange		(219)	(5,644)
Net cash generated from investing activities		194,740	(70,428)
Cash flows from financing activities:			
Collection/(Distribution) in the year		8,642	(1,711)
Open years cash call		25,778	-
Members' agent fees		35	(18)
Net cash generated from financing activities		34,455	(1,729)
Net increase/(decrease) in cash and cash equivalents		14,040	(17,692)
Cash and cash equivalents at 1 January		15,166	32,858
Cash and cash equivalents at 31 December	19	29,206	15,166

The accounting policies and notes on pages 16 to 37 form part of these financial statements.

Statement of accounting polices

General Information

Syndicate 1110 is a Lloyd's syndicate domiciled in England and Wales. It is managed by Coverys at Lloyd's, a private company limited by shares that was incorporated in England and whose registered office is 71 Fenchurch Street, London EC3M 4BS. The syndicate novated from PSMAL on the 26 October 2017. The syndicate is supported 90.9% by capacity from R&Q Capital No.6 Limited and 9.1% by capacity from R&Q Capital No.7 Limited.

Compliance with accounting standards

These financial statements have been prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008). There were no material departures from those standards.

Basis of preparation

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

Going concern basis

The Syndicate has ceased underwriting beyond the 2017 underwriting year of account. The managing agent has closed the 2015 year of account into the 2016 year of account. The current intention is to close the 2016 underwriting year into the 2017 underwriting year and for the 2017 underwriting year to close into Syndicate 3330 at the current level of reserves. As the Syndicate has ceased to underwrite, the going concern concept has not been used for the preparation of the financial statements and an unallocated loss adjusted expense reserve (ULAE) of £4,173,536 has been included within the technical provision. The managing agent believes that the ULAE reserve is adequate to allow the Syndicate to run-off and meet its liabilities as they fall due until such time it reinsures into Syndicate 3330. No other adjustments are considered necessary as a result of not applying the going concern concept in the preparation of these financial statements.

Basis of accounting

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

Premiums written

Premiums written comprise adjustments made in the year to premiums on contracts incepted in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Reinsurance premium ceded

Reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected or in relation to the coverage period of the contract as appropriate. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.

Statement of accounting polices (continued)

Technical provisions – claims incurred and reinsurers' share

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

The provision for large claims outstanding is assessed and aggregated with other claims reserves that are assumed using development factor methods based on historic paid and incurred claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

The reinsurers' share of provisions for claims 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 most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

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

Net operating expenses

Net operating expenses are accounted for on the accruals basis.

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

Distribution of profits and collection of losses

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

Statement of accounting polices (continued)

Foreign currencies

The presentational and functional currency of the syndicate is Sterling.

Transactions in US dollars, Euros and Canadian dollars are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

In accordance with FRS 103 all monetary balance sheet assets and liabilities are translated into the Sterling functional currency at the rates of exchange at the balance sheet date. The profit or loss arising on the retranslation of balances to the closing rate of exchange is dealt with through the profit or loss account – non technical account.

Financial assets and liabilities

Classification

The full provisions of FRS 102 have been applied to the treatment of financial instruments. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

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

Recognition

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

Initial measurement

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

Subsequent measurement

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method. Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Investments in shares and other debt instruments are measured at fair value through profit or loss. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in previous calendar years in respect of the investment disposed of in the current period.

Statement of accounting polices (continued)

De-recognition of financial assets and liabilities

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

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

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. 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 in time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate's estimate the fair value by using a valuation technique.

Impairment of financial instruments measured at amortised cost or cost

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

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

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

Offsetting

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

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.

Realised gains and losses on investments 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 valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Statement of accounting polices (continued)

Investment return *continued*

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.

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 is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

Pension costs

Coverys MA Services Limited, a wholly owned subsidiary of Coverys at Lloyd's, operates a defined contribution scheme on behalf of the managing agency**.** Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses and other acquisition costs.

Key accounting judgements and estimation uncertainties

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

Technical provisions

The accounting policy for technical provisions is described on page 17 and the related risks are described on pages 21-23. The net technical provisions after the reinsurers' share is £50,632k (2016: £239,233k).

The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either the claim has been notified to the syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. This amounted to £111,035k (2016: £275,500k). As described in the risk note there is a thorough review process of claims notifications and reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments. This is however mitigated by a mixed spread of different types of business from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions may be mitigated by the element of reinsurers' share, although there are also uncertainties in calculating that.

