

Important information about syndicate reports and accounts

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COVERYS



Coverys Managing Agency Limited

Syndicate

DTW 1991

Report & Financial Statements

For the year ended 31 December 2017

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Administration

Managing Agent

Coverys Managing Agency Limited
71 Fenchurch Street
London EC3M 4BS

Syndicate

Active Underwriter

D T Wright

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

Investment Managers

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

Independent Auditors

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

Underwriter's report

The formative years of the syndicate are developing in line with revised forecasts.

These early years have been more volatile owing to their scale and 2015 year of account closes at a 7.2% loss on stamp capacity. This is within forecast range as regards to ultimate underwriting results; however it is marginally outside of the forecast range owing to foreign exchange losses.

That said, our 2015 result is an improvement on our first two years of activity and we can evidence considerable improvements on each year of account to the underwriting loss ratio.

The 2017 USA hurricane season was a test of our business model, both in terms of our underwriting decisions and more importantly in our ability to effectively handle these catastrophe claims from London.

These catastrophe claims will almost exclusively affect our 2016 year of account result, and we have articulated this to our capital providers and regulators.

Whilst there are many lessons to be learned from this storm season, where our losses were significantly less than at first estimated, our decision to develop a highly granular syndicate platform has been fully validated in terms of our ability to manage our catastrophe exposures and respond to our policyholders.

It has been a challenging task for the syndicate to attend to every valid claimant to the standards that we aspire to, and it is because of our investment in and with thanks to our local team that we have been able to do so.

We consider our business model to be very scalable, however we are growing in a controlled and focused way. We continue to decline to support not just the prototype, volatile and unproven business proposals, but also the business that competes directly with our very select group of best-in-class coverholders. We will not grow for growth's sake.

Year on year, our underwriting results are improving, our expense ratios continue to reduce and our utilisation of stamp capacity is increasing. We are growing our business with more control and with better results, in the context of a softening market.

The whole syndicate team is enthused by the current micro-changes in market conditions and is driven to grow our business profitably. We continue with the aim of doing this in sectors not saturated by our Lloyd's competitors. This supports the fundamental aim of the syndicate which is to enhance and extend the Lloyd's franchise whilst maintaining the traditional qualities of an expert underwriting business.

It remains for me to thank the syndicate team for its continued dedication and hard work that they deliver in support of our aim to develop long-term value for our capital providers, and in helping to build a strong and market leading business in our chosen areas of activity.



D T Wright
Active Underwriter
15 March 2018

Managing agent's report

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Coverys Managing Agency Limited (trading as "Coverys at Lloyd's") presents its report for Syndicate 1991 for the year ended 31 December 2017. Coverys at Lloyd's was formerly known as R&Q Managing Agency Limited, 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.

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 principal risks and uncertainties, although there is more extensive disclosure of risk management on page 20.

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.

Annual General Meeting

The directors do not propose to hold an annual general meeting for the syndicate.

Auditors

Pricewaterhousecoopers LLP have been proposed as the syndicate auditor from 2018 calendar year.

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.

R E McCoy
Chief Executive Officer
15 March 2018

Strategic report

The directors of Coverys at Lloyd's present their strategic report for Syndicate 1991 for the year ended 31 December 2017.

Syndicate underwriting year accounts

These financial statements also include underwriting year accounts drawn up on the three year funded basis which have been prepared to show the cumulative loss of the 2015 closed underwriting account as at 31 December 2017 which is being collected in 2018. The underwriting accounts are set out on pages 37 to 56.

Results

The total recognised income for calendar year 2017 is a loss of £9.9m (2016: loss of £16.1m). As stated in previous years, the GAAP income continues to reflect the premium writing profile of the syndicate and the resulting earnings. The 2015 YOA has incurred a foreign exchange loss of £2.7m, arising mainly from the matching of

exposure to the Euro. The 2015 year of account will close with a loss of £10.5m or 7.2% of capacity. (2014: £14.2m or 9.5%), which is marginally outside the forecast range.

Premium development is now established on a more consistent pattern albeit that market conditions have continued to constrain growth potential, particularly in the US and UK markets. Some action has been taken to remove business from Managing General Agents (MGAs) which has either not met expected performance or income levels, and where required, rating action has continued to be taken to certain accounts.

Loss experience has been impacted by the US hurricane events of Harvey and Irma in the 2015 and 2016 years of account, although the estimates at year end remained within the syndicate's reinsurance retention and substantially below initial estimates. The syndicate does not have exposure to Hurricane Maria.

The following table reflects the improved forecasting as the syndicate's business model is embedded:

YOA basis Financial summary (£m)	2013 YOA (at closure)	2014 YOA (at closure)	2015 YOA (at closure)	2016 YOA (forecast)	2017 YOA (forecast)
Gross premiums written	37.9	66.3	110.3	142.8	170.1
Net premiums written	32.6	57.3	98.6	129.7	156.1
Net loss ratio	70%	68%	59%	63%	55%
Net expense ratio	21%	19%	13%	10%	9%

Principal activity and review of the business

Syndicate 1991 is a specialist in delegated authority underwriting in the SME sector, and was approved by Lloyd's to commence underwriting at 1 January 2013.

The syndicate's activity continues to be focussed principally on delegated authority business in the worldwide SME sector.

Gross written premium income by class of business for the calendar year was as follows:

	2017 £000	2016 £000
North America Property	25,022	19,737
North America Liability	17,085	10,680
UK and International Property	19,228	15,998
UK and International Liability	49,797	41,015
Specialty Property	370	4,282
Specialty Liability	11,755	10,359
Miscellaneous Other Lines	1,697	1,276
	124,955	103,347

The number of active coverholders stands at 64.

Key Performance Indicators

The managing agent considers the following to be the key performance indicators for the syndicate (forecast):

	2017	2016
Gross premiums written	£125.0m	£103.3m
Loss for the year	(£9.9m)	(£16.1m)
Net combined ratio	110.0%	116.3%

The return on capacity for the closed 2013, 2014 and 2015 years of account and the forecast for the open years at 31 December 2017 are as follows:

	2013 YOA	2014 YOA	2015 YOA	2016 YOA	2017 YOA
Capacity (£m)	76.8	150.0	146.2	129.7	126.8
Result / forecast (£m)	(8.8)	(14.2)	(10.5)	(8.3)	5.9
Return on capacity (%)	-11.5	-9.5	-7.2	-6.4	4.7

Changes in regulatory requirements are closely monitored by the managing agent, and are taken into account in the planning of forward strategy.

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 or 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.

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 Members of Syndicate 1991

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Opinion

We have audited the financial statements of Syndicate 1991 (the 'syndicate') for the year ended 31 December 2017 which comprise the statement of profit and loss, the balance sheet, the statement of retained earnings, the statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. 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 of 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 Financial Reporting Council's (FRC) 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 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 agent has 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.

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 report of the directors of the managing agent for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the report of the directors of the managing agent 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 report of the directors of the managing agent.

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.

