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**Brit Syndicate 2987** Report and Accounts 2017

SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**

**Contents**

## Report of the Directors of the Managing Agent

The Syndicate's Managing Agent is Brit Syndicates Limited (BSL), a company registered in England and Wales.

The Directors of the Managing Agent present the report and annual accounts of Syndicate 2987 for the year ended 31 December 2017.

These annual accounts are 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 (Lloyd's Regulations 2008).

### Result

The result for calendar year 2017 is a loss of US$45.8m (2016 profit: US$140.9m), impacted by the major losses, as set out in more detail below. Results will continue to be distributed by reference to the results of individual underwriting years.

### Principal activities

The principal business activity of the Syndicate is general insurance and reinsurance underwriting. The underwriting strategy reflects the Directors' view of prevailing market conditions in the classes of business written by the Syndicate during the year.

### Review of the business

### Summary of the income statement

The Syndicate reported a 2017 calendar year loss of US$45.8m (2016: profit US$140.9m). The combined ratio was 110.8% (2016: 99.5%).

The Syndicate's key performance indicators during the year were as follows:

| | 2017<br>US$m | 2016<br>US$m |
|---|---|---|
| Gross written premium | 2,057.0 | 1,912.2 |
| Net written premium | 1,297.6 | 1,274.5 |
| Net earned premium | 1,319.4 | 1,306.1 |
| Underwriting result | (142.7) | 7.0 |
| Investment return | 60.8 | 141.7 |
| **Technical result for the financial year as reported** | **(81.9)** | **148.7** |
| Non-technical account for the financial year as reported | 36.1 | (7.8) |
| **Result for the Financial Year** | **(45.8)** | **140.9** |
| Combined ratio | 110.8% | 99.5% |

### Underwriting: Gross written premium

| | 2017<br>US$m | 2016<br>US$m | Growth<br>% |
|---|---|---|---|
| Global Specialty Direct | 1,673.7 | 1,546.4 | 8.2 |
| Global Specialty Reinsurance | 383.3 | 365.8 | 4.8 |
| **Total** | **2,057.0** | **1,912.2** | 7.6 |

Gross written premium (GWP) increased by 7.6% to US$2,057.0m (2016: US$1,912.2m). At constant exchange rates the increase was 8.2%. Direct business increased by 8.2% to US$1,673.7m (2016: US$1,546.4m), while reinsurance increased by 4.8% to US$383.3m (2016: US$365.8m). The key drivers for the increase are outlined below.

The book experienced favourable premium development from prior years, resulting in an increase of US$71.2m over 2016. The main contributors were the Property Facilities, Energy, Marine and BGSU divisions.

Underwriting initiatives, launched from 2013 onwards, resulted in a US$42.8m increase in GWP. This is driven by continued expansion of Brit's overseas distribution network through BGSU (Cyber, Programs and Latin America business), our US service company, with additional growth also from our China and Singapore platforms. London initiative growth from Engineering and CPE, and Healthcare have also contributed.

Current year premiums, excluding those derived from the underwriting initiatives highlighted above, increased by US$41.8m over 2016. Growth was primarily experienced in A&H, Cyber, D&O WW, Cargo and Specie and BGSU, combined with reinstatement premiums emanating from the major losses incurred during the latter half of the year. Contraction occurred in a number of classes, resulting from active portfolio management (Marine Liability, PI Non US and Aviation), and market conditions (principally Property Financial).

The impact of foreign exchange resulted in a US$11.0m year-on-year reduction in premium, reflecting the movement during 2017 of the US dollar against core currencies in which the Syndicate writes business.

The overall risk-adjusted premium rate decrease for renewal business during 2017 slowed to 1.3% (2016: 3.3%). Direct business decreased by 1.2% (2016: decrease 2.9%) and reinsurance by 1.7% (2016: decrease 4.8%). The reduction in the rate of decrease was influenced by rate improvements in the fourth quarter of 2017 across the major loss affected classes, including Commercial North America Open Market, Commercial Worldwide, BGSU, Property Facilities, Cargo, Hull and Treaty Catastrophe North America.

Retention rate for the period was 83.6% (2016: 84.3%). The retention rates achieved in 2016 and 2017 reflect the successful renewal of a profitable book of business, following the re-underwriting of the book that occurred between 2008 and 2012, through which the book was rebalanced and around half of the underwriting portfolio non-renewed. The slight reduction in 2017 is a result of active decisions not to renew underperforming accounts in certain divisions, such as Aviation.