Investment valuations

All investments are shown at their fair value as described in the accounting policies on page 19 and details of the risks relating to investments are disclosed on page 24. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

Risk management

a) 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 Regulation 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 I figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted 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.

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

Each underwriting member of Lloyd's is liable for its own share of underwriting liabilities. Accordingly the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR is determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Members can attract credits for diversification of underwriting. Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% (2016: 35%) of the member's SCR 'to ultimate'.

Provision of capital by members

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 a member's share of the members balances on each syndicate on which it participates.

b) Insurance risk

Insurance risk is the principal risk the Syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The Syndicate needs to ensure that sufficient reserves are available to cover its liabilities as they fall due.
The underwriting profile of the Syndicate is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process. Other precautionary measures, in the form of internal controls, are used to preserve the Syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- Inadequate risk selection;
- Inadequate pricing;
- Inadequate exposure management;
- Adverse, large and attritional loss experience;
- Inadequate reinsurance covering the underwriting portfolio;
- Inappropriate reserve estimation;
- Poor underwriting control;

Risk management (continued)

c) Insurance risk *continued*

Coverys at Lloyd's manages these risks against an agreed risk appetite. The framework of systems and controls is designed to reduce the likelihood of such risks occurring and to mitigate the impact on the overall business of the Syndicate. Risk exposure is mitigated by diversification across a varied portfolio of insurance contracts and geographical areas. Coverys at Lloyd's also manages underwriting risk through the purchase of reinsurance to mitigate the effect of catastrophes and unexpected concentrations of risk.

The table below sets out the concentration of outstanding claims liabilities by type of contract:

	31 December 2017			***31 December 2016***		
	Gross liabilities £000	***Re-insurance assets £000***	***Net liabilities £000***	***Gross liabilities £000***	***Re-insurance assets £000***	***Net liabilities £000***
Property	31,996	(16,438)	15,558	48,575	(6,794)	41,781
Marine	20,606	(11,707)	8,899	20,875	(3,259)	17,616
Liability	58,055	(30,938)	27,117	184,758	(22,807)	161,951
Other	378	(1,320)	(942)	21,292	(3,407)	17,885
Total	111,035	(60,403)	50,632	275,500	(36,267)	239,233

Geographical concentration of outstanding claim liabilities is based on settlement currency which is noted in the table below.

	31 December 2017			***31 December 2016***		
	Gross liabilities 000	***Re-insurance assets 000***	***Net liabilities 000***	***Gross liabilities 000***	***Re-insurance assets 000***	***Net liabilities 000***
GBP	52,145	(21,761)	30,384	37,781	(1,439)	36,342
USD	66,507	(51,935)	14,571	281,074	(42,928)	238,146
CAD	7,187	(136)	7,051	9,357	(198)	9,159
EUR	6,100	(104)	5,996	6,329	(104)	6,225
Converted GBP	111,035	(60,403)	50,632	275,500	(36,267)	239,233

Risk management (continued)

b) Insurance risk *continued*

The claims liabilities are sensitive to the key assumptions that follow. The sensitivity analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant.

31 December 2017	***Change in assumptions***	***Impact on gross liabilities £000***	***Impact on net liabilities £000***	***Impact on result £000***	***Impact on members' balance £000***
Increase/(decrease) a prior loss ratio	+/- 10%	11,103	-	-	-
(Increase)/decrease claim settlement development pattern	+/- 10%	(11,103)	-	-	-

31 December 2016	***Change in assumptions***	***Impact on gross liabilities £000***	***Impact on net liabilities £000***	***Impact on result £000***	***Impact on members' balance £000***
Increase/(decrease) a prior loss ratio	+/- 10%	31,175	25,307	(25,307)	(25,307)
(Increase)/decrease claim settlement development pattern	+/- 10%	(49,913)	(43,094)	43,094	43,094

Claims development tables

The following tables shows the estimates of cumulative incurred claims for each successive underwriting year at each reporting date, together with cumulative payments to date.