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 FRC'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

For the year ended 31 December 2017

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	Notes	£000	2017 £000	£000	2016 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	124,955		103,347	
Outward reinsurance premiums		(13,472)		(10,485)	
Net premiums written			111,483		92,862
Change in provision for unearned premiums:					
Gross amount		(10,058)		(15,440)	
Reinsurers' share		605		818	
Change in the net provision for unearned premiums			(9,453)		(14,622)
Earned premiums, net of reinsurance			102,030		78,240
Allocated investment return transferred from the non-technical account			385		65
Total technical income			102,415		78,305
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(33,902)		(17,822)	
Reinsurers' share		1,160		–	
Net claims paid		(32,742)		(17,822)	
Change in the provision for claims:					
Gross amount		(30,090)		(36,604)	
Reinsurers' share		(2,988)		2,741	
Change in the net provision for claims		(33,078)		(33,863)	
Claims incurred, net of reinsurance			(65,820)		(51,685)
Net operating expenses	3,4,5		(46,401)		(39,337)
Balance on the technical account for general business			(9,806)		(12,717)

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

Statement of profit or loss

Non-technical account

For the year ended 31 December 2017

	Notes	2017 £000	2016 £000
Balance on the general business technical account		(9,806)	(12,717)
Investment income	6	279	69
Investment expenses and charges	6	(24)	(10)
Realised gains and (losses) on investments	6	85	1
Unrealised gains and (losses) on investments	6	45	5
Allocated investment return transferred to technical account – general business		(385)	(65)
Non-technical account charges		(73)	(3,393)
Loss for the financial year		<u>(9,879)</u>	<u>(16,110)</u>

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

	2017 £000	2016 £000
Loss for the financial year	<u>(9,879)</u>	<u>(16,110)</u>
Total comprehensive income for the financial year	<u>(9,879)</u>	<u>(16,110)</u>
Statement of retained earnings		
Balance due from members at 1 January	(45,919)	(38,778)
Loss collected from members – 2014 year of account	13,325	9,065
Three year funded adjustment	976	215
Total comprehensive income for the financial year	(9,879)	(16,110)
Advance of fees to members' agents on behalf of members	<u>(161)</u>	<u>(311)</u>
Balance due from members at 31 December	<u>(41,658)</u>	<u>(45,919)</u>

There are no discontinued operations.

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

Balance sheet – Assets

As at 31 December 2017

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	Notes	£000	2017 £000	£000	2016 £000
Investments					
Shares and other variable yield securities		1,308		1,073	
Debt securities and other fixed income securities		17,930		7,250	
Participation in investment pools		38,842		12,145	
	8		58,080		20,468
Reinsurers' share of technical provisions					
Claims outstanding	2	4,293		7,204	
Provision for unearned premiums	2	3,300		2,766	
			7,593		9,970
Debtors					
Debtors arising out of direct insurance operations	9	12,821		12,012	
Debtors arising out of reinsurance operations	10	1,903		1,941	
Other debtors	11	6,512		4,316	
			21,236		18,269
Other assets					
Cash at bank and in hand		12,669		15,019	
Overseas deposits		2,487		680	
			15,156		15,699
Prepayments and accrued income					
Deferred acquisition costs		25,636		21,066	
Other prepayments and accrued income		5,011		4,574	
			30,647		25,640
Total assets			<u>132,712</u>	<u>90,046</u>	

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

Balance sheet – Liabilities

As at 31 December 2017

	Notes	£000	2017 £000	£000	2016 £000
Capital and reserves					
Members' balances			(41,658)		(45,919)
Technical provisions					
Claims outstanding	2	107,368		77,553	
Provision for unearned premiums	2	<u>62,037</u>		<u>53,449</u>	
			169,405		131,002
Creditors					
Creditors arising out of reinsurance operations	12	1,922		1,639	
Other creditors	13	<u>1,260</u>		<u>896</u>	
			3,182		2,535
Accruals and deferred income			<u>1,783</u>		<u>2,428</u>
Total liabilities			<u><u>132,712</u></u>		<u><u>90,046</u></u>

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

The syndicate annual accounts were approved by the Board of Directors of Coverys at Lloyd's and were signed on its behalf by

R E McCoy
Chief Executive Officer

M Bell
Finance Director

15 March 2018

Statement of cash flows

For the year ended 31 December 2017

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	2017 £000	2016 £000
Cash flow from operating activities		
Loss for the financial year	(9,879)	(16,110)
Adjustments for:		
Increase in gross technical provisions	38,403	60,354
Decrease/(increase) in reinsurers' share of technical provisions	2,377	(4,043)
(Increase) in debtors, prepayments & accrued income	(7,974)	(11,589)
Increase in creditors	2	1,030
Net cash generated from operating activities	<u>22,929</u>	<u>29,642</u>
Cash flows from investing activities		
Purchase of equity & debt instruments	(39,420)	(26,849)
Sale of equity & debt instruments	–	11,205
Changes to market value and currency	–	(2,030)
Net cash generated from investing activities	<u>(39,420)</u>	<u>(17,674)</u>
Cash flows from financing activities		
Members' agents fees	(161)	(311)
Amounts drawn down from financial institutions	–	(7,356)
Loss received on 2015 (2014) year of account	13,325	9,066
Three year funded adjustment on 2015 (2014) year of account	976	215
Net cash from financing activities	<u>14,140</u>	<u>1,614</u>
Net increase/(decrease) in cash & cash equivalents in year	(2,351)	13,582
Cash & cash equivalents at beginning of the year	15,019	714
Foreign exchange movements in cash and cash equivalents	–	723
Cash & cash equivalents at end of the year	<u>12,669</u>	<u>15,019</u>
Cash & cash equivalents comprise:		
Cash at bank and in hand	12,669	15,019
	<u>12,669</u>	<u>15,019</u>

The accounting policies and notes on pages 15 to 35 form part of these financial statements.

Statement of accounting policies

General information

Syndicate 1991 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 is incorporated in England and whose registered office is 71 Fenchurch Street, London EC3M 4BS.

The syndicate is a specialist in delegated authority underwriting focusing mainly in North America, the UK and Europe.

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

These financial statements are prepared on a going concern basis.

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

The syndicate's business activities, together with the factors likely to affect its future development are set out in the business review contained within the strategic report. In addition, the risk management section provides details of the financial risks the syndicate is exposed to and how those risks are managed.

The syndicate has established relationships with a number of coverholders that management anticipate are long-term in nature. As a consequence, the directors believe that the syndicate is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the syndicate has adequate resources including the Funds at Lloyd's of the members supporting the syndicate (as detailed in note 15) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums on contracts incepted in prior accounting periods. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

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.

Technical provisions – claims incurred and reinsurers' share

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

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on a market blended average applied by Coverys at Lloyd's in-house reserving team and reviewed by external consulting actuaries. Where appropriate the blended rates are adapted to reflect experience to date. The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions with regards to claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used, including pricing models, for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time as experience develops. In addition the nature of short-tail claims, such as property, where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long-tail risks, such as some liability business, where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim, this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

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.

Unexpired risks provision

A provision for unexpired risks is made where claims, related expenses and deferred acquisition costs, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs, profit and loss on exchange and amounts charged to members through the syndicate.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

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.

Foreign currencies

The presentational and functional currency of the syndicate is Sterling.

Transactions in US dollars, Euros, Canadian dollars, Australian dollars and New Zealand 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, including unearned premiums and deferred acquisition costs 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 statement of comprehensive income – 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 financing transaction, the financial asset or liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

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.

Derecognition of financial assets and liabilities

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

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

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 estimates 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 syndicate and through 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.

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 or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

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

Profit commission

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

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, premium income 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 16 and the related risks are described on page 21. The net technical provisions after the reinsurers' share is £161,812k (2016: £121,032k). 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 £103,075k (2016: £70,349k). As described in the risk management section there is a thorough review process of claims notifications and reserving estimates. IBNR is calculated using a market blended average adapted to reflect experience to date. There is, however, a risk that past performance may not be a good indicator of the future developments. This is mitigated by a mixed spread of different types of business from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions may be mitigated by the element that reinsurers' share, although there are also uncertainties in calculating that.

Premium income

The accounting policy for written and earned premium income is described on page 15 and the related risks are described on page 20. The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten but not yet notified. The earning of this premium has been calculated on a basis of time apportionment. The directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management section there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid until they are received.

