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2017 Annual Report

Neon Underwriting Limited Syndicate 2468

Year ended 31 December 2017

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Directors and administration

Managing agent
Neon Underwriting Limited

Directors

J E Consolino	(Non Executive)
S Hayes	(Independent Non Executive)
R E Heppell	(Chief Financial Officer)
D M Lednor	
S E A Long	
A G C Mckay	
I P Martin	
O Reeves	
M R D Reith	(Chief Executive Officer)
G M Riddell	(Independent Non Executive Chairman)
M J Wade	(Independent Non Executive)
M S D Washington	

Syndicate secretary
L A Dlaboha (appointed 25 January 2018), A G C Mckay (resigned 25 January 2018)

Managing agent's registered number
03584320

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

Active underwriter
Darren Lednor

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

Bankers
Barclays Bank plc
One Churchill Place
London
E14 5HP

Solicitors
Clyde & Co

Consulting actuaries
Willis Towers Watson

Managing agent's report

The directors of Neon Underwriting Limited ("the Managing Agent") present their report for Syndicate 2468 ("the Syndicate") for the year ended 31 December 2017 ("the Financial Year"). Neon Underwriting Limited was previously called Marketform Managing Agency Limited and changed its name on 10 June 2016.

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

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) for the year of account 2015, which will be made available to the Syndicate's members.

Principal activity

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business. There have not been any significant changes to the Syndicate's activities during the year. The stamp capacity of the Syndicate for each of the years of account open in 2017 was as follows:

Year of Account	Capacity £000
2015	200,000
2016	235,000
2017	235,000

The stamp capacity has increased to £305m for the 2018 year of account.

Business review

Neon continued to execute the strategic review carried out in the previous year and has completed the exit from the medical malpractice and general liability classes of business. Subsequently, a decision was made to draw a line under all remaining business written prior to the appointment of the new leadership team in late 2015 and in December 2017 Neon completed the external reinsurance to close of the 2008 to 2015 years of account. These developments represent significant progress towards positioning Neon as a profitable and leading specialist Lloyd's insurer. Neon has also continued to recruit key individuals, strengthening the underwriting teams and the support functions to further this ambition.

The result for the Financial Year is comprised of the movement on all underwriting years that were open during the year. The Syndicate reports an underwriting loss of £7,221k (2016: £151,717k) for the Financial Year and a total recognised loss of £1,665k (2016: £152,042k).

Managing agent's report (continued)

Syndicate result – all years of account	*2017*	*2016*
	£000	*£000*
Gross written premiums	225,676	160,179
Net written premiums	160,809	105,781
Net earned premiums	144,078	129,834
Claims ratio	44%	155%
Commission ratio	39%	39%
Expense ratio	22%	23%
Combined ratio	***105%***	***217%***
Underwriting result before Investment return	(7,221)	(151,717)
Investment return	2,924	1,926
Result after Investment Return	(4,297)	(149,791)
Foreign exchange gain/(loss)	2,632	(2,251)
Total Loss for the financial year	(1,665)	(152,042)

The combined ratio is stated before investment return and foreign exchange differences. An analysis of the result by underwriting year is presented below.

Gross written premiums increased by £65,497k to £225,676k. The Syndicate completed the review and re-underwriting of the legacy business and started to underwrite some new classes in 2017, notably Property Treaty. Net earned premium only increased by £14,244k reflecting an increased reinsurance spend and the faster earning of the reinsurance cost compared with the inwards premium. This is common for businesses that are growing.

Net claims incurred reduced by £138,538k to £62,972k and the claims ratio from 155% to 44%. This reflects a number of factors. The 2015 and 2016 years of account have seen positive claims experience and the RITC of 2015 has also resulted in a release of reserves, However, the loss experience has been worse than anticipated for the 2017 year of account due to the catastrophe events in the second half of the year. Reserves have been established in respect of Hurricanes Harvey, Irma and Maria (Gross: £74,828k, Net: £23,040k) and Californian wildfires (Gross: £7,970k, Net: £7,362k) in October and December. Claims liabilities are analysed by segment in note 16.

Operating expenses have increased marginally and the expense ratio has decreased by 1%, but both are still too high as a consequence of the size of the premium base. The Syndicate expects to increase premium in 2018 and for the expense ratio to decrease as a result.

The Syndicate produced an investment return of £2,924k in the year (2016: £1,926k), being 0.89% (2016: 0.46%). The investment portfolio was held in cash, bonds and overseas regulatory deposits managed by Lloyd's Treasury.

The underwriting loss of £7,221k (2016: £151,717k) is analysed below by year of account. A segmental analysis, showing the underwriting result by class of business, is presented in note 2 to the accounts.

Managing agent's report (continued)

Underwriting result by year of account	***Total***	*2017*	*2016*	*2015*
	£000	*£000*	*£000*	*£000*
Gross written premiums	**225,676**	190,758	30,864	4,054
Net written premiums	**160,809**	131,079	33,492	(3,762)
Net earned premiums	**144,078**	61,445	69,806	12,827
Incurred claims	**(62,972)**	(87,364)	(31,964)	56,355
Commission and expenses	**(88,327)**	(66,209)	(19,107)	(3,010)
Underwriting result	**(7,221)**	(92,128)	18,735	66,172

Closure of 2015 underwriting year

The 2015 underwriting year was closed at year end by means of a reinsurance to close (RITC) transaction and all liabilities transferred to a third party syndicate. The RITC yielded a profit for the Syndicate of £49m as the premium was below the booked reserves. At 31 December 2017 the Syndicate held a members' balance relating to the 2015 underwriting year of £13,256k, owing to the Members. All liabilities for the 2015 and prior years of account (2008 to 2015 pure years of account) have been assumed by the 2018 year of account of Syndicate 2008 from 1 January 2018.