The increase in reinsurance expenditure in 2017 is driven by the increased use of quota shares, the recognition of the full premium relating to a two year reinsurance contract and additional reinstatements following major losses. These additional protections were purchased to effectively manage the Syndicate's net exposures in the current soft market conditions and provide additional protection to the Syndicate's capital base.

The Syndicate reported a combined ratio of 110.8% (2016: 99.5%), principally reflecting US$187.2m of major losses (2016: US$56.0m). Major losses incurred by the Syndicate during 2017 include three major US named hurricanes (Harvey, Irma and Maria), a Mexico earthquake and California wildfires. The Syndicate benefited from strategic reinsurance contracts including aggregate reinsurance protection, which managed the Syndicate's net exposure to these events.

The table below sets out the net impact analysed by event:

| | 2017 | |
|---|---|---|
| **Major losses** | **US$m** | **CoR%** |
| Hurricane Harvey | 38.0 | 2.9% |
| Hurricane Irma | 76.8 | 5.8% |
| Hurricane Maria | 37.1 | 2.8% |
| Mexican Earthquake | 5.4 | 0.4% |
| California Wildfires | 29.9 | 2.3% |
| **Total** | **187.2** | **14.2%** |

## Syndicate outlook

*Underwriting*

Brit has a long and successful track record of leading an extensive range of insurance and reinsurance programmes, based on rigorous risk selection and a disciplined approach to underwriting, establishing one of the largest and most diverse portfolios. Brit enjoys an influential and respected presence at Lloyd's, helping drive Lloyd's market modernisation through its involvement in the Target Operating Model project. Combining technical expertise with industry knowledge, we listen, we share and we collaborate – to create best-in-class insurance solutions for our clients.

As expected, 2017 has seen further softening of rates, albeit at a reduced pace, and a continued challenging underwriting environment, combined with exceptionally low interest rates, geopolitical uncertainty, global growth concerns and market volatility.

There are, however, some encouraging signs. A number of competitors have exited underperforming classes where they had been showing a lack of discipline. Furthermore, following the major losses, rates on risks renewed have shown increases across most affected classes, with significant rate rises on impacted risks. However, in certain areas rate increases have been limited by surplus capacity remaining in the market and there are continued instances of undisciplined behaviour.

Stamp capacity for Syndicate 2987 increased to £1.200bn for the 2017 year of account (2016 YOA: £1.075bn) and has increased to £1.400bn for 2018.

While there are some encouraging signs, the outlook remains challenging. However, Brit maintains focus on its core fundamentals of underwriting discipline, risk selection and capital management and continues to make good progress with the selective expansion of Brit's global distribution capability, capitalising on its initiatives of recent years. Brit has clear thoughts on expectations on pricing and appetite post event and remains prepared to walk away from renewals where terms do not meet appetite and rating criteria.

*Investments*

The outlook for investment markets, given the stronger economic growth numbers generated in most economies, is also more promising than in recent times, especially as cash rates start to rise for yield starved investors. However, rich valuations in both equity and credit markets require caution as the economic outlook evolves through the next stage of the business cycle.

*Regulation*

The Syndicate reports its accounts under UK Generally Accepted Accounting Principles (UK GAAP) as required by Lloyd's. Lloyd's have publically announced their intention to continue to require reporting under UK GAAP for the foreseeable future. Nevertheless, Brit are assessing the likely impact of the implementation of IFRS and will continue to do so through 2018.

*United Kingdom's exit from the European Union (Brexit)*

Following the triggering of article 50 of the Treaty of Lisbon on 29 March 2017, the Managing Agent continues to monitor the ensuing negotiations and other developments and continues to work to minimise the impact on the Syndicate and to take advantage of opportunities as they arise.

Lloyd's implementation plan for its new Brussels-based European insurer is progressing. It has commenced an on-boarding programme for managing agents to ensure the necessary operational changes are implemented to allow business to be written through its Brussels subsidiary from 1 January 2019.

## Principal risks and uncertainties

The information on principal risks and uncertainties is disclosed in note 3 to the accounts.

## Employee and environmental matters

All staff in the UK are employed by Brit Group Services Limited, the group services company and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

Brit is committed to managing and reducing its environmental impact in a cost effective and responsible way.