Investment valuations

All investments are shown at their fair value as described in the accounting policy on page 18 and details of the risks relating to investments are disclosed on page 22. All investments are highly rated securities and regularly traded on major stock exchanges so that the risks in their valuations are reduced.

Risk management

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Risk background

The syndicate's activities expose it to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. As described in note 15, each year, the managing agent is required to prepare a Solvency Capital Requirement (SCR) for the syndicate, the purpose of this being to agree capital requirements with Lloyd's, based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are all reflected in the SCR.

The managing agent reviews its risk appetite annually as part of the syndicate's business planning and capital setting process. A Risk and Capital Committee meets regularly to monitor performance against risk appetite using a series of key risk indicators.

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

Insurance risk

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

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

Catastrophic events

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

The largest event at 31 December 2017 was as follows:

Description of event	Gross loss to syndicate £m	Net loss to syndicate £m	Net loss as % of stamp
Hurricane Irma, USA 1 September 2017	5.6	5.6	4.3%

Business volumes and rating levels

The managing agent produces an annual business plan for the syndicate. The plan is produced by anticipating rating levels and terms and conditions attaching to risks expected to be underwritten by the syndicate. Should risks be assessed as uneconomical, they will be declined. Performance against plan is monitored on a regular basis through the Underwriting and Claims Committee, as well as regular review and oversight by the Syndicate Management Committee and Board. If market conditions change materially after the plan is approved by Lloyd's a revised plan is prepared for authorisation by the Board. In this way, rating levels of both businesses written and reinsurance purchased are subject to constant review.

In the context of the market in which the syndicate operates and its approach to business, it would normally be possible to underwrite the required volume of business even if rating levels and terms were to be compromised. Nevertheless, if the volume of business underwritten is less than that approved by the managing agent, the expenses ratio is likely to increase. This risk is mitigated by the operating structure of the syndicate, in which the material element of the acquisition costs are accordingly variable.

The key driver to achievement of planned income forecasts is the due diligence performed on individual coverholders and new products and on their respective plans. Where rating levels are under pressure, the syndicate will seek to underwrite business in less distressed territories or classes of business. The syndicate's governance framework encompassing the Product Oversight Group, Underwriting and Claims Committee and Syndicate Management Committee provide the requisite oversight.

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

	2017 £000	2016 £000
Gross premiums earned	114,897	87,907
Result for the period (excl. investment return)	(10,264)	(16,175)
1% reduction in volume pro-rata result for the period (excl. investment return)	(103)	(162)
1% rating price reduction in profit per £1 of earned premium	(1,149)	(879)

Reserving risk

Reserves are established for expired risks, i.e. that part of the syndicate's business that is attributable to earned premium income, and for unexpired risk, i.e. that part of the business that is attributable to unearned premium. The reserves in relation to the former are claims reserves; in relation to the latter, there is an unearned premium reserve, and there may also be an additional unexpired risk provision. In addition a reserve for Unallocated Loss Adjustment Expenses (ULAE) will also be established and an allowance made for bad and doubtful debts.

In order to mitigate reserving risk, the Coverys at Lloyd's actuarial function uses a number of actuarial techniques, to project gross and net premiums and gross and net insurance liabilities on a best estimate basis. The results of these techniques are then subject to formal peer review. In addition, the managing agent annually commissions an external actuary to perform an independent assessment of the syndicate's ultimate gross and net premiums and insurance liabilities. This is an iterative process where the internal and external actuaries meet to discuss data, models, methods and assumptions. This involves a considerable amount of challenge. Once both sets of actuaries have completed their view of reserves, the results of the external actuary's projections are then compared to those proposed by the Coverys at Lloyd's actuarial function.

The Chief Actuary will then make a reserve recommendation to the Board including (if necessary) any loadings required. The level of booked reserves requires formal approval by the Board and is subject to an external audit and further actuarial opinion.

	2017 £000	2016 £000
Gross outstanding claims provision	107,368	77,553
Net outstanding claims provision	103,075	70,349
Net unearned premium provision	58,736	50,683
1% movement in net outstanding claims	(1,031)	(703)

The above assumes that the reinsurers share pro-rata in any deterioration in outstanding claims which may not be the case. Although unearned premiums should not be affected by such movements in outstanding claims, larger movements in loss ratios could trigger a need for an unexpired risk provision if expected claims rise above the level of the unearned premiums.

Reinsurance risk

When considering the panel of reinsurers for its reinsurance programme, the syndicate seeks to place all protections across a broad spread of counterparties.

The syndicate is committed to using only the highest rated reinsurers. The proposed pool of potential reinsurers is reviewed and agreed by the Syndicate Management Committee ahead of placing. All reinsurers used to date have been at least "A-" rated by Standard & Poor's, and the termination clause of all policies stipulates this as a minimum financial rating going forwards. If a reinsurer rating falls below "A-", the Syndicate Management Committee is consulted to rule upon invocation of the termination clause.

There are a number of ways in which the syndicate considers and monitors reinsurance counterparty financial strength. The Coverys at Lloyd's Internal Model, which is used to assess the syndicate's capital requirements, takes into account the financial ratings of each participating reinsurer, and calculates the effect of reinsurer default on the syndicate's ability to make reinsurance recoveries.

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.

Liquidity risk

To mitigate liquidity risk the Board reviews cash flow projections and maintains cash levels consistent with the needs of the syndicate. The syndicate maximises the inflow of funds from reinsurance recoveries and outstanding premiums and controls costs through the reporting of the expense budget.

Liquidity risk – maturity profiles

The following table summarises the maturity profile of the syndicate's financial liabilities.

	Less than 1 year £000	1 to 3 years £000	3 to 5 years £000	More than 5 years £000	Total £000
As at 31 December 2017					
Claims outstanding	20,571	30,908	14,426	10,672	76,577
Creditors	1,756	–	–	–	1,756
Total credit risk	<u>22,327</u>	<u>30,908</u>	<u>14,426</u>	<u>10,672</u>	<u>78,333</u>
As at 31 December 2016					
Claims outstanding	20,833	31,302	14,610	10,808	77,553
Creditors	2,535	–	–	–	2,535
Total credit risk	<u>23,368</u>	<u>31,302</u>	<u>14,610</u>	<u>10,808</u>	<u>80,088</u>

The following is an analysis of the estimated timing of net cash flows for the net claims liabilities held at the end of the year and at the previous year-end. These forecasts are based upon current estimates and historic trends and the actual timings of these future settlements may differ materially from the estimates below.

	Less than 1 year £000	1 to 3 years £000	3 to 5 years £000	More than 5 years £000	Total £000
Expected cashflows					
2017 net claims liabilities	31,580	50,792	11,429	9,274	103,075
2016 net claims liabilities	18,898	37,095	7,635	6,721	70,349

Currency risk

The main exposure to foreign currency risk arises from insurance business originating overseas. The syndicate attempts to fully match assets with liabilities on a regular basis.

The syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The syndicate deals in six main currencies, Sterling, Canadian dollars, Euros, US dollars, Australian dollars and New Zealand dollars. Transactions also take place in other currencies, although these are immediately converted to Sterling.

A 10% fall in the value of all overseas net assets would lead to a £0.8m loss (2016: £2.2m) with US dollar net assets being the largest element of that at £0.6m for 2017 (2016: Euros being the largest element at £1.9m). The syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The syndicate has not taken out any transactions to hedge these balances.

The following table, all expressed in Sterling, shows that the total net assets held by the syndicate designated in US dollars at the year-end represented 14% which is up from 7% at the previous year-end.