Review of financial position

Financial investments, cash and other assets have reduced to £329,539k from £393,590k. This is a consequence of the re-underwriting of the portfolio and the reduced premium levels in 2016 and 2017 combined with the payment of claims on the older years of account.

The members' balance deficit has decreased to £103,225k from £194,394k as detailed in the statement of changes in members' balance on page 15 of the accounts. The Syndicate has made a cash call of £130m in January 2018 to fund the payment of losses from the catastrophe events in 2017 and ongoing operating expenses after the settlement of the RITC.

Managing agent's report (continued)

Principal risks and uncertainties
The Managing Agent has in place a risk management framework to ensure that all risks associated with the Syndicate's activities are identified and managed. The Risk Committee (RC) is accountable to the Managing Agent's Board. The terms of reference for the RC were approved by the board of the Managing Agent on 20 March 2018. The Board sets the risk appetite annually as part of the Syndicate's business planning and capital setting process.

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

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

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

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

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

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

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

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

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

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

Syndicate funds are invested with Lloyd's Treasury. They provide Neon's investment management services and report the investment performance of which is monitored quarterly by the Investment Committee.

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

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

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

Financial instruments and risk management
Information on the use of financial instruments by the Syndicate and its management of financial risk is disclosed in note 16 to the financial statements.

Future developments and important events since the end of the financial year

The Syndicate continues to transact in the classes of general insurance and reinsurance business that it has transacted in historically.

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

Managing agent's report (continued)

Directors

The current directors of the Managing Agent are shown on page 2. Changes to directors since 1 January 2017 are as follows:

Name	Date of appointment
J E Consolino	9 February 2017
R E Heppell	31 January 2018
S E A Long	25 April 2017
O Reeves	15 May 2017
G M Riddell	11 October 2017
M J Wade	6 July 2017

Name	Date of resignation
P V Olsen	10 February 2017
J E Mumford	10 February 2017
J S Barber	10 February 2017
M C Stockton	27 April 2017

The Directors were appointed at Board meetings during the year subject to regulatory approval. The above appointment dates reflect the date that Companies House were notified following the regulatory approvals being received.

Disclosure of information to the auditors

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

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

After making enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Reappointment of auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors. In accordance with Section 485 of the Companies Act 2006, a resolution proposing the re-appointment of Ernst & Young LLP as auditor to the company will be put to the Managing Agency Board.

I P Martin
Director
20 March 2018

Statement of managing agent's responsibilities

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

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

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

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

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

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

Independent auditors' report

Opinion

We have audited the syndicate annual accounts of syndicate 2468 ('the syndicate') for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 16, 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 FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view 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 syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts 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.

Use of our report

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

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

Independent auditors' report (continued)

Other information

The other information comprises the information included in the annual report, other than the syndicate annual accounts and our auditor's report thereon. The managing agent is responsible for the other information.

Our opinion on the syndicate annual accounts does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts 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 syndicate annual accounts 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

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

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

- the managing agent in respect of the syndicate has not kept adequate accounting re cords; or
- the syndicate annual accounts are not in agreement with the accounting records;
- we have not received all the information and explanations we require for our audit; or
- certain disclosures of the managing agents' emoluments specified by law are not made.
- Independent auditors' report (continued)

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the managing agent is responsible for the preparation of the syndicate annual accounts 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 the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, 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 syndicate annual accounts

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts 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 syndicate annual accounts.

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

Stuart Wilson (Senior statutory auditor)

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

London

20 March 2018

Income Statement
Technical account – General business
For the year ended 31 December 2017

	Notes	2017	2016
		£000	£000
Gross premiums written	2	225,676	160,179
Outward reinsurance premium		(64,867)	(54,398)
Net written premiums		160,809	105,781
Change in provision for unearned premiums			
- Gross amount		(25,929)	13,836
- Reinsurers' share		9,198	10,217
Change in the net provision for unearned premiums		(16,731)	24,053
Earned premiums, net of reinsurance		144,078	129,834
Allocated investment return transferred from the non-technical account	6	2,924	1,926
Claims paid			
- Gross amount		(147,928)	(252,570)
- Reinsurers' share		33,471	36,737
		(114,457)	(215,833)
Change in claims outstanding			
- Gross amount		16,626	8,402
- Reinsurers' share		34,859	5,921
Change in the net provision for claims		51,485	14,323
Claims incurred, net of reinsurance		(62,972)	(201,510)
Net operating expenses	3	(88,327)	(80,041)
Balance on technical account - general business		(4,297)	(149,791)

Income Statement
Non-technical account – General business
For the year ended 31 December 2017

	Notes	*2017*	*2016*
		£000	*£000*
Balance on technical account - general business		(4,297)	(149,791)
Investment return		4,450	5,546
Unrealised gains on investments		272	472
Investment expenses and charges		(155)	(2,044)
Unrealised losses on investments		(1,643)	(2,047)
Allocated investment return transferred to the general business technical account		(2,924)	(1,926)
Exchange gains and losses		2,632	(2,251)
Loss for the financial year		(1,665)	(152,041)

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

The notes on pages 19 to 44 form an integral part of these accounts.

Statement of changes in members' balances
For the year ended 31 December 2017

	2017	*2016*
	£000	*£000*
Members' balance at 1 January	(194,393)	(128,801)
Loss for the financial year	(1,665)	(152,041)
2007 & prior year of account results (via cash call)	-	45,157
2013 & prior year of account results	-	41,292
2014 & prior year of account results	92,833	-
Members' balance at 31 December	(103,225)	(194,393)

During the financial year the 2014 underwriting year closed and the final amount settled by members was £92,833k.