## Directors

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 48.

## Independent Auditors

PricewaterhouseCoopers LLP remain in office as the Syndicate's Auditors.

## Statement of disclosure of information to the Auditors

Each person who is a Director of the Managing Agent at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate's auditors in connection with its report, of which the Syndicate's auditors are unaware; and

- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

On behalf of the Board

**Matthew Wilson**
Chief Executive Officer
14 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:

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate annual accounts; and
4. prepare the Syndicate annual 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 directors of the Managing Agent confirm that they have complied with the above requirement in preparing the Syndicate annual accounts.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to 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 prevention and detection of fraud and other irregularities.

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

## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2987

### Report on the Syndicate annual accounts

### Opinion

In our opinion, syndicate 2987's annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Accounts 2017 (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017, the income statement for the year then ended, the statement of changes in member's balance, the statement of cash flows, and the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*
We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

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

- 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.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' 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, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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 this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Managing Agent's Report*
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 year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

## Responsibilities for the syndicate annual accounts and the audit

*Responsibilities of the managing agent for the syndicate annual accounts*
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 6, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of 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 as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 2987 (CONTINUED)

*Auditors' 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 auditors' 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 the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

*Use of this report*

This report, including the opinions, has been prepared for and only for the syndicate's member in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Other required reporting

### Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Mark Bolton (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 March 2018

**Income Statement**

Technical Account – General Business for the year ended 31 December 2017

| | Note | 2017 US$m | 2016 US$m |
|---|---|---|---|
| Gross premiums written | 4 | 2,057.0 | 1,912.2 |
| Outward reinsurance premiums | | (759.4) | (637.7) |
| Net premiums written | | **1,297.6** | **1,274.5** |
| Change in the gross provision for unearned premiums | 12 | (49.8) | (2.4) |
| Change in the provision for unearned premiums, reinsurers' share | 12 | 71.6 | 34.0 |
| Net change in the provision for unearned premiums | | **21.8** | **31.6** |
| Earned premiums, net of reinsurance | | **1,319.4** | **1,306.1** |
| Allocated investment return transferred from the non-technical account | | **60.8** | **141.7** |
| Total technical income | | **1,380.2** | **1,447.8** |
| Claims paid: | | | |
| Gross amount | 13 | (1,066.2) | (876.4) |
| Reinsurers' share | 13 | 344.5 | 261.8 |
| Net claims paid | | **(721.7)** | **(614.6)** |
| Change in the provision for claims: | | | |
| Gross amount | | (619.2) | (207.0) |
| Reinsurers' share | | 487.5 | 115.9 |
| Net change in the provision for claims | | **(131.7)** | **(91.1)** |
| Claims incurred, net of reinsurance | 13 | (853.4) | (705.7) |
| Net operating expenses | 5 | (608.7) | (593.4) |
| Total technical charges | | **(1,462.1)** | **(1,299.1)** |
| **Balance on the technical account for general business** | | **(81.9)** | **148.7** |

The accompanying notes are an integral part of these accounts.

**Income Statement**

Non-Technical Account for the year ended 31 December 2017

| | Note | 2017 US$m | 2016 US$m |
|---|---|---|---|
| **Balance on the technical account for general business** | | **(81.9)** | **148.7** |
| Investment income | | 23.4 | 37.3 |
| Unrealised gains on investments | | 60.5 | 9.3 |
| Realised (losses) / gains on investments | | (22.8) | 95.1 |
| Net investment return | 8 | **61.1** | **141.7** |
| Allocated investment return transferred to general business technical account | 8 | (60.8) | (141.7) |
| Profit / (loss) on exchange | | 35.8 | (7.8) |
| **Result for the financial year** | | **(45.8)** | **140.9** |

The accompanying notes are an integral part of these accounts.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the Income Statement. Therefore no Statement of Other Comprehensive Income has been presented.