	£ £000	US\$ £000	Can\$ £000	Euro £000	Other £000	Total £000
As at 31 December 2017						
Financial investments	10,190	17,955	1,283	28,652	–	58,080
Overseas deposits	–	181	193	–	2,113	2,487
Reinsurers' share of technical provisions	4,689	1,142	4	1,731	27	7,593
Insurance & reinsurance debtors	7,384	2,338	210	2,806	1,986	14,724
Cash at bank	4,383	2,204	542	3,689	1,851	12,669
Other assets including deferred acquisition costs	19,885	11,310	713	2,795	2,456	37,159
Total assets	46,531	35,130	2,945	39,673	8,433	132,712
Technical provisions	70,615	40,012	2,030	46,740	10,009	169,406
Insurance & reinsurance creditors	1,205	716	–	–	–	1,921
Other creditors	7,731	303	(81)	(4,692)	(217)	3,044
Total liabilities	79,551	41,031	1,949	42,048	9,792	174,371
Surplus/(deficiency) of assets	(33,020)	(5,901)	996	(2,375)	(1,359)	(41,659)

	£ £000	US\$ £000	Can\$ £000	Euro £000	Other £000	Total £000
As at 31 December 2016						
Financial investments	7,011	7,466	858	5,133	–	20,468
Overseas deposits	–	138	130	–	412	680
Reinsurers' share of technical provisions	6,563	656	2	2,739	10	9,970
Insurance & reinsurance debtors	8,299	1,997	182	2,762	713	13,953
Cash at bank	4,691	4,369	251	4,514	1,194	15,019
Other assets including deferred acquisition costs	15,858	9,481	577	3,194	846	29,956
Total assets	42,422	24,107	2,000	18,342	3,175	90,046
Technical provisions	59,948	25,669	1,582	40,552	3,251	131,002
Insurance & reinsurance creditors	976	663	–	–	–	1,639
Other creditors	5,485	804	(12)	(2,874)	(79)	3,324
Total liabilities	66,409	27,136	1,570	37,678	3,172	135,965
Surplus/(deficiency) of assets	(23,987)	(3,029)	430	(19,336)	3	(45,919)

Interest rate risk

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

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

	2017 £000	2016 £000
Impact of a 50 basis point increase in interest rates on result	(90)	(33)
Impact of a 50 basis points decrease in interest rates on result	90	33
Impact of a 50 basis points increase in interest rates on net assets	(90)	(33)
Impact of a 50 basis point decrease in interest rates on net assets	90	33

Financial instruments risk

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

Credit risk – ratings

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

- Reinsurers: Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate.
- Brokers and intermediaries: Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the syndicate.
- Investments: Whereby issuer default results in the syndicate losing all or part of the value of a financial instrument.
- Claims funds held by third party administrators are held in segregated bank accounts and are not subject to credit risk.

	AAA £000	AA £000	A £000	BBB £000	Total £000
As at 31 December 2017					
Variable yield securities and unit trusts	–	1,283	–	25	1,308
Debt securities	–	4,491	11,377	2,062	17,930
Participation in investment pools	38,842	–	–	–	38,842
Overseas deposits as investments	2,114	373	–	–	2,487
Reinsurers' share of claims outstanding	–	1,238	3,055	–	4,293
Reinsurance debtors	–	–	–	–	–
Cash at bank and in hand	–	542	10,028	2,099	12,669
Total credit risk	40,956	7,927	24,460	4,186	77,529
As at 31 December 2016					
Variable yield securities and unit trusts	–	858	–	215	1,073
Debt securities	–	4,270	2,713	267	7,250
Participation in investment pools	12,145	–	–	–	12,145
Overseas deposits as investments	412	268	–	–	680
Reinsurers' share of claims outstanding	–	–	7,204	–	7,204
Reinsurance debtors	–	–	–	–	–
Cash at bank and in hand	–	251	10,399	4,369	15,019
Total credit risk	12,557	5,647	20,316	4,851	43,371

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

Credit risk – ageing and impairment

All assets as listed above are classed as not yet due.

Annual venture risk

Under the Lloyd's annual venture regime, the syndicate demonstrates annually that it has enough supporting capital to continue underwriting. To mitigate the risk that the syndicate will not have sufficient backing to continue to trade, the managing agent has adopted a policy of diversifying the syndicate's capital base commensurate with the managing agent's risk appetite.

Solvency risk

The Board sets the risk appetite in line with its strategy and ensures that sufficient capital resources are raised to cover those risks in line with regulatory and Lloyd's capital setting processes. The Coverys at Lloyd's Risk and Capital Committee monitors risk appetite and tolerances on behalf of the Board. In the event of extreme adverse claims experience, it is possible that the syndicate may not be able to settle its claim liabilities out of its own funds. In that event, the capital structure underpinning the syndicate is such that any deficits can be called from the syndicate's capital providers (members) in accordance with Lloyd's rules. In the event of any member being unable to fulfil its share of such a call, Lloyd's Central Guarantee Fund may, at Lloyd's discretion, be applied to make good any deficits for the benefit of policyholders.

Regulatory risk

The managing agent is required to comply, inter alia, with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Failure to comply with applicable regulations could result in a variety of sanctions, the most extreme being a withdrawal of the right to underwrite business. The managing agent has established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance. Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard. The Coverys at Lloyd's Compliance Committee monitors regulatory developments to ensure the managing agent remains compliant. In addition the risk management function monitors the position. The internal audit function supports the monitoring process, and directly reports into the Coverys at Lloyd's Audit Committee, itself comprised of non-executive directors of the managing agent.

Operational risk

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

Notes to the annual accounts

At 31 December 2017

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1 Analysis of underwriting results

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

	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
2017						
Direct insurance:						
Fire and other damage to property	44,620	41,827	(25,488)	(16,775)	(9,012)	(9,448)
Third party liability	76,910	70,289	(36,979)	(28,481)	(5,506)	(677)
Accident & Health	3,425	2,781	(1,525)	(1,145)	(177)	(66)
	<u>124,955</u>	<u>114,897</u>	<u>(63,992)</u>	<u>(46,401)</u>	<u>(14,695)</u>	<u>(10,191)</u>
2016						
Direct insurance:						
Fire and other damage to property	40,017	36,350	(21,279)	(15,958)	(3,152)	(4,039)
Third party liability	63,330	51,557	(33,147)	(23,379)	(3,774)	(8,743)
Accident & Health	—	—	—	—	—	—
	<u>103,347</u>	<u>87,907</u>	<u>(54,426)</u>	<u>(39,337)</u>	<u>(6,926)</u>	<u>(12,782)</u>

Total commissions for direct insurance written in the year amounted to £39,307k (2016: £25,724k).