Statement of financial position
As at 31 December 2017

	Notes	2017	2016
		£000	£000
ASSETS			
Investments			
Financial investments	7	216,771	228,731
Reinsurers' share of technical provisions			
Provision for unearned premiums		35,031	27,527
Claims outstanding	10	137,256	107,864
		172,287	135,391
Debtors			
Debtors arising out of direct insurance operations	8	84,675	91,209
Debtors arising out of reinsurance operations		15,719	7,486
Other debtors	9	20,427	5,926
		120,821	104,621
Cash and other assets			
Cash at bank and in hand	11	45,295	76,517
Other assets	12	67,473	88,342
		112,768	164,859
Prepayments and accrued income			
Deferred acquisition costs	10	36,108	33,225
Other prepayments and accrued income		2,028	1,514
		38,136	34,739
Total assets		660,783	668,341

The notes on pages 19 to 44 form an integral part of these accounts.

Statement of financial position (continued)
As at 31 December 2017

	Notes	2016	2015
		£000	£000
MEMBERS' BALANCE AND LIABILITIES			
Members' balances		(103,225)	(194,394)
LIABILITIES			
Technical provisions			
Provision for unearned premiums		134,736	114,701
Claims outstanding		590,161	621,904
	10	724,897	736,605
Creditors			
Creditors arising out of direct insurance operations	8	4,299	7,488
Creditors arising out of reinsurance operations		25,775	30,247
Other creditors	9	8,930	77,297
		39,004	115,032
Accruals and deferred income		107	11,098
Total liabilities		764,008	862,735
Total members' balances and liabilities		660,783	668,341

The notes on pages 19 to 44 form an integral part of these accounts.

The financial statements have been approved by the board of directors on 20 March 2018 and were signed on its behalf by:

R E Heppell
Chief Financial Officer

Statement of cash flows
For the year ended 31 December 2017

	Notes	2017	2016
		£000	£000
Loss on ordinary activities		(1,665)	(152,041)
Movement in general insurance unearned premiums and outstanding claims		(11,709)	72,701
Movement in reinsurers' share of unearned premiums and outstanding claims		(36,896)	(31,846)
Investment return		(2,924)	(1,926)
Movement in other assets/liabilities		(97,352)	114,984
Net cash inflow from operating activities		(150,546)	1,872
Investing activities			
Purchases of debt and equity instruments		(306,151)	(402,613)
Sale of debt and equity instruments		331,067	485,460
Purchase of derivatives		(2,026)	(1,992)
Investment income received		1,846	1,534
Foreign exchange		11,682	(65,133)
Net cash outflow from investing activities		36,418	17,256
Financing activities			
Open year cash calls made/not paid		92,833	86,449
Other		-	-
Net cash outflow from financing activities		92,833	86,449
Increase in cash and cash equivalents		(21,295)	105,577
Cash and cash equivalents at 1 January		122,012	17,527
Exchange differences on opening cash		(959)	(1,092)
Cash and cash equivalents at 31 December	11	99,758	122,012

Notes to the financial statements
For the year ended 31 December 2017

1. Accounting Policies
1.1. Statement of compliance
These financial statements have been prepared on a going concern basis, under the historical cost convention except for certain financial assets which are measured at their fair value, using the annual basis of accounting in accordance with Regulation 5 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) (the Regulations), and in compliance with United Kingdom Accounting Standards including Financial Reporting Standard 102, The Financial Reporting Standard Applicable in the UK and the Republic of Ireland (FRS 102) and Financial Reporting Standard 103, Insurance Contracts (FRS 103). FRS 102 and FRS 103 have been consistently applied to all years presented.

1.2. Basis of preparation
The financial statements for the year ended 31 December 2017 were approved for issue by the Board of Directors on 20 March 2018.

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

1.3. Judgements and key sources of estimation uncertainty
The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Insurance contract technical provisions
The most significant estimate made in the financial statements relates to unpaid insurance claim reserves and related loss adjustment expenses of the Syndicate. Unpaid claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement.

Actuarial projection techniques are used to calculate the ultimate cost of outstanding claims. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with claims incurred but not reported (IBNR) and related claims handling costs.

1.3. Judgements and key sources of estimation uncertainty continued

Estimates of future premiums

Gross written premium is recognised on insurance contracts incepting during the financial year and includes an estimate of the total premium expected to be received under each contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips is particularly judgemental. Adjustments to estimates from previous years are included in the reported premium.

Changes in accounting estimates during the year

The calculation of estimated profit commission payable was revised to align with the recognition of premium. This resulted in a release of profit commission payable on the 2014 and prior years of account of £4.6m.

The calculation of estimated unallocated loss adjustment expenses (ULAE) was revised during calendar year 2017 to consider costs at a more granular level by department. This revision resulted in an overall release of £7.8m of ULAE in the third quarter of 2017. This is analysed by year of account as follows:

Year of account	Change to balance on technical account	Change to members balances
	£000	£000
2015 and prior	10,727	(10,727)
2016	(913)	913
2017	(2,013)	2,013
Total release of ULAE	7,801	(7,801)

1.4. Significant accounting policies

Premiums

Gross premiums written comprise contracts commencing in the financial year, together with any differences between booked premiums for the prior years and those previously accrued, and estimates of premiums due but not yet receivable or notified to the Syndicate. All premiums are shown gross of commission payable to intermediaries and exclude any taxes or duties based on premiums. Premium is recognised as earned based on the policy contract period. The earned element is calculated on a basis where the premium is apportioned over the period of risk. For premium written under facilities, the earned element is calculated based on the estimated inception date and coverage period of the underlying contracts. The proportion of premiums written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk. Under FRS 103, unearned premium are monetary liabilities. These are therefore valued at closing exchange rate at the reporting period and any foreign currency gains or losses are recognised in the income statement.

1.4. Significant accounting policies continued

Reinsurance premiums ceded

Reinsurance premium ceded comprise premium on reinsurance arrangements bought which incept during the financial year, together with adjustments to premium ceded in previous accounting years. The proportion of reinsurance premium ceded attributable to periods after the reporting date is deferred as reinsurers' share of unearned premium. Reinsurance premium ceded is earned over the policy contract period in accordance with the terms of the reinsurance contract.