Gross and net claims development triangles – whole account as at 31 December 2017

Pure underwriting year	***All prior years £000***	***2014 £000***	***2015 £000***	***2016 £000***	***2017 £000***	***Total £000***
Estimate of cumulative gross claims incurred						
After one year		39,707	50,277	56,508	16,403	
After two years		122,383	142,274	118,827		
After three years		137,886	151,699			
After four years		126,616				
As at 31 December 2017	139,034	126,616	151,700	118,827	16,403	552,580
Less cumulative gross claims paid	(129,388)	(111,063)	(121,430)	(76,085)	(3,579)	(441,545)
Gross reserves	9,646	15,553	30,270	42,742	12,824	111,035

Risk management (continued)

Claims development tables *continued*

Pure underwriting year	***All prior years £000***	***2014 £000***	***2015 £000***	***2016 £000***	***2017 £000***	***Total £000***
Estimate of cumulative net claims incurred						
After one year		36,572	45,672	50,758	6,695	
After two years		114,537	130,131	74,866		
After three years		124,262	126,519			
After four years		115,515				
As at 31 December 2017	111,861	115,515	126,519	74,866	6,695	435,456
Less cumulative net claims paid	(101,996)	(104,388)	(110,316)	(65,615)	(2,509)	(384,824)
Net reserves	9,865	11,127	16,203	9,251	4,186	50,632
Total all underwriting years						
Net reserves recognised	9,865	11,127	16,203	9,251	4,186	50,632
Amounts recoverable from reinsurers	(219)	4,426	14,067	33,491	8,638	60,403
Gross reserves included in the balance sheet	9,646	15,553	30,270	42,742	12,824	111,035

d) Financial risk

Investment risk

The syndicate's investment policy is established by the Board following recommendations by the Coverys at Lloyd's Investment Committee. In order to mitigate interest rate risk, the Board monitors the economic situation to seek to anticipate any future interest rate movements and to take appropriate action to mitigate its effect on the value of syndicate assets.

Credit risk

The following table shows credit risk exposure of the Syndicate's financial assets.

As at 31 December 2017	***Neither past due nor impaired £000***	***Past due £000***	***Impaired £000***	***Total £000***
Shares and other variable yield securities and unit trusts	6,980	-	-	6,980
Debt securities	25,508	-	-	25,508
Overseas deposits	17,808	-	-	17,807
Reinsurer's share of claims outstanding	60,403	-	-	60,403
Cash at bank	22,226	-	-	22,226
Insurance debtors	6,947	-	-	6,947
Other debtors	9,513	-	-	9,514
Total	149,385	-	-	149,385

Risk management (continued)

c) Financial risk *continued*

As at 31 December 2016	***Neither past due nor impaired £000***	***Past due £000***	***Impaired £000***	***Total £000***
Shares and other variable yield securities and unit trusts	8,411	-	-	8,411
Debt securities	188,263	-	-	188,263
Loans with credit institutions	264	-	-	264
Overseas deposits	22,958	-	-	22,958
Other investments	28,014	-	-	28,014
Reinsurer's share of claims outstanding	36,267	-	-	36,267
Reinsurance debtors	5,243	-	-	5,243
Cash at bank	6,755	-	-	6,755
Insurance debtors	19,769	5,644	-	25,413
Other debtors	88,098	360	-	88,458
Total	404,042	6,004	-	410,046

The following tables analyse the Syndicate's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating at 31 December 2017

At 31 December 2017	***AAA £000***	***AA £000***	***A £000***	***Other/ non rated £000***	***Total £000***
Variable yield securities and unit trusts	-	-	-	6,980	6,980
Debt securities and other fixed income securities (including derivative contracts)	6,736	12,569	5,354	849	25,508
Reinsurers share of outstanding claims	-	100	60,303	-	60,403
Cash at bank and in hand	-	-	-	22,226	22,226
Overseas deposits	10,476	2,912	1,613	2,807	17,808
Total	17,212	15,581	67,270	32,862	132,925
Amounts attributable to largest Single counterparty	-	-	57,439	-	57,439

Risk management (continued)

c) Financial risk *continued*

At 31 December 2016	***AAA £000***	***AA £000***	***A £000***	***Other/ non rated £000***	***Total £000***
Debt securities and other fixed income securities (including derivative contracts)	99,493	20,349	60,748	7,673	188,263
Reinsurers share of outstanding claims	-	6,306	29,961	-	36,267
Cash at bank and in hand	-	-	-	6,755	6,755
Overseas deposits	11,766	3,821	1,900	5,471	22,958
Total	111,259	30,476	92,609	19,899	254,243
Amounts attributable to largest single counterparty.	-	-	29,920	-	29,920

Liquidity risk

The following tables summarises the maturity profile of the Syndicate's financial liabilities.