The geographical analysis of where premiums were concluded is as follows:

	2017 £000	2016 £000
United Kingdom	54,216	52,750
Other EU countries	18,131	16,950
USA	39,628	28,150
Other	12,980	5,497
	<u>124,955</u>	<u>103,347</u>

2 Technical provisions

Gross technical provisions

	2017 £000	2016 £000
Claims outstanding	107,368	77,553
Provision for unearned premiums	<u>62,037</u>	<u>53,449</u>
	<u>169,405</u>	<u>131,002</u>
Reinsurers' share of technical provisions		
Claims outstanding	4,293	7,204
Provision for unearned premiums	<u>3,300</u>	<u>2,766</u>
	<u>7,593</u>	<u>9,970</u>
Net technical provisions		
Claims outstanding	103,075	70,349
Provision for unearned premiums	<u>58,737</u>	<u>50,683</u>
	<u>161,812</u>	<u>121,032</u>

Reconciliation of movements in year

	At 31 Dec 16 £000	Movement in technical account £000	Exchange movement £000	At 31 Dec 17 £000
2017				
Gross provision for claims	(77,553)	(29,029)	(30,090)	275
Reinsurers' share of provision	7,204	(2,904)	(2,985)	77
Unearned premium	(53,449)	(7,559)	(10,058)	1,470
Reinsurers' share of unearned premium	2,766	488	605	(71)
Deferred acquisition costs	21,066	4,282	5,318	(748)
	At 31 Dec 15 £000	Movement in technical account £000	Exchange movement £000	At 31 Dec 16 £000
2016				
Gross provision for claims	(36,521)	(36,604)	(4,428)	(77,553)
Reinsurers' share of provision	4,055	2,741	408	7,204
Unearned premium	(34,125)	(15,440)	(3,884)	(53,449)
Reinsurers' share of unearned premium	1,872	818	76	2,766
Deferred acquisition costs	15,707	4,300	1,059	21,066

Claims development triangulations

Gross claims development as at 31 December 2017

Pure underwriting year	2013	2014	2015	2016	2017	Total
Estimate of gross claims incurred	£000	£000	£000	£000	£000	£000
After one year	843	426	368	4,868	1,092	
After two years	13,283	22,694	27,513	38,299		
After three years	25,951	45,469	59,724			
After four years	26,481	42,164				
After five years	25,451					
Less gross claims paid	17,116	16,410	17,235	8,583	16	
Gross reserves	8,335	25,753	42,489	29,715	1,076	107,368

Net claims development as at 31 December 2017

Pure underwriting year	2013	2014	2015	2016	2017	Total
Estimate of gross claims incurred	£000	£000	£000	£000	£000	£000
After one year	843	426	336	4,868	1,092	
After two years	12,585	20,031	26,879	38,299		
After three years	24,043	40,513	58,062			
After four years	24,900	40,616				
After five years	24,365					
Less net claims paid	16,032	16,410	17,150	8,583	16	
Net reserves	8,333	24,206	40,913	28,577	1,046	103,075

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

The significant movements in net claims incurred in respect of claims provisions created at the end of the previous period are analysed as follows:

	2017	2016
	£000	£000
Fire and other damage to property	22,442	14,260
Third party liability	30,172	32,891
Accident & Health	1,187	—
	<u>53,801</u>	<u>47,151</u>

3 Net operating expenses

	2017 £000	2016 £000
Brokerage and commissions	17,355	14,962
Other acquisition costs including certain syndicate expenses deemed to relate to procuring business	25,849	15,605
Acquisition costs	<u>43,204</u>	<u>30,567</u>
Change in deferred acquisition costs	(5,318)	(4,300)
Administration expenses	7,104	11,631
Members' standard personal expenses	1,411	1,439
	<u>46,401</u>	<u>39,337</u>
Administrative expenses include:		
Auditor's remuneration		
Audit of the syndicate annual accounts	79	75
Other services pursuant to regulations and Lloyd's byelaws	<u>25</u>	<u>25</u>

4 Employees

The following amounts were recharged to the syndicate in respect of employment costs.

Wages and salaries	6,555	5,986
Social security costs	762	802
Other pension costs	443	589
	<u>7,759</u>	<u>7,377</u>

Salary and related expenses, where they relate to the cost of procuring business, are treated as acquisition costs and are deferred in line with premiums. The analysis above shows the total before deferral.

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

	2017	2016
Administration and finance	26	24
Underwriting	30	28
Claims	4	3
	<u>60</u>	<u>55</u>

5 Directors' and Active Underwriter's emoluments

The directors of Coverys at Lloyd's received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2017 £000	2016 £000
Emoluments	<u>633</u>	<u>714</u>

Active Underwriter's emoluments

The Active Underwriter received the following aggregate remuneration charged as other acquisition costs:

Emoluments	<u>425</u>	<u>424</u>
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6 Investment Return

Income from investments	279	69
Gains on the realisation of investments	108	13
Losses on the realisation of investments	(23)	(12)
Investment income	<u>364</u>	<u>70</u>
Investment expenses and charges	(24)	(10)
Unrealised gains on investments	170	25
Unrealised losses on investments	(125)	(20)
Allocated investment return transferred to the technical account	<u>385</u>	<u>(65)</u>

This can also be presented as follows:

Interest and similar income

Interest from financial instruments designated at fair value	279	69
Other interest & similar income	278	–
	<u>557</u>	<u>69</u>

7 Investment Expenses and Charges

Investment management expenses, including interest	24	10
Realised losses on investments	23	12
Unrealised losses on investments	125	20
	<u>172</u>	<u>42</u>

8 Other financial investments

	Market value		Cost	
	2017 £000	2016 £000	2017 £000	2016 £000
Listed securities				
Shares and other variable yield securities	1,308	1,073	1,308	1,073
Debt securities and other fixed income securities	17,930	7,250	18,043	7,263
Participation in investment pools	38,842	12,145	38,615	12,128
	<u>58,080</u>	<u>20,468</u>	<u>57,966</u>	<u>20,464</u>

Fair value hierarchy

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

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

Level 2: Inputs other than quoted prices included within Level 1 that are observable (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.

All of the syndicate's financial instruments are classified as Level 1.

9 Debtors arising out of direct insurance operations

	2017 £000	2016 £000
Intermediaries	<u>12,821</u>	<u>12,012</u>

10 Debtors arising out of reinsurance operations

Due from ceding insurers	<u>1,903</u>	<u>1,941</u>
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All debtors are due within one year.

11 Other debtors

	2017 £000	2016 £000
Amounts held by Third Party Administrators – claims funds	6,440	4,210
VAT receivable	58	81
Other debtors	14	25
	<u>6,512</u>	<u>4,316</u>

12 Creditors arising out of reinsurance operations

Due within one year	<u>1,922</u>	<u>1,639</u>
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13 Other creditors

Taxation	<u>1,260</u>	<u>896</u>
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14 Year of account development

The following table shows how the results of the recent years of account were earned by calendar year compared to the underwriting account results/forecasts.

Year of account	Calendar years					Total £000	U/w account £000
	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000		
2013	(6,647)	(1,749)	(664)			(9,060)	(8,844)
2014		(11,281)	(4,301)	1,645		(13,937)	(14,183)
2015			(13,170)	(1,352)	3,353	(11,170)	(10,136)
2016				(16,403)	708	(15,695)	(8,203)
2017					(13,940)	(13,940)	5,897
Calendar year result	<u>(6,647)</u>	<u>(13,030)</u>	<u>(18,135)</u>	<u>(16,110)</u>	<u>(9,879)</u>		

15 Regulatory capital requirements

Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of that business. FAL is not hypothecated to any specific syndicate participation by a member, therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

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

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1991 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (FAL), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

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

16 Derivatives

During the year, the syndicate has not held or purchased any derivative contracts.

17 Off-balance sheet items

The syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the syndicate.