Acquisition costs

Acquisition costs comprise brokerage and commissions incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premiums they relate to. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date and are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are impaired where they are no longer considered to be recoverable out of future margins in the related revenues. Under FRS 103, deferred acquisition costs are monetary assets. These are therefore valued at closing exchange rate at the reporting period and any foreign currency gains or losses are recognised in the income statement.

Unearned premiums

The provision for unearned premiums comprises the amounts representing that part of gross premiums written and outwards reinsurance premiums that relate to unexpired terms of policies in force at the balance sheet date. The provision is calculated using a time apportionment method.

Claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement. Unpaid claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels. The unpaid claims reserves also include, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premiums provision.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

1.4. Significant accounting policies continued

Unexpired risk provision
Provision has been made where the future cost of claims and expenses arising on contracts concluded before the end of the financial year is expected to exceed the provision for unearned premium, net of deferred acquisition costs. The need for such provision is assessed on a class by class basis.

Reinsurance recoveries
The benefits to which the Syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Where there is objective evidence that a reinsurance asset is impaired, the carrying amount of the reinsurance asset is reduced to its recoverable amount and the impairment loss recognised in the income statement.

Financial investments
The Syndicate's financial assets are classified at fair value through profit or loss (FVPL). This classification requires all fair value changes to be recognised immediately within the investment return line in the income statement.

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

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

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

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

1.4. Significant accounting policies continued

Profit commission

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

Foreign currencies

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

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

Exchange differences are recorded in the non-technical account.

Taxation

Under schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic-rate income tax from trading income. In addition, all UK basic-rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

Pension costs

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

2. Segmental analysis

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

2017	Gross written premiums *£000*	Gross premium earned *£000*	Gross claims incurred *£000*	Gross operating expenses *£000*	Reinsurance balance *£000*	Total *£000*
Direct insurance:						
Accident and health	8,507	7,717	(4,550)	(3,329)	2,662	2,500
Motor - other	2,088	1,026	(4,423)	(817)	621	(3,593)
Marine aviation and transport	18,609	16,318	(11,323)	(7,282)	(4,791)	(7,078)
Fire and other damage to property	33,258	27,772	(28,435)	(13,016)	3,282	(10,397)
Third party liability	70,000	61,172	4,533	(27,402)	(9,361)	28,942
Credit and suretyship	29,009	28,497	1,526	(11,353)	(5,156)	13,514
	161,471	142,502	(42,672)	(63,199)	(12,743)	23,888
Reinsurance acceptances	64,205	57,245	(88,630)	(25,128)	25,404	(31,109)
	225,676	199,747	(131,302)	(88,327)	12,661	(7,221)

2016	Gross written premiums *£000*	Gross premium earned *£000*	Gross claims incurred *£000*	Gross operating expenses *£000*	Reinsurance balance *£000*	Total *£000*
Direct insurance:						
Accident and health	4,952	9,007	(3,452)	(3,582)	(2,859)	(886)
Motor - other	30	30	21	-	39	90
Marine aviation and transport	18,420	18,799	(18,956)	(9,401)	1,826	(7,732)
Fire and other damage to property	32,010	26,519	(20,664)	(15,444)	(491)	(10,080)
Third party liability	55,282	77,476	(109,642)	(28,020)	(5,035)	(65,221)
Credit and suretyship	22,117	20,288	(74,206)	(8,574)	18,691	(43,801)
	132,811	152,119	(226,899)	(65,021)	12,171	(127,631)
Reinsurance acceptances	27,368	21,896	(17,269)	(15,020)	(13,694)	(24,087)
	160,179	174,015	(244,168)	(80,041)	(1,523)	(151,717)

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

Gross operating expenses are the same as net operating expenses shown in the income statement as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2017.

2. Segmental analysis continued – Geographical analysis

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

	2017	*2016*
	£000	*£000*
United Kingdom	58,213	19,892
Other EU countries	29,142	16,260
Australia	21,215	5,698
North America	76,957	36,816
Other territories	40,149	81,513
	225,676	160,179

3. Net operating expenses

	2017	*2016*
	£000	*£000*
Acquisition costs	60,194	48,061
Change in deferred acquisition costs	(4,270)	2,353
Administrative expenses	32,403	29,627
Net operating expenses	88,327	80,041

Members' standard personal expenses amounting to £2,910k (2016: £3,237k) are included in administrative expenses, these include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

Net operating expenses include fees payable to the Syndicate's auditor for:	*2017*	*2016*
	£000	*£000*
Audit of the Syndicate annual return	345	345
Tax compliance	12	8
	357	353

4. Staff costs

All staff were employed by Neon Management Services Limited, a wholly owned subsidiary of Neon Holdings (U.K.) Limited (NHL), the immediate parent company of Neon Underwriting Limited. The following amounts were recharged to the Syndicate in respect of staff costs:

	2017	*2016*
	£000	*£000*
Wages and salaries	21,814	15,818
Social security costs	2,709	2,579
Other pension costs	1,347	1,074
	25,870	19,471
Restructure provision	1,126	838
	26,996	20,309

The average number of Neon Management Services Limited employees providing services for the Syndicate during the year was as follows:

	2017	*2016*
Administration and finance	116	94
Underwriting	59	48
Claims	5	14
	180	156

5. Directors' emoluments

The directors of the Managing Agent received the following aggregate remuneration charged and allocated to the company and Syndicate within administrative expenses. The majority is charged to the Syndicate with a nominal amount allocated to the company.

	2017	*2016*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	6,076	4,095

The amount of £6,076k includes £630k paid to directors for loss of office, which was provided for at the previous year end (£1,091k). Excluding these payments the remuneration figure is £5,446k (2016: £3,004k).