**Statement of Changes in Member's Balance**
for the year ended 31 December 2017

| | Note | 2017 US$m | 2016 US$m |
|---|---|---|---|
| Member's balance brought forward at 1 January | | 101.8 | 145.8 |
| Total comprehensive income for the financial year | | (45.8) | 140.9 |
| Transfer to / (from) Funds in Syndicate | 20 | 71.5 | (54.7) |
| Distribution of the closed year of account | | (182.1) | (135.3) |
| (Payments) / receivables on account in respect of overseas taxation | | (0.9) | 5.1 |
| **Member's balance carried forward at 31 December** | | **(55.5)** | **101.8** |

The member's balance comprises the following:

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Underwriting participation | (50.4) | 106.0 |
| Payments on account in respect of overseas taxation | (5.1) | (4.2) |
| **Member's balance carried forward at 31 December** | **(55.5)** | **101.8** |

The accompanying notes are an integral part of these accounts.

**Statement of Financial Position - Assets**
as at 31 December 2017

| | Note | 2017<br>US$m | 2016<br>US$m |
|---|---|---|---|
| **Assets** | | | |
| **Investments:** | | | |
| Financial investments | 10,11 | 1,961.8 | 1,961.8 |
| | | **1,961.8** | **1,961.8** |
| **Reinsurers' share of technical provisions:** | | | |
| Provision for unearned premium | 12 | 338.4 | 256.8 |
| Claims outstanding | 13 | 1,779.7 | 1,214.8 |
| | | **2,118.1** | **1,471.6** |
| **Debtors:** | | | |
| **Debtors due within one year:** | | | |
| Debtors arising out of direct insurance operations | | 494.3 | 386.8 |
| Debtors arising out of reinsurance operations | | 393.4 | 303.9 |
| Other debtors | | 1.2 | 2.5 |
| **Debtors due after one year:** | | | |
| Debtors arising out of direct insurance operations | | 0.2 | 0.3 |
| Debtors arising out of reinsurance operations | | 0.2 | 0.8 |
| | | **889.3** | **694.3** |
| **Other assets:** | | | |
| Cash at bank and in hand | | 138.1 | 165.1 |
| Other | 15 | 227.5 | 212.3 |
| | | **365.6** | **377.4** |
| **Prepayments and accrued income:** | | | |
| Deferred acquisition costs | 16 | 241.6 | 219.1 |
| Other prepayments and accrued income | | 1.6 | 3.4 |
| | | **243.2** | **222.5** |
| **Total assets** | | **5,578.0** | **4,727.6** |

The accompanying notes are an integral part of these accounts.

**Statement of Financial Position - Liabilities**
as at 31 December 2017

| | Note | 2017<br>US$m | 2016<br>US$m |
|---|---|---|---|
| **Member's balance and liabilities** | | | |
| Member's balance | | (55.5) | 101.8 |
| | | **(55.5)** | **101.8** |
| **Technical provisions:** | | | |
| Provision for unearned premium | 12 | 897.1 | 827.2 |
| Claims outstanding | 13 | 4,132.9 | 3,400.3 |
| | | **5,030.0** | **4,227.5** |
| **Creditors:** | | | |
| Creditors arising out of direct insurance operations | 17 | 14.8 | 12.3 |
| Creditors arising out of reinsurance operations | | 542.8 | 352.2 |
| Derivative contracts | 11 | 9.7 | 4.0 |
| Other creditors | | 3.3 | 5.0 |
| | | **570.6** | **373.5** |
| Accruals and deferred income | | 32.9 | 24.8 |
| Total liabilities | | **5,633.5** | **4,625.8** |
| **Total member's balance and liabilities** | | **5,578.0** | **4,727.6** |

The accompanying notes are an integral part of these accounts.

The annual accounts on pages 10 to 48 were approved by the Board of Brit Syndicates Limited on 14 March 2018 and signed on its behalf by:

**Matthew Wilson**
Chief Executive Officer

**Mark Allan**
Chief Financial Officer

**Statement of Cash Flows**
for the year ended 31 December 2017

| | Note | 2017 US$m | 2016 US$m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Result for the financial year | | (45.8) | 140.9 |
| Movement in unearned premiums and outstanding claims | | 669.0 | 206.7 |
| Movement in reinsurers' share of unearned premiums and outstanding claims | | (559.1) | (142.2) |
| Increase in debtors | | (171.8) | (65.5) |
| Increase in creditors | | 180.5 | 32.6 |
| Movement in other assets/ liabilities | | (8.3) | 2.0 |
| Foreign exchange on operating activities | | (1.3) | (32.5) |
| Investment return | | (61.1) | (141.7) |
| **Net cash flows from operating activities** | | **2.1** | **0.3** |
| **Cash flows from investing activities** | | | |
| Purchase of equity and debt instruments | | (3,157.5) | (1,835.2) |
| Sale of equity and debt instruments | | 3,526.1 | 2,104.3 |
| Purchase of derivatives | | (20.2) | (8.2) |
| Investment income received | | 0.6 | 129.5 |
| **Net cash flows from investing activities** | | **349.0** | **390.4** |
| **Cash flows from financing activities** | | | |
| Distribution of profits | | (182.1) | (73.8) |
| Profits added to Funds in Syndicate | | 71.5 | - |
| Funds in Syndicate released to member | | - | (54.7) |
| Movement in non-standard personal expenses | | (0.9) | 5.1 |
| **Net cash flows from financing activities** | | **(111.5)** | **(123.4)** |
| **Net increase in cash and cash equivalents** | | 239.6 | 267.3 |
| **Cash and cash equivalents at 1 January** | | 543.5 | 279.8 |
| Exchange differences on opening cash | | 2.9 | (3.6) |
| **Cash and cash equivalents at 31 December** | 14 | **786.0** | **543.5** |

## 1 Accounting policies, statement of compliance and basis of preparation

### 1.1 Statement of compliance and basis of preparation

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

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by the Syndicate.

The Directors of the managing agent have prepared the annual accounts on the basis that the Syndicate will continue to write future business. The ability of the Syndicate to meet its obligations as they fall due is underpinned by the support provided by Lloyd's solvency process and its chain of security for any members who are unable to meet their underwriting liabilities.

All amounts are presented in rounded US$m to one decimal place, unless otherwise stated.

### 1.2 Disclosure revisions

The net asset position by currency and associated sensitivity to currency fluctuations as presented in note 3.4 have been revised to explicitly take into effect forward currency contracts. Net assets are disclosed pre and post the currency derivative positions and sensitivities amended to consider the post derivative net asset position. The comparative information has been restated to conform to current year presentation.

### 1.3 Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

### 1.4 Significant accounting policies

#### 1.4.1 Insurance Contracts

The results for all classes of business have been determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium written, net of reinsurance as follows:

#### a. Premiums

Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet received or notified, less an allowance for cancellations. Premiums are accreted to the technical account on a pro rata basis over the term of the related policy, except for those contracts where the period of the risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the technical account on a pro rata basis over the term of the original policy to which it relates. Premiums are stated gross of commissions but net of premium taxes and other duties levied on premiums.

## 1 Accounting policies, statement of compliance and basis of preparation (continued)

### b. Profit commissions

Income arising from whole account quota share contracts is recognised when the economic benefits are highly probable.

### c. Deferred acquisitions costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

### d. Claims

Claims incurred comprise claims and claims handling costs paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including IBNR, less any amounts paid in respect of those claims.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims incurred but not reported.

Whilst the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the income statement for the period in which the adjustments are made.

### e. Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the technical account in order that revenue is recognised over the period of the risk.

### f. Unexpired risks provision

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that are relevant to the provision at the statement of financial position date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. At 31 December 2017 and 31 December 2016 the Syndicate did not have an unexpired risks provision.

### g. Reinsurance

The Syndicate assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are

## 1 Accounting policies, statement of compliance and basis of preparation (continued)

earned according to the nature of the cover. 'Losses occurring during' policies are earned evenly over the policy period. 'Risks attaching' policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the technical account and not subject to amortisation.

If a reinsurance asset is impaired the Syndicate reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the technical account. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of that asset, that the Syndicate may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer.

### h. Expenses

The Managing Agent has charged the Syndicate a fixed fee and has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting and investment management charges. Investment management charges are netted off against investment return, as disclosed in note 8. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

### 1.4.2 Investments

### a. Financial investments

The Syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the Directors of the Managing Agent and management personnel on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) are based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Syndicate uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement.

### b. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses and interest and dividend income.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses

## 1 Accounting policies, statement of compliance and basis of preparation (continued)

on investments represent the difference between the valuation at the date of the statement of financial position and their valuation at the previous statement of financial position, 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 to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds except to the extent that investment income arises on Funds at Lloyd’s retained at the Syndicate level; that income remains in the non-technical account.

### 1.4.3 Measurement of other financial assets and financial liabilities

Other financial assets and financial liabilities are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest rate method.