18 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. 1 Limited (RQC1), a member of Syndicate 1991, is a wholly owned subsidiary of Randall & Quilter II Holdings Limited which is a wholly owned subsidiary of RQIH. RQC1's 2017 syndicate participation is 24.21%. (2016: 13.64%).
- (iii) R&Q Capital No. 2 Limited (RQC2), a member of Syndicate 1991, is a wholly owned subsidiary of Randall & Quilter II Holdings Limited which is a wholly owned subsidiary of RQIH. RQC2's 2017 syndicate participation is 16.96% (2016: 16.57%).
- (iv) K E Randall is a director of RQC1 and RQC2.
- (v) A number of executive directors of Coverys at Lloyd's were also directors and approved persons of other R&Q group companies.
- (vi) During the year, the syndicate paid £8,847k (2016: £7,914k) in relation to management fees and a further £950k (2016: £973k) in managing agency fees to Coverys at Lloyd's. These amounts have been charged at cost. Of these figures, £680k and £79k respectively was paid to Coverys at Lloyd's.
- (vii) R&Q Central Services Limited, the principal administration company of the R&Q Group, provided a number of services to Syndicate 1991 including IT, human resources and internal audit. Subsequent to the sale of the managing agent to Coverys, R&Q Central Services Limited continued to provide certain services to Coverys at Lloyd's under a third party service agreement. The company changed its name to Coverys MA Services Limited on 1 December 2017.
- (viii) Coverys MA Services Limited (CMAS), a wholly owned subsidiary of Coverys at Lloyd's was incorporated on 26 May 2017 and became the principle 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.
- (ix) A proportion of Coverys at Lloyd's costs are recharged to other R&Q group companies at arm's length based on time spent by individuals. Similarly, other group companies have recharged costs to Coverys at Lloyd's on a similar basis.
- (x) R E McCoy, M Bell, P M Sloan and A G Chopourian are directors of DTW 1991 Underwriting Limited (DTW1991), a Lloyd's approved service company coverholder which conducts business on behalf of the syndicate. During the year DTW1991 provided £72,741k of premium income to the syndicate (2016: £53,921k). DTW1991's costs are recharged to the syndicate and treated as acquisition costs. This amounted to £47k in 2016 (2016: £47k).
- (xi) UMH was a shareholder of Trilogy Managing General Agents Limited (Trilogy), an undertaking that is appointed as a coverholder of the syndicate. R E McCoy was a director of Trilogy. During the year, Trilogy provided £5,599k of premium income (2016: £8,049k).

COVERYS



Coverys Managing Agency Limited
Syndicate

DTW 1991

Underwriting year accounts
For the year ended 31 December 2017

Managing agent's report

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Coverys at Lloyd's presents its report together with the syndicate underwriting year accounts for the 2015 year of account of Syndicate 1991 for the three years ended 31 December 2017.

Review of the 2015 year of account

Activities

Syndicate 1991 is a specialist in delegated authority underwriting, and was approved by Lloyd's for the 2013 year of account. The capacity for 2015 was £146.2m. Pure underwriting year premiums written excluding commissions were £104.8m, representing 72% of capacity.

Results

The loss for the 2015 year of account was £10.5m equivalent to 7.2% of capacity. An explanation of the result is included in the underwriter's report on page 3 and in the strategic report on page 5.

Auditors

Pricewaterhousecoopers LLP have been proposed as the syndicate auditor from 2018 calendar year.

Approved by order of the Board of Coverys at Lloyd's.

R E McCoy

Chief Executive Officer
15 March 2018

Statement of managing agent's responsibilities

The managing agent is responsible for preparing syndicate underwriting year accounts and an accompanying managing agent's report in accordance with applicable law, Lloyd's Byelaws and United Kingdom Generally Accepted Accounting Practice.

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

The syndicate underwriting year accounts must be prepared on an underwriting year basis which give a true and fair view of the result of the underwriting year at closure.

In preparing the syndicate underwriting year accounts, the managing agent is required by the Syndicate Accounting Byelaw (No. 8 of 2005) to:

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

- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these financial statements.

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

Independent auditor's report

to the Members of Syndicate 1991 2015 closed year of account

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Opinion

We have audited the financial statements of Syndicate 1991 (the 'syndicate') for the 2015 year of account for the three years ended 31 December 2017 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, 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), The Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

This report is made solely to the syndicate's members, as a body, in accordance with the Regulation 6(4) of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005). Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the syndicate 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 three years 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 Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

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 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 preparation of the syndicate underwriting accounts on the basis that the recorded assets and liabilities will be realised and discharged in the normal course of business is not appropriate; or
- the managing agent has not disclosed in the syndicate underwriting accounts any identified material uncertainties that may cast doubt on the ability of the syndicate assets and liabilities to be realised and discharged in the normal course of business.

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.

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 report of the directors of the managing agent.

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 has not kept proper accounting records in respect of the syndicate; or
- the financial statements are not in agreement with the accounting records.

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 syndicate underwriting accounts, the managing agent is responsible for assessing the syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

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 Littlejohn LLP

Statutory auditor

1 Westferry Circus

Canary Wharf

London E14 4HD

16 March 2018

Profit and loss account – 2015 year of account

Technical account – general business

Closed at 31 December 2017

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	Note	£000	£000
Syndicate allocated capacity			<u>146,178</u>
Earned premiums net of reinsurance:			
Gross premiums written			110,302
Outward reinsurance premiums			<u>(11,669)</u>
			98,633
Reinsurance to close premiums received net of reinsurance	4		46,590
Allocated investment return transferred from the non-technical account			388
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(30,885)	
Reinsurers' share		<u>1,160</u>	
			<u>(29,725)</u>
Reinsurance to close premiums payable net of reinsurance	5	<u>(77,502)</u>	
			(107,227)
Net operating expenses	6		<u>(45,853)</u>
Balance on the technical account – general business	7		<u><u>(7,469)</u></u>

The accounting policies and notes on pages 46 to 56 form part of these financial statements.

Profit and loss account – 2015 year of account

Non-technical account

Closed at 31 December 2017

	Note	£000
Balance on the technical account – general business		(7,469)
Investment income		281
Investment expenses and charges		(25)
Realised gains on investments		87
Unrealised gains on investments		45
Allocated investment return transferred to general business technical account	8	(388)
Other charges		(2,665)
Loss for the 2015 closed year of account		<u>(10,134)</u>

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The above loss was after a £2,665k exchange loss, included within the non-technical account other charges.

There was no other comprehensive income.

	Note	£000
Amounts due to members		
Loss for the 2015 closed year of account		(10,134)
Members' agents' fees advances		(381)
Amounts due (from) members at 31 December 2017		<u>(10,515)</u>

As the 2015 year of account following a reinsurance to close is no longer trading, all operations relate to ceased activities for this year of account.

The accounting policies and notes on pages 46 to 56 form part of these financial statements.

Balance sheet

2015 year of account

Closed at 31 December 2017

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	Note	£000	£000
Assets			
Investments	9		55,565
Debtors	10		9,146
Reinsurance recoveries anticipated on gross reinsurance to close premiums – reinsurer's share	5		3,504
Other assets			
Cash at bank and in hand		1,849	
Overseas deposits		1,442	
			<u>3,291</u>
Prepayments and accrued income			
Deferred acquisition costs	5	2,145	
Prepayments and other accrued income		382	
			<u>2,527</u>
Total assets			<u><u>74,033</u></u>
Liabilities			
Amount due (from) members			(10,515)
Reinsurance to close premium payable			
– gross amount	5	82,501	
Creditors	11	2,769	
Accruals and deferred Income			(722)
Total liabilities			<u><u>74,033</u></u>

The accounting policies and notes on pages 46 to 56 form part of these financial statements.

The syndicate underwriting year accounts were approved by the Board of Coverys at Lloyd's on 15 March 2018 and were signed on its behalf by:

R E McCoy
Chief Executive Officer

M Bell
Finance Director
15 March 2018

Statement of cash flows

2015 year of account

Closed at 31 December 2017

	£000
Cashflow from operating activities	
Loss for the closed year of account	(10,515)
Adjustments for:	
Increase in reinsurance to close payable	78,997
(Increase) in debtors, prepayments and accrued interest	(10,005)
Increase in creditors, accruals and deferred income	1,415
Exclude investment return	(384)
Exclude three year funded adjustment	(655)
Net cash inflow from operating activities	<u>58,852</u>
Cash flows from investing activities	
Purchase of equity and debt instruments	(53,370)
Sale of equity and debt instruments	–
Investment income received	384
Changes to market value and currency	(740)
Net cash outflow from investing activities	<u>(53,726)</u>
Cash flows from financing activities	
Fees advanced to Members' agents	(381)
Net cash outflow from financing activity	<u>(381)</u>
Net increase in cash and cash equivalents in the three years	4,745
Cash and cash equivalents at 1 January 2015	–
Effect of exchange rates on cash and cash equivalents	(2,896)
Cash and cash equivalents at 31 December 2016	<u>1,849</u>
Cash and cash equivalents comprise:	
Cash at bank and in hand	1,849
Cash and cash equivalents	<u>1,849</u>

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The accounting policies and notes on pages 46 to 56 form part of these financial statements.