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

	2017	*2016*
	£000	*£000*
Aggregate remuneration in respect of qualifying services	771	486

6. Investment return

	2017 £000	2016 £000
Income from financial investments at fair value through profit or loss	5,668	4,730
Net (losses) on realisation of investments at fair value through profit or loss	(1,218)	(1,073)
Total investment income	4,450	3,657
Net unrealised (losses) on investments at fair value through profit or loss	(1,371)	(1,575)
Investment expenses and charges	(155)	(156)
Total investment return	2,924	1,926

	2017 £000	2016 £000
Average amount of funds available for investment during the year:		
Sterling	44,564	29,495
United States dollars	90,690	115,681
Canadian dollars	260,761	280,055
Euro	13,743	82,055
Australian dollars	89,715	103,600
Combined in sterling	329,152	422,212
Gross calendar year investment yield:		
Sterling	2.23%	0.43%
United States dollars	0.59%	0.27%
Canadian dollars	0.57%	0.53%
Euro	0.00%	(2.01)%
Australian dollars	1.59%	2.21%
Combined in sterling	0.89%	0.46%

Average funds are calculated as the monthly average of bank balances, overseas deposits and investments.

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7. Financial investments

	Valuation	Cost
At 31 December 2017	*£000*	*£000*
Financial assets at fair value through profit or loss		
Shares and other variable yield securities and units in unit trusts	54,463	54,463
Debt securities and other fixed income securities	160,282	161,032
Derivative financial instruments	2,026	-
Total financial assets at fair value through profit or loss	216,771	215,495

	Valuation	Cost
At 31 December 2016	*£000*	*£000*
Financial assets at fair value through profit or loss		
Shares and other variable yield securities and units in unit trusts	45,496	45,495
Debt securities and other fixed income securities	183,235	185,093
Net financial investments	228,731	230,588

At 31 December 2016 the derivative financial instruments were in a net liability position and were included within other creditors.

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2017	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	-	54,463	-	54,463
Debt securities and other fixed income securities	44,463	115,819	-	160,282
	44,463	170,282	-	214,745
Loans and deposits with credit institutions	8,732	58,741	-	67,473
Derivative asset	-	2,026	-	2,026
	53,195	231,049	-	284,244

7. Financial investments (continued)

31 December 2016	*Level 1* *£000*	*Level 2* *£000*	*Level 3* *£000*	*Total* *£000*
Shares and other variable yield securities and units in unit trusts	-	45,496	-	45,496
Debt securities and other fixed income securities	32,981	150,254	-	183,235
	32,981	195,750	-	228,731
Loans and deposits with credit institutions	15,824	72,518	-	88,342
	48,805	268,268	-	317,073

At 31 December 2016 the derivative financial instruments were in a net liability position and were included within other creditors.

8. Debtors and creditors arising out of direct insurance and reinsurance operations

All amounts due to or receivable from the Syndicate in respect of direct insurance and reinsurance operations are in relation to intermediaries.

Of the debtors arising out of direct insurance operations, £189k (2016: £82k) are due after more than one year. All debtors arising out of reinsurance operations are due within one year.

9. Other debtors and creditors

	2017	*2016*
Other debtors	*£000*	*£000*
Overseas taxation	950	1,051
VAT	2,110	495
Investments in transit	3,619	-
Claims Loss Funds	1,631	-
Consortium Fees	531	-
Underwriting Debtors	1,092	154
Other debtors	683	1,318
Inter-company balances	9,811	2,908
	20,427	5,926

All balances are due within one year.

9. Other debtors and creditors (continued)

	2017	*2016*
	£000	*£000*
Other creditors		
Underwriting creditors	613	5,688
Profit commission due to coverholders	6,858	7,175
Interest due	644	-
Derivative liability	-	1,997
2007 RITC payable	-	62,369
Other creditors	815	68
	8,930	77,297

Profit commission payable includes £5,307k (2016: £3,770) payable after one year. All other balances are due within one year.

10. Technical provisions

2017	Gross	Reinsurers' share	Net
Outstanding claims	*£000*	*£000*	*£000*
At 1 January 2017	621,904	(107,864)	514,040
Claims incurred in current underwriting year	153,194	(65,830)	87,364
Claims incurred in prior underwriting years	(21,891)	(2,500)	(24,391)
Claims paid during the year	(147,928)	33,471	(114,457)
Foreign exchange	(15,118)	5,467	(9,651)
At 31 December 2017	590,161	(137,256)	452,905

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

10. Technical provisions (continued)

2017	Gross	Reinsurers' share	Net
Unearned premium	*£000*	*£000*	*£000*
At 1 January 2017	114,701	(27,527)	87,174
Premiums written in the year	225,676	(64,867)	160,809
Premiums earned in the year	(199,747)	55,669	(144,078)
Foreign exchange	(5,894)	1,694	(4,200)
At 31 December 2017	134,736	(35,031)	99,705

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

	2017	*2016*
Deferred acquisition costs	*£000*	*£000*
At 1 January	33,225	31,635
Change in deferred acquisition costs	4,270	(2,353)
Foreign exchange	(1,387)	3,943
At 31 December	36,108	33,225

11. Cash and cash equivalents

	2017	*2016*
	£000	*£000*
Cash at bank and in hand	45,295	76,517
Cash equivalents held in collective investment schemes	54,463	45,495
	99,758	122,012

Cash and cash equivalents comprises deposits not subject to time restrictions on withdrawal, with approved credit institutions and approved financial institutions and local authorities.

12. Other assets

Other assets of £67,473k (2016: £88,342k) comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

13. Related parties

Managing agency fees of £1,762,500 (2016: 1,762,500) were charged to the Syndicate by the Managing Agent. These fees are calculated as 0.75% of the Syndicate's approved stamp capacity of each underwriting year. There is no amount outstanding due to the Managing Agent at the balance sheet date.