As at 31 December 2017	***Within one year £000***	***Between one and three years £000***	***Between three and five years £000***	***Over five years £000***	***Total £000***
Outstanding claims liabilities	31,090	38,862	22,207	18,876	111,035
Creditors	19,255	-	-	-	19,255

As at 31 December 2016	***Within one year £000***	***Between one and three years £000***	***Between three and five years £000***	***Over five years £000***	***Total £000***
Outstanding claims liabilities	64,815	95,991	56,578	58,116	275,500
Creditors	25,946	-	-	-	25,945

Market risk

The following tables summarise the Syndicate's exposure to foreign currency exchange risk.

At 31 December 2017	***Sterling £000***	***US Dollar £000***	***Euro £000***	***CAD £000***	***Total £000***
Total assets	52,194	86,999	(114)	10,306	149,385
Total liabilities	(61,010)	(69,695)	(5,991)	(5,071)	(141,767)
Net assets	(8,816)	17,304	(6,105)	5,235	7,618

Risk management (continued)

c) Financial risk *continued*

At 31 December 2016	***Sterling £000***	***US Dollar £000***	***Euro £000***	***CAD £000***	***Total £000***
Total assets	31,694	367,231	4,139	6,982	410,046
Total liabilities	(77,619)	(335,154)	(9,195)	(9,248)	(431,216)
Net assets	(45,925)	32,077	(5,056)	(2,266)	(21,170)

Sensitivity to changes in foreign exchange rates

The following table gives an indication of the impact on profit of a percentage change in the relative strength of sterling against the value of the US and Canadian dollar and Euro. The analysis is based on the information as at 31 December 2017.

	Impact on profit and members' balances	
	2017 £000	***2016 £000***
Sterling weakens		
10% against other currencies	(1,494)	(2,250)
20% against other currencies	(2,739)	(4,126)
Sterling strengthens		
10% against other currencies	1,826	2,751
20% against other currencies	4,109	6,189

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

Change in variable	***Impact on profit/(loss) £000***	***Impact on net assets £000***
31 December 2017		
+50 basis points	(24)	(24)
-50 basis points	24	24
31 December 2016		
+50 basis points	(2,903)	(2,903)
-50 basis points	2,903	2,903

The analysis below is performed for possible movements in market indices on financial investments with all other variables held constant, showing the impact on profit:

		31 December 2017		***31 December 2016***	
Change in variable	***Change in variables***	***Impact on profit/(loss) £000***	***Impact on net assets £000***	***Impact on profit/(loss) £000***	***Impact on net assets £000***
Market indices	+ 5 %	Nil	Nil	Nil	Nil
Market indices	- 5 %	Nil	Nil	Nil	Nil

Notes to the annual financial statements

1. Analysis of underwriting results

An analysis of the technical account balance before investment return is set out below:

2017	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Re-insurance balance	Total
	£000	£000	£000	£000	£000	£000
Direct insurance:						
Fire and other damage to property	23,768	45,793	(15,449)	(17,936)	(11,573)	835
Marine, aviation and transport	(3,239)	8,431	(12,151)	(3,087)	2,766	(4,041)
Third party liability	19,717	50,423	(17,850)	(17,288)	(10,603)	4,682
Pecuniary loss	(282)	4,301	(1,721)	(1,574)	(900)	106
Other	2,283	4,937	(1,239)	(1,808)	(1,543)	347
	42,247	113,885	(48,410)	(41,693)	(21,853)	1,929
Reinsurance acceptances:						
Fire and other damage to property	801	2,200	(802)	(805)	(515)	78
Marine, aviation and transport	594	353	(286)	(129)	26	(36)
Casualty	(21,068)	19,082	(40,609)	(6,986)	18,878	(9,635)
Other	-	-	-	-	-	-
	(19,673)	21,635	(41,697)	(7,920)	18,389	(9,593)
	22,574	135,520	(90,107)	(49,613)	(3,464)	(7,664)