Notes to the syndicate underwriting accounts 2015 year of account

Closed at 31 December 2017

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1 Statement of accounting policies

General information and principal activities

Syndicate 1991 is a Lloyd's syndicate domiciled in England and Wales. It is managed by Coverys Managing Agency Limited, a private company limited by shares that was incorporated in England and whose registered office is 71 Fenchurch Street, London EC3M 4BS.

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

Basis of preparation and compliance with accounting standards

These syndicate underwriting year accounts 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", The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005), as far as is necessary to present a true and fair view.

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

The syndicate underwriting year accounts are presented in Sterling which is also the syndicate's functional currency.

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These syndicate underwriting year accounts relate to the 2015 year of account which has been closed by reinsurance to close into the 2016 year of account of Syndicate 1991 at 31 December 2017. Consequently the balance sheet represents the assets and liabilities of the 2015 year of account and the profit and loss account and cash flow statement reflect the transactions for that year of account during the 36 months period until closure.

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

Significant accounting policies

Underwriting transactions

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

- (a) Gross premiums are allocated to years of account into which the arrangement with the coverholder incepts. Commissions or brokerage charged to the syndicate are allocated to the same year of account as the relevant policy. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.
- (b) 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.
- (c) Gross claims paid include internal and external adjustment and settlement expenses. Salvages and reinsurance recoveries are allocated to the year of account to which the related claim was charged.
- (d) All underwriting transactions are recognised on the basis of transactions processed up to and including the balance sheet date plus accruals in respect of anticipated additional or return premiums, reinsurance premiums and reinsurance recoveries in respect of paid claims.
- (e) A reinsurance to close is a contract of insurance which, in return for a premium paid by the closing year of account, transfers, normally to the following year of account, all known and unknown liabilities arising out of transactions connected with insurance business underwritten by the closing year of account. However, it should be noted that a reinsurance contract does not extinguish the primary liability of the original underwriter.

The estimate of future liabilities (including internal and external settlement costs) and the premium for the reinsurance to close are calculated by the internal actuaries based on the latest loss information available at the time of making such calculation. This is in line with the external actuarial opinion. The calculation allows for the estimated net cost of claims which may have been incurred but not yet reported; such allowance is established by using market blended rates adapted to reflect experience to date. The calculation includes estimates for known outstanding claims, claims which may have been incurred but not reported, and potential reinsurance recoveries. The uncertainties which are inherent in the process of estimating are such that in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ from that presently estimated. Credit is taken for any reinsurance recoveries that are presently estimated to be recoverable. No credit is taken for investment earnings which may be expected to arise in the future on the funds representing either the reinsurance to close or the estimate of future liabilities as applicable. Any unearned premiums are taken into account within the calculation of the reinsurance to close premium.

Financial assets and financial liabilities

(a) Classification

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

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

(b) 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.

(c) Initial measurement

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

(d) Subsequent measurement

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.

(e) Derecognition of financial assets and liabilities

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

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

(f) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset 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 estimates the fair value by using a valuation technique.

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

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

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

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

(h) *Offsetting*

Debtors/creditors arising from insurance/reinsurance operations shown in the balance sheet include the totals of all outstanding debit and credit transactions as processed by the syndicate and through 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

The gross investment return comprises investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges. Investment return arising in each calendar year is allocated to years of account in proportion to the average funds available for investment attributable to those years. Investment returns in respect of overseas deposits are allocated to the year of account which funded these deposits.

Investment return is wholly allocated to the general business technical account.

Syndicate operating expenses

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

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax. It is the responsibility of members to agree and settle their individual tax liabilities with the Inland Revenue.

No provision has been made for any United States Federal Income Tax or any overseas tax payable on the underwriting results or investment earnings. Members resident overseas for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Basis of currency translation

The syndicate has Sterling as its functional and presentation currency.

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

Although transactions are translated as described above, the monetary assets and liabilities, including any unearned premiums or deferred acquisition costs, within the balance sheet in the currencies stated above are translated at the rates of exchange ruling on 31 December 2017. Any differences are included within the profit or loss on exchange account in the non-technical account. Any non-monetary assets or liabilities are retained at their original exchange rate.

Key accounting judgements and estimation uncertainties

The key accounting judgements, assumptions and estimates made in the preparation of these underwriting year accounts are those relating to the determination of the reinsurance to close to transfer all assets and liabilities from the 2015 year of account to the 2016 year of account. However as this amount has been contractually committed to since the year-end there can be no further change to the amount in respect of the 2015 year of account.

The accounting policy for the reinsurance to close is described on page 46 and the related risks relating to the underlying net technical provisions that it transfers are described on page 21 within the syndicate annual accounts. The reinsurance to close after the reinsurers' share is £76.8m. The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either a claim event has occurred but the syndicate has not yet been notified or where although notified there has been insufficient information to date to be certain regarding its ultimate cost. This provision for Incurred But Not Reported (IBNR) after potential related reinsurance recoveries amount to £23.1m.

2 Risk and capital management

Since 31 December 2017 a reinsurance to close has been completed which transferred all assets and liabilities from the 2015 year of account to the 2016 year of account of Syndicate 1991. Any change in value of the assets or liabilities or further transactions after 31 December 2017 will be borne by the 2016 year of account. The 2015 year of account therefore bears no further risk and accordingly no disclosures relating to risks are disclosed in these underwriting year accounts. The risks remain within the syndicate and are borne by the 2016 year of account and subsequent years of account and are disclosed in the syndicate annual accounts on pages 10 to 35 and in particular within page 20 on risk management.

The basis on which capital is managed by the syndicate in accordance with the requirements of the Society of Lloyd's and the Prudential Regulatory Authority is also described within the syndicate annual accounts within note 15 on regulatory capital requirements.

3 Analysis of underwriting result

An analysis of the underwriting result before investment return for the three years ended 31 December 2017 is set out below:

2015 year of account	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Fire and other damage to property	39,287	39,287	(11,472)	(19,237)	(5,877)	2,701
Third party liability	70,923	70,923	(19,348)	(26,403)	(4,551)	20,621
Accident & Health	92	92	(65)	(213)	(81)	(267)
	<u>110,302</u>	<u>110,302</u>	<u>(30,885)</u>	<u>(45,853)</u>	<u>(10,509)</u>	<u>23,055</u>

The above figures do not include RITC paid or received amounts.