SCOR Underwriting Limited is a corporate underwriting member for the 2002 to 2015 years of account. SCOR Group P&C France (a SCOR group company) has a 7.5% line on a historical political risk (trade credit) reinsurance. The premiums paid to that reinsurer during the year amounted to £297,698 (2016: £223,618). Of this amount the outstanding premium payable is £90,317 (2016: £53,226). At 31 December 2017 there is a receivable amount outstanding of £132,912 (2016: £595,146).

Great American Insurance Co. (GAIC) is a wholly owned subsidiary of American Financial Group Inc. (AFG) and participates as a reinsurer of the Syndicate. The premiums paid to that reinsurer in 2017 amounted to £2,446,289 (2016: £1,574,455) which represents 3.8% of outward reinsurance spend of the Syndicate. Of this amount the outstanding premium payable is £1,490,749 (2016: £504,033). Reinsurance recoveries received from GAIC amounted to £7,813. At 31 December 2017 there is a receivable amount outstanding of £84,161 (2016: £2,518,487). The Syndicate also has inwards reinsurance agreements with GAIC which amounted to premiums of £257,719 in the 2017 financial year. No amounts remain due at the balance sheet date.

GAI Indemnity Limited (GAII) is a wholly owned subsidiary of GAI Holdings Bermuda Ltd, the ultimate parent of both of these companies is AFG. GAII is a corporate member of the Syndicate and participates on all open years of account. Lavenham Underwriting Limited (LUL) and Sampford Underwriting Limited (SUL) are wholly owned subsidiaries of NHL, the ultimate parent of these companies is AFG. LUL and SUL are corporate members of the Syndicate and participate on all open years of account. For more information see note 16.

Amounts due from/(to) other group companies are as follows:

	31 December 2017	31 December 2016
	£000	£000
Neon Management Services Limited	7,514	2,283
Neon Bermuda	2,615	625
Beat Services Limited	(318)	-
	9,811	2,908

The Syndicate writes Cyber business through Tarian Underwriting Limited (TUL), a managing general agency, which has a common director with the Managing Agent. Neon, through NHL has a 16.2% indirect controlling interest in TUL. The amount of business written through TUL in 2017 was £10,538k (2016: nil). The outstanding commission due to TUL at the balance sheet date is listed in the table above.

On 29 December 2017, certain senior management and staff of Neon Management Services Limited purchased on an arm's length basis 76.65% of membership interests in Neon Employee Ownership LLC (NEO), domiciled in Delaware, USA from Helium Holdings Limited, a wholly owned subsidiary of American Financial

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13. Related parties (continued)

Group Inc. NEO indirectly owns via intermediate holding companies, 30% of the operations of Neon including Syndicate 2468 and the managing agent.

There are no other transactions or arrangements to disclose.

14. Funds at Lloyd's

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

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

15. Off-balance sheet items

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

16. Risk management

a) Governance framework

The Board of Directors of the Managing Agent (the Board) recognises that the effective management of risk is essential for the Syndicate to achieve its objectives. The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place to identify, assess, control, monitor and report the risks posed to the achievement of the Syndicate's objectives.

The Board, with support from the independent non-executive Risk Committee, oversees the risk management framework and monitors the Syndicate's risk profile at risk category level (e.g. insurance risk). Oversight of specific risks and appetites, set in conjunction with the risk management function, is delegated to the relevant sub-Committees of the Board and Executive Committee. In order to discharge their duties, the Board and sub-Committees receive regular risk reports measuring the Syndicate's risk appetite metrics on a quarterly basis.

There is a clear organisational structure with delegated authorities and responsibilities, underpinned by defined terms of reference for each Committee and Syndicate policies. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, aligned underwriting and reinsurance strategy to the Syndicate's objectives, and specify reporting requirements.

b) Capital management objectives, policies and approach

16. Risk Management (continued)

Capital framework at Lloyd's

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

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives. Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at a syndicate level. Accordingly, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss (99.5% confidence over a one year time frame), reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate are subject to review and approval by Lloyd's. A syndicate may be comprised of one or more underwriting members of Lloyd's. Over and above the SCR, Lloyd's applies an uplift to the capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the SCR 'to ultimate'.

Provision of capital by members of Syndicate 2468

The Syndicate is comprised of a number of underwriting members of Lloyd's. Each member is only liable for its own share of underwriting liabilities on the Syndicate on which it participates. Each member's SCR is determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Each member provides capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each syndicate on which it participates. All of the assets required by the members of the Syndicate (over and above their share of the Syndicate's Solvency II net assets), are held as funds at Lloyds (FAL).

At 31 December 2017, the Syndicate's agreed ECA was £330.3m (2016: £269.1m), representing 108% of the agreed underwriting capacity for the 2018 year of account. The Syndicate also benefits from mutualised capital within the Lloyd's Central Funds, for which an annual levy of 0.35% of Syndicate gross premium is payable.

Participation for each underwriting year that was open during 2017, and for the 2018 underwriting year, is as follows:

16. Risk Management (continued)

Members' participations (% of Syndicate stamp capacity)	*2018* *£000*	*2017* *£000*	*2016* *£000*	*2015* *£000*
Lavenham Underwriting Limited	35%	35%	35%	20%
Sampford Underwriting Limited	36%	36%	36%	21%
GAI Indemnity Limited	29%	29%	29%	29%
SCOR Underwriting Limited	-	-	-	30%
Total	100%	100%	100%	100%

Members' premium limits	*2018* *£000*	*2017* *£000*	*2016* *£000*	*2015* *£000*
Lavenham Underwriting Limited	106,750	82,250	82,250	40,000
Sampford Underwriting Limited	109,800	84,600	84,600	42,000
GAI Indemnity Limited	88,450	68,150	68,150	58,000
SCOR Underwriting Limited	-	-	-	60,000
Syndicate stamp capacity	305,000	235,000	235,000	200,000

All of the corporate members providing capital to support the 2018 year of account are subsidiaries wholly owned by the Managing Agent's ultimate parent, American Financial Group.

c) Insurance risk

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

The syndicate also limits its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme and the agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business, however there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event. Scenarios are modelled for specific catastrophic events dependent on current market conditions.