2016	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Re-insurance balance	Total
	£000	£000	£000	£000	£000	£000
Direct insurance:						
Fire and other damage to property	52,223	48,473	(49,050)	(20,109)	(3,626)	(24,312)
Marine, aviation and transport	9,621	10,646	(16,675)	(3,374)	(1,977)	(11,380)
Third party liability	60,230	50,730	(21,756)	(17,550)	(975)	10,449
Pecuniary loss	11,663	9,968	(6,012)	(2,857)	(716)	383
Other	5,064	8,010	(6,453)	(2,335)	(281)	(1,059)
	138,801	127,827	(99,946)	(46,225)	(7,575)	(25,919)
Reinsurance acceptances:						
Fire and other damage to property	33,476	36,546	(16,045)	(13,729)	(3,059)	3,713
Marine, aviation and transport	13,409	16,470	(14,006)	(5,129)	(521)	(3,186)
Casualty	59,734	56,244	(37,899)	(17,703)	6,078	6,720
Other	(396)	1,876	(380)	(441)	2	1.057
	106,223	111,136	(68,330)	(37,002)	2,500	8,304
	245,024	238,963	(168,276)	(83,227)	(5,075)	(17,615)

All premiums were concluded in the United Kingdom.

Notes to the annual financial statements (continued)

2. **Particulars of business written**

Gross operating expenses are the same as net operating expenses shown in the profit or loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses.

Net assets are not managed by reference to the classes on page 28. An allocation of net assets and net technical liabilities is shown on page 22.

	2017 Gross premiums written £000	***2017 Profit/(loss) £000***	***2016 Gross premiums written £000***	***2016 Profit/(loss) £000***
Direct	42,247	5,045	138,801	(24,664)
Reinsurance	(19,673)	(9,001)	106,223	9,309
	22,574	(3,956)	245,024	(15,355)

Geographical analysis by destination	**2017** ***Gross premiums written £000***	**2016** ***Gross premiums written £000***
UK	28,515	64,116
EU	3,271	1,660
USA	(13,538)	158,062
Other	4,326	21,186
	22,574	245,024

3. **Net operating expenses**

	2017 £000	***2016 £000***
Acquisition costs	8,032	68,838
Change in deferred acquisition costs (note 15)	31,453	(2,549)
Administrative expenses	10,128	16,938
	49,613	83,227

Members' standard personal expenses amounting to £756k (2016: £3,033k) are included in administrative expenses. Members' standard personal expenses include Lloyd’s subscriptions, New Central Fund contributions and managing agent's fees.

Notes to the annual financial statements (continued)

3. Net operating expenses *continued*

Administrative expenses include:

	2017 £000	2016 £000
Auditor's remuneration:		
Audit of the Syndicate's Financial Statements	60	396
Other services pursuant to regulations and Lloyd's byelaws	32	198
Standard personal expenses	756	3,033

Total commissions for direct insurance accounted for in the year amounted to £4.4m (2016: £36.8m).

4. Employees

The following amounts were recharged to the Syndicate in respect of salary and related costs:

	2017 £000	2016 £000
Wages and salaries	3,493	4,606
Social security costs	473	643
Other pension costs	441	599
	4,407	5,848

Salaries and related costs, where they relate to unallocated loss adjustment expenses, (ULAE) are treated as paid claims and charged against the ULAE reserve.

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

	2017	2016
Underwriting	7	17
Underwriting support	5	13
Claims	2	3
Administration and finance	26	25
	40	58

5. Directors' and run-off manager's emoluments

The following amounts in respect of emoluments paid to the directors and the run-off manager of the managing agent were as follows:

	2017 £000	2016 £000
Run-off manager's emoluments	-	-
Directors' emoluments	27	-
	27	-

Notes to the annual financial statements (continued)

6. Active underwriter's emoluments

The following amounts were charged to the Syndicate in respect of the person acting in the role of active underwriter for PSMAL for the period up to 30 June 2017:

	2017 £000	2016 £000
Emoluments	112	203

7. Investment return

(a) Investment return

	2017 £000	2016 £000
Income from financial investments	4,470	3,395
Realised gains on investments	-	580
Investment income	4,470	3,975
Realised losses on investments	(257)	(160)
Investment expenses	(174)	(243)
Investment expenses and charges	(431)	(403)
Unrealised gains on investments	-	651
Unrealised losses on investments	(331)	(1,963)
Net unrealised gains and losses on Investments	(331)	(1,312)
Allocated investment return transferred to the Technical Account from the Non-Technical account.	3,708	2,260

(b) Average amount of funds available for investment during the year

	2017 £000	2016 £000
U.S. dollars	145,620	218,197
Sterling (including Australian and Euro TF)	28,885	19,418
Canadian dollars	10,590	7,845
Combined in sterling	185,095	245,460