The geographical analysis of where premiums were concluded is as follows:

	£000
United Kingdom	54,617
Other EU countries	19,297
USA	29,476
Other	6,912
	<u>110,302</u>

4 Reinsurance to close premiums received

	Unearned premium £000	Reported £000	IBNR £000	ULAE £000	Total £000
Gross reinsurance to close premiums received	4,456	39,149	10,903	577	55,085
Reinsurance recoveries anticipated	<u>(237)</u>	<u>(6,544)</u>	<u>–</u>	<u>–</u>	<u>(6,781)</u>
	<u>4,219</u>	<u>32,605</u>	<u>10,903</u>	<u>577</u>	<u>48,304</u>
Deferred acquisition costs					<u>(1,714)</u>
					<u>46,590</u>

5 Reinsurance to close premiums paid

	Unearned premium £000	Reported claims £000	IBNR £000	ULAE £000	Total £000
Gross reinsurance to close premiums paid	5,924	51,381	24,127	1,069	82,501
Reinsurers' share	(379)	(2,126)	(999)	–	(3,504)
	<u>5,545</u>	<u>49,255</u>	<u>23,128</u>	<u>1,069</u>	<u>78,997</u>
Deferred acquisition costs					(2,146)
Net reinsurance to close premium paid – balance sheet					<u>76,851</u>
Unearned net premiums and deferred acquisition costs					(3,399)
Foreign exchange losses					<u>4,050</u>
Reinsurance to close premium – profit and loss account					<u><u>77,502</u></u>

This amount represents a provision for the reinsurance to close the 2015 year of account into the 2016 year of account of Syndicate 1991 as at 31 December 2017 which was approved by the Board of Coverys at Lloyd's on 14 February 2018.

The table of the development of ultimate claims over the last four years is shown within note 2 to the Syndicate Annual Accounts.

6 Net operating expenses

	£000
Brokerage and commissions	15,301
Other acquisition costs	<u>22,125</u>
Acquisition costs	37,426
Administrative expenses	<u>8,427</u>
	<u><u>45,853</u></u>
Included within administrative costs above are the following:	
Auditors' remuneration – audit	73
Standard personal expenses (excluding members' agents' fees)	1,768

7 Balance on the technical account before net operating expenses and allocated investment return

	2014 & prior year of account £000	2015 year of account £000	Total £000
Technical account balance before allocated investment return and net operating expenses	4,647	33,349	37,996
Brokerage, commission and other acquisition costs on gross premium	<u>(2,088)</u>	<u>(35,337)</u>	<u>(37,425)</u>
Balance after brokerage and commissions	<u>2,559</u>	<u>(1,988)</u>	<u>571</u>

Reconciliation of Reinsurance to Close received

	Gross £000	Reinsurers' share £000	Total £000
Reinsurance to close received at 1 January 2017	48,310	(6,299)	42,011
Claims paid in relation to 2014 & prior years of account	(12,770)	1,075	(11,695)
Change in provision for 2014 & prior years of account claims	(4,570)	1,075	(571)
Premiums received	(115)	172	57
Change in provision for premiums	4,436	(235)	4,201
Change in provision for acquisition costs	(2,088)		(2,088)
Effect of movement in exchange rates	897	(262)	635
Reinsurance to close payable for 2014 & prior years of account at 31 December 2017	<u>34,098</u>	<u>(1,150)</u>	<u>32,549</u>
Provision for claims in relation to 2015 year	<u>46,257</u>	<u>(1,954)</u>	<u>44,302</u>
Reinsurance to close payable for 2015 and prior at 31 December 2017	<u>80,355</u>	<u>(3,504)</u>	<u>76,851</u>

8 Investment return

	£000
Income from investments	281
Gain on realisation of investments	108
Investment income	<u>389</u>
Investment management expenses, including interest	(25)
Losses on realisation of investments	(22)
Investment expenses and charges	<u>(47)</u>
Unrealised gains on investments	172
Unrealised losses on investments	(126)
Net unrealised gains on investments	<u>46</u>
Allocated investment return transferred to the technical account	<u><u>388</u></u>

This can also be presented as follows:

Interest and similar income	
Interest from financial instruments designated at fair value	<u><u>281</u></u>
Other income from investments designated at fair value	
Realised gains and losses	87
Unrealised gains and losses	45
Investment expenses	<u>(25)</u>
	<u><u>107</u></u>

9 Investments

	Market Value £000	Cost £000
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities	(1,207)	(1,207)
Debt securities and other fixed income securities	17,930	18,043
Participation in investment pools	38,842	38,615
	<u>55,565</u>	<u>55,451</u>

Fair value hierarchy

In accordance with FRS 102 paragraph 11.27 the above financial instruments carried at fair value have been classified by valuation method into three levels to estimate their fair values, with Level 1 being the most reliable. The definitions of these hierarchy levels are as follows:

Level 1: Quoted prices in an active market for identical assets at the relevant date.

Level 2: Where there is no quoted price, the price of a recent transaction of an identical asset provided that the price is considered to remain appropriate.

Level 3: If neither of the above are applicable, by the use of a valuation technique to estimate the transaction price of an arm's length exchange under normal business considerations at the relevant date.

All of the syndicate's financial instruments are classified as Level 1.

10 Debtors

	£000
Amounts held by Third Party Administrators – claims funds	8,734
Members agency fees	381
Other debtors	31
	<u>9,146</u>

All amounts are due within one year.

11 Creditors

	£000
Creditors arising out of direct insurance operations	1,260
Creditors arising out of reinsurance operations	1,246
Taxation	263
	<u>2,769</u>

All amounts are payable within one year.

12 Borrowings and mortgages or charges

No balance sheet assets have a mortgage or charge over them.

13 Related parties

Members' expenses, being agent's fees and profit commission payable to the managing agent, and subscriptions and central guarantee fund contributions paid to Lloyd's, are charged on an underwriting year of account, rather than calendar year basis. For the 2015 year of account Coverys at Lloyd's has charged an agent's fee of 0.75% of capacity. Within the 2015 underwriting year accounts, fees of £1.7m have been reflected within net operating expenses. At 31 December 2017 there were no unpaid fees.

The managing agent incurs a large proportion of the expenses incurred in operating the syndicate and recharges them to the syndicate on a basis that reflects the syndicate's usage of resources. The recharges are included within amounts disclosed as net operating expenses, acquisition costs and claims incurred. Included within the recharges are amounts relating to the remuneration of directors of Coverys at Lloyd's. The total amount recharged by the managing agent to the syndicate to the 2015 underwriting account was £6.2m excluding agent fees. At 31 December 2017 there were no unpaid fees.

Key management personnel are considered to only be the directors of Coverys at Lloyd's and the Active Underwriter. The total compensation paid to them and charged within these underwriting year accounts was £1.0m.

Summary of results of closed years

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Years of Account	2013	2014	2015
Syndicate allocated capacity	£76.8m	£150.0m	£146.2m
Number of underwriting members	559	642	666
Net premium	£19.1m	£36.9m	£67.1m
Results for a £10,000 share	£	£	£
Gross premiums	4,933	4,419	4,535
Net premiums	4,246	3,822	6,747
RITC from an earlier account	—	1,072	3,187
Net claims	(900)	(914)	(2,034)
RITC paid	(2,095)	(2,801)	(5,302)
Profit/(loss) on exchange	19	(60)	(182)
Syndicate operating expenses	(2,335)	(1,937)	(3,021)
Balance on technical account	(1,065)	(817)	(604)
Investment return	1	4	27
Profit/(loss) for the closed year	(1,064)	(813)	(577)
Profit commission	—	—	—
Other personal expenses	(66)	(131)	(125)
Profit/(loss) after all expenses	(1,130)	(944)	(702)
Percentage of illustrative share:			
Gross premium %	49.3%	44.2%	45.3%
Net premium %	42.5%	38.2%	67.5%
Balance on technical account %	(10.6%)	(8.2%)	(6.0%)

Notes

- 1 As the syndicate commenced in 2013, there are only three years of account summarised.
- 2 Personal expenses are those that would apply for an illustrative member underwriting a £10,000 share.
- 3 Net claims include internal claims settlement expenses.

**Coverys Managing Agency Limited
Syndicate DTW1991**

71 Fenchurch Street
London EC3M 4BS

T +44 20 7977 0800

www.coverys.com