The principal assumption underlying the estimated liabilities is that future claims development will follow a similar pattern to past claims development experience. Historical development data is used to calculate reserves on a class basis with reference to both the type of business as well as the length of tail of the specific class. Where possible, large losses are reserved with reference to specific case data and market information. The liabilities calculated could be significantly higher or lower than the final cost of settling the claims and this uncertainty can vary between classes depending on the type of business written and the quantity of large or catastrophe losses included within these estimates.

16. Risk Management (continued)

Sensitivity analysis

The claim liabilities are sensitive to the assumptions above. The table below shows the impact on the syndicate's profit of a 5% improvement or deterioration in the net incurred claims ratio:

	Accident & Health	Motor	Marine aviation & transport	Fire and other damage to property	Third-party liability	Credit & suretyship	Reinsurance acceptances	Total
Converted £000								
As at 31 December 2017								
5% increase in NIC	(601)	(154)	(2,066)	(1,150)	(16,153)	(1,333)	(1,189)	(22,645)
5% decrease in NIC	601	154	2,066	1,150	16,153	1,333	1,189	22,645
Converted £000								
As at 31 December 2016								
5% increase in NIC	(884)	(9)	(2,099)	(770)	(19,632)	(2,084)	(223)	(25,702)
5% decrease in NIC	884	9	2,099	770	19,632	2,084	223	25,702

Claims concentration

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

	31 December 2017			31 December 2016		
	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000
Accident and health	19,067	(7,048)	12,019	20,386	(2,699)	17,687
Motor - other	3,666	(594)	3,072	186	-	186
Motor – third party liability	1	-	1	-	-	-
Marine aviation and transport	50,278	(8,949)	41,329	52,956	(10,969)	41,987
Fire and other damage to property	47,919	(24,545)	23,374	24,981	(9,587)	15,394
Third-party liability	372,603	(49,921)	322,682	448,535	(55,896)	392,639
Credit and suretyship	38,857	(12,199)	26,658	69,630	(27,952)	41,678
	532,391	(103,256)	429,135	616,674	(107,102)	509,572
Reinsurance acceptances	57,770	(34,000)	23,770	5,230	(762)	4,468
Total	590,161	(137,256)	452,905	621,904	(107,864)	514,040

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

16. Risk Management (continued)

	31 December 2017			31 December 2016		
	Gross Liabilities	Re-insurance of liabilities	Net Liabilities	Gross Liabilities	Re-insurance of liabilities	Net Liabilities
	£000	£000	£000	£000	£000	£000
United Kingdom	74,685	(18,177)	56,508	167,813	(28,266)	139,547
Other EU countries	88,845	(7,551)	81,294	123,063	(23,216)	99,847
Australia	60,704	(4,498)	56,206	81,230	(12,707)	68,522
North America	141,083	(43,106)	97,977	44,551	(8,938)	35,612
Other territories	224,844	(63,924)	160,920	205,248	(34,736)	170,512
Total	590,161	(137,256)	452,905	621,904	(107,864)	514,040

Claims development table

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

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

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

Notes to the financial statements
For the year ended 31 December 2017
16. Risk Management (continued)

Gross outstanding claims provision at 31 December 2017

Underwriting year	*Before 2011*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Estimate of cumulative claims incurred									
At end of underwriting year		37,010	33,305	36,925	39,334	48,682	46,535	147,678	
12 months later		104,150	82,962	95,721	119,939	151,198	75,447		
24 months later		112,789	89,502	116,644	196,329	146,310			
36 months later		112,619	95,033	143,339	174,247				
48 months later		118,333	115,578	132,781					
60 months later		152,751	111,778						
72 months later		140,296							
Current estimate of cumulative claims incurred		140,296	111,778	132,781	174,247	146,310	75,447	147,678	
Cumulative paid claims									
At end of underwriting year		(7,446)	(2,797)	(3,961)	(4,948)	(5,610)	(5,456)	(20,183)	
12 months later		(33,969)	(15,637)	(21,403)	(28,712)	(33,838)	(20,189)		
24 months later		(47,848)	(26,892)	(44,228)	(57,811)	(58,596)			
36 months later		(60,129)	(38,609)	(64,959)	(82,492)				
48 months later		(67,161)	(55,123)	(69,531)					
60 months later		(83,574)	(65,151)						
72 months later		(101,018)							
Cumulative payments to date		(101,018)	(65,151)	(69,531)	(82,492)	(58,596)	(20,189)	(20,183)	
Total gross outstanding claims provision per the statement of financial position	78,784	39,278	46,627	63,250	91,755	87,714	55,258	127,495	590,161