Net calendar year investment yield	2017 £000	2016 £000
U.S. dollars	1.9%	1.0%
Sterling (including Australian and Euro TF)	3.4%	2.0%
Canadian dollars	0.6%	Nil
Combined in sterling	2.0%	1.0%

Notes to the annual financial statements (continued)

8. Other financial investments

	2017	*2017*	*2016*	*2016*
	Cost	***Market value***	***Cost***	***Market value***
	£000	***£000***	***£000***	***£000***
Shares and other variable yield securities and units in unit trusts (note 18)	6,980	6,980	8,411	8,411
Debt securities and other fixed income securities	25,827	25,508	189,645	188,263
Loans secured by mortgages	-	-	262	263
Other investments	-	-	28,014	28,014
	32,807	32,488	226,332	224,951

Other investments represent amounts deposited as collateral supporting a letter of credit facility.

Breakdown of investments by currency

	US dollar	***Canadian dollar***	***Other***	***Total***
	US$000	***Can$000***	***£000***	***£000***
Year ended 31 December 2017				
Shares and other variable yield securities and units in unit trusts	4,318	6,428	-	6,980
Debt securities and other fixed income securities	26,718	9,718	-	25,508
Loans secured by mortgages	-	-	-	-
Other investments	-	-	-	-
	31,036	16,146	-	32,488
Year ended 31 December 2016				
Shares and other variable yield securities and units in unit trusts	9,685	997	-	8,411
Debt securities and other fixed income securities	224,650	11,775	-	188,263
Loans secured by mortgages	327	-	-	263
Other investments	34,737	-	-	28,014
	269,399	12,772	-	224,951

Notes to the annual financial statements (continued)

8. Other financial investments *continued*

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

	Level 1 *£000*	*Level 2* *£000*	*Level 3* *£000*	*Total* *£000*
Year ended 31 December 2017				
Shares and other variable yield securities and units in unit trusts	6,980	-	-	6,980
Debt securities and other fixed income securities	25,508	-	-	25,508
Loans secured by mortgages	-	-	-	-
Other investments	-	-	-	-
Total	32,488	-	-	32,488

	Level 1 *£000*	*Level 2* *£000*	*Level 3* *£000*	*Total* *£000*
Year ended 31 December 2016				
Shares and other variable yield securities and units in unit trusts	8,411	-	-	8,411
Debt securities and other fixed income securities	188,263	-	-	188,263
Loans secured by mortgages	263	-	-	263
Other investments	28,014	-	-	28,014
Total	224,951	-	-	224,951

The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the reliability of the inputs used in measuring their fair value, with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

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

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

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

In considering the fair value hierarchy for 2017, management concluded that all securities held should all be classified as Level 1. Management therefore reconsidered the disclosure as at 31 December 2016 and concluded that assets previously disclosed as Level 2 should be reclassified to be consistent.

Notes to the annual financial statements (continued)

9. Funds at Lloyd's

Every member 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 annual 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.

10. Provision for unearned premiums

2017	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2017	127,264	(12,119)	115,145
Premiums written in the year	22,574	(58,302)	(35,728)
Premiums earned in the year	(135,520)	65,959	(69,561)
Foreign exchange	(3,734)	509	(3,225)
At 31 December 2017	10,584	(3,953)	6,631

2016	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2016	106,260	(23,585)	82,675
Premiums written in the year	245,024	(15,888)	229,136
Premiums earned in the year	(238,963)	29,848	(209,115)
Foreign exchange	14,943	(2,494)	12,449
At 31 December 2016	127,264	(12,119)	115,145

11. Claims outstanding

2017	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2017	275,500	(36,267)	239,233
Claims incurred in the year	90,107	(62,495)	27,612
Claims paid during the year	(243,575)	33,674	(209,901)
Foreign exchange	(10,997)	4,685	(6,312)
At 31 December 2017	111,035	(60,403)	50,632

Notes to the annual financial statements (continued)

11. Claims outstanding *continued*

2016	***Gross*** **£000**	***Reinsurers' share*** **£000**	***Net*** **£000**
At 1 January 2016	172,629	(18,650)	153,979
Claims incurred in the year	168,276	(24,773)	143,503
Claims paid during the year	(98,085)	11,529	(86,556)
Foreign exchange	32,680	(4,373)	28,307
At 31 December 2016	275,500	(36,267)	239,233

A surplus run-off amount of £18.1m was experienced in 2017 (2016: £8.6m deficit). This was made up of a surplus on the prior year claims provisions of £22.5m on direct business (2016: £14.1m deficit) and a £4.4m deficit on reinsurance accepted business (2016: £5.5m surplus).