16. Risk Management (continued)

Net outstanding claims provision at 31 December 2017

Underwriting year	*Before 2011*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Estimate of cumulative claims incurred									
At end of underwriting year		29,646	28,112	30,073	33,296	43,053	38,738	84,643	
12 months later		81,401	71,344	77,363	96,575	125,676	68,083		
24 months later		86,255	80,772	101,820	158,022	119,937			
36 months later		87,879	87,943	125,608	141,602				
48 months later		90,587	107,455	117,656					
60 months later		113,474	105,120						
72 months later		103,184							
Current estimate of cumulative claims incurred		103,184	105,120	117,656	141,602	119,937	68,083	84,643	
Cumulative paid claims									
At end of underwriting year		(4,967)	(2,783)	(3,870)	(4,229)	(5,527)	(5,456)	(17,189)	
12 months later		(25,182)	(14,241)	(15,899)	(21,258)	(31,169)	(20,146)		
24 months later		(35,118)	(25,410)	(34,604)	(45,201)	(51,667)			
36 months later		(44,244)	(36,637)	(52,778)	(64,280)				
48 months later		(52,045)	(52,451)	(60,528)					
60 months later		(66,255)	(61,892)						
72 months later		(71,231)							
Cumulative payments to date		(71,231)	(61,892)	(60,528)	(64,280)	(51,667)	(20,146)	(17,189)	
Total net outstanding claims provision per the statement of financial position	59,613	31,953	43,228	57,128	77,322	68,270	47,937	67,454	452,905

16. Risk Management (continued)

d) Financial risk management

The following section describes the Syndicate's investment risk management from a quantitative and qualitative perspective. The investment policy determines investment governance and the investment risk tolerances. It is reviewed regularly and reported to the Executive Committee and Board to ensure that the Board's fiduciary and regulatory responsibilities are being met. Day-to-day management of the investments is delegated to the Investment Committee.

Credit risk

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

31 December 2017	*Neither past due nor impaired*	*Impaired*	*Past due*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	54,463	-	-	54,463
Other financial investments				
- Debt securities	160,282	-	-	160,282
- Derivative assets/(liabilities)	2,026	-	-	2,026
Overseas deposits	67,473	-	-	67,473
Reinsurers' share of claims outstanding	137,256	-	-	137,256
Debtors arising out of direct insurance operations	84,675	-	-	84,675
Debtors arising out of reinsurance operations	15,290	-	429	15,719
Other debtors	20,427	-	-	20,427
Cash at bank and in hand	45,295	-	-	45,295
	587,187	-	429	587,616

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

16. Risk Management (continued)

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

31 December 2017	*AAA*	*AA*	*A*	*BBB*	*Less than BBB*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities	-	-	-	-	-	54,463	54,463
Other financial investments							
- Debt securities	108,384	11,429	24,486	15,983	-	-	160,282
- Derivative assets	-	-	2,026	-	-	-	2,026
Overseas deposits	36,728	8,885	6,870	3,246	4,747	6,997	67,473
Reinsurers' share of claims outstanding	5,134	18,037	114,085	-	-	-	137,256
Debtors arising out of reinsurance operations	-	988	13,545	-	-	757	15,290
Cash at bank and in hand	-	-	45,295	-	-	-	45,295
	150,246	39,339	206,307	19,229	4,747	62,217	482,085

31 December 2016	*AAA*	*AA*	*A*	*BBB*	*Less than BBB*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities	-	-	-	-	-	45,495	45,495
Other financial investments							
- Debt securities	108,667	28,564	28,732	17,273	-	-	183,236
- Derivative assets	-	-	(1,997)	-	-	-	(1,997)
Overseas deposits	48,482	15,303	7,945	8,687	-	7,925	88,342
Reinsurers' share of claims outstanding	-	12,933	94,853	-	-	78	107,864
Debtors arising out of reinsurance operations	-	878	6,601	-	-	7	7,486
Cash at bank and in hand	-	-	76,517	-	-	-	76,517
	157,159	57,678	212,651	25,960	10	53,505	506,943

16. Risk Management (continued)

Liquidity risk

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

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

31 December 2017	*Carrying amount £000*	*Up to one year £000*	*1-3 years £000*	*3-5 years £000*	*5-10 years £000*	*Over 10 years £000*
Outstanding claim liabilities	590,161	157,623	250,928	96,677	60,403	24,530
Creditors arising out of direct insurance	4,299	4,278	21	-	-	-
Creditors arising out of reinsurance	25,775	25,775	-	-	-	-
Other creditors	8,930	3,623	5,307	-	-	-

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

16. Risk Management (continued)

Market risk

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

(i) Currency risk

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

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

Converted £'000	UK £	US $	EUR €	CAD $	AUD $	Total
As at 31 December 2017						
Total assets	86,317	301,033	48,771	137,449	87,213	660,783
Total liabilities	(161,874)	(320,276)	(138,567)	(62,063)	(81,228)	(764,008)
Net assets	(75,557)	(19,243)	(89,796)	75,386	5,985	(103,225)

Converted £'000	UK £	US $	EUR €	CAD $	AUD $	Total
As at 31 December 2016						
Total assets	107,922	229,641	65,954	183,599	81,225	668,341
Total liabilities	(257,767)	(309,475)	(93,127)	(137,057)	(65,309)	(862,735)
Net assets	(149,845)	(79,834)	(27,173)	46,542	15,916	(194,394)

The table below shoes the impact on the syndicate's net assets of a 5% appreciation or depreciation in each currency relative to Sterling.

Converted £'000						
As at 31 December 2017	UK £	US $	EUR €	CAD $	AUD $	Total
5% appreciation	-	(962)	(4,490)	3,769	299	(1,383)
5% depreciation	-	962	4,490	(3,769)	(299)	1,383

Converted £'000						
As at 31 December 2016	UK £	US $	EUR €	CAD $	AUD $	Total
5% appreciation	-	(3,992)	(1,359)	2,327	796	(2,228)
5% depreciation	-	3,992	1,359	(2,327)	796	2,228

16. Risk Management (continued)

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

(ii) Interest rate risk

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

Changes in variables	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2017		
+50 basis points	(1,409)	(1,409)
-50 basis points	1,409	1,409
31 December 2016		
+50 basis points	(1,585)	(1,585)
-50 basis points	1,585	1,585

(iii) Equity price risk

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

Changes in stock market prices	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2017		
+50 basis points	272	272
-50 basis points	(272)	(272)
31 December 2016		
+50 basis points	227	227
-50 basis points	(227)	(227)