12. Significant reinsurance arrangements entered into during the year

During the year the Syndicate ceased to accept any new business, other than business that was already committed. Following this decision the following arrangements were entered into:

- commuted the Treaty business as at 31 March 2017 that originated from New York Marine and General Insurance Company, Southwest Marine and General Insurance Company and Gotham Insurance Company subsidiaries of the ProSight Group.

- from 1 April 2017, agreed a 100% Quota share for the delegated underwriting authority business placed by a service company of the ProSight Group.

- cancelled an aggregate stop loss policy from a subsidiary of the ProSight Group and entered into an Adverse Development loss Contract with that same subsidiary.

- entered into a 100% Quota share for policies written after 30 June 2017 with a subsidiary of the ProSight Group.

The practical effect of these arrangements is to ensure that any adverse claim developments will be covered by the above reinsurance arrangements.

13. Debtors

	2017 ***£000***	***2016*** ***£000***
Debtors due within one year		
Due from intermediaries		
Amounts arising out of direct insurance operations	6,947	25,413
Amounts arising out of reinsurance operations	-	45,012
Amounts falling due within one year	6,947	70,425

Notes to the annual financial statements (continued)

14. Other Debtors

	2017 £000	2016 £000
Short term	529	361
Long Term	1,967	-
	2,496	361

15. Overseas deposits

	2017 £000	2016 £000
Amounts advanced in Australia and other countries as a condition of carrying on business there	17,808	22,958

16. Deferred acquisition costs

	2017 £000	2016 £000
At 1 January	35,303	28,963
Change in deferred acquisition costs (note 3)	(31,453)	2,549
Foreign exchange	(928)	3,791
At 31 December	2,922	35,303

17. Reconciliation of members' balances

	2017 £000	2016 £000
Members' balances at 1 January	(21,170)	(7,043)
Closed year result	8,642	10,789
Cash calls made	-	(12,500)
	8,642	(1,711)
Loss for the financial year	(5,667)	(12,398)
Members' agents' fees	35	(18)
Cash calls paid by members	25,778	-
Members' balances carried forward at 31 December	7,618	(21,170)

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

Notes to the annual financial statements (continued)

18. Creditors

	2017 £000	2016 £000
Creditors due within one year		
Amounts arising out of:		
Direct insurance operations	-	13,590
Reinsurance operations	19,255	10,770
Other creditors including taxation	-	1,586
Amounts falling due within one year	19,255	25,946

19. Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	22,226	6,755
Short-term deposits with financial institutions (note 8)	6,980	8,411
	29,206	15,166

20. Related parties

(i) Coverys at Lloyd's was a wholly owned subsidiary of Randall & Quilter Underwriting Management Holdings Limited (UMH) up to 30 November 2017. UMH is a wholly owned subsidiary of Randall & Quilter Investment Holdings Ltd (RQIH), a company incorporated in Bermuda. K E Randall has an individual shareholding of 11.46% (2016: 22.24%) in RQIH.

(ii) R&Q Capital No. 6 Limited (RQC6) and R&Q Capital No. 7 Limited (RQC7), the members of Syndicate 1110, are wholly owned subsidiaries of Randall & Quilter II Holdings Limited, which is a wholly owned subsidiary of RQIH.

(iii) K E Randall is a director of RQC6 and RQC7.

(iv) A number of executive directors of the company were also directors and Approved Persons of other R&Q group companies.

(v) During the year Coverys MA Services Limited (CMAS) were paid £194k (2016: Nil) by the syndicate for services provided. This amount has been charged at arms-length based on time spent by individuals.

(vi) R&Q Central Services Limited, the principal administration company of the R&Q Group, provided a number of services to Syndicate 1110 including IT, Human Resources and Internal audit.

(vii) CMAS was incorporated on 26 May 2017 and became the principal administration company for the Coverys Group's UK operations with effect from 30 November 2017. R E McCoy and M Bell are directors of CMAS.

(viii) A proportion of RQMA costs up to 30 November 2017 were recharged to other group companies at arms-length based on time spent by individuals.