### 1.4.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Syndicate becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset’s cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

All ‘regular way purchases and sales’ of financial assets are recognised on the trade date, i.e. the date that the Syndicate commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the income statement. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use.

### 1.4.5 Derivatives

Derivative financial instruments typically include currency forward contracts, equity options, inflation options, futures, put options and interest rate swaps. Derivatives are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the statement of financial position under the heading ‘Member’s balance’.

No provision has been made for any overseas tax payable by the member on underwriting results.

## 1 Accounting policies, statement of compliance and basis of preparation (continued)

### 1.4.7 Pension costs

Brit Group Services Limited operates a defined contribution pension scheme on behalf of the Managing Agent. Contributions are charged to the Syndicate within the fixed fee.

### 1.4.8 Foreign currencies

The annual accounts are presented in US dollars which is the Syndicate's functional currency. Items included in the annual accounts are measured using the functional currency which is the primary economic environment in which the Syndicate operates.

Transactions in foreign currencies other than Sterling, United States dollars, Canadian dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in Sterling, Canadian dollars and Euros are translated at the average rates of exchange for the period. Monetary assets and liabilities in currencies other than United States dollars are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within the non-technical account as prescribed by FRS 103.

### 1.4.9 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

## 2 Critical accounting judgements and key sources of estimation uncertainty

The Syndicate makes various assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are regularly re-evaluated and are based on a combination of historical experience and other factors, including exposure analysis, expectations of future experience and expert judgement.

### 2.1 Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Syndicate will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inwards insurance and reinsurance contracts;
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business;
- The recoverability of amounts due from reinsurers; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the initial expected loss ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate.

## 2 Critical accounting judgements and key sources of estimation uncertainty (continued)

- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question;

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Syndicate is aware.

### 2.2 Pipeline premiums

Written premiums include pipeline premium of US$540.5m (2016: US$459.4m) which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

### 2.3 Fair value of financial assets determined using valuation techniques

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation techniques, using designated methodologies, estimations and assumptions.

The Syndicate values investments using designated methodologies, estimations and assumptions. These securities, which are reported at fair value on the statement of financial position, represent the majority of the invested assets. The measurement basis for assets carried at fair value is categorised into a ‘fair value hierarchy’ in accordance with the valuation inputs and consistent with UK GAAP.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that the Syndicate considers market participants would normally use (level three). To the extent that valuation is based on models or inputs that are unobservable in the market, the determination of fair value requires more judgement and accordingly, those instruments included in level three will require a greater degree of judgement to be exercised during valuation than for those included in level two or level one.

The classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Any change to investment valuations may affect the Syndicate results of operations and reported financial condition. For further information, refer to note 10.

## 3 Principal risks and uncertainties

### 3.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Syndicate is exposed to as its primary function is to underwrite insurance

## 3 Principal risks and uncertainties (continued)

contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims. The areas of insurance risk discussed below include: underwriting (including aggregate exposure management), reinsurance and reserving.

### a. Underwriting risk

This is the risk that the insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Syndicate as a result of unpredictable events.

The Syndicate is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. This risk is considered to be heightened in the current competitive underwriting environment which has resulted in downwards pressure on premium rates. This trend in premium rates has been factored into the Syndicate's pricing models and risk management tools and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

The Syndicate writes all of its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Syndicate access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicate to a number of resulting underwriting risks.

### (i) Controls over underwriting strategy

The BSL Board sets the Syndicate's underwriting strategy for accepting and managing underwriting risk. The Underwriting Committee meets monthly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is all-encompassing applying underwriting KPIs, technical pricing MI, premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the Board. The underwriting risk policy also sets out a number of controls, which are summarised below.

The Managing Agent carries out a detailed annual business planning process for each of its underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committee as well as by the Board. A dedicated exposure management team also performs realistic disaster scenario (RDS) analysis on a regular basis to ensure that the Syndicate's net losses remain within its risk appetite.

The Managing Agent has developed underwriting guidelines, limits of authority and business plans for the Syndicate which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Syndicate's insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties. The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and regular audits are carried out.

The technical pricing framework ensures that the pricing process in the Syndicate is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Syndicate to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Managing Agent's Internal Audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

## 3 Principal risks and uncertainties (continued)

### (ii) Underwriting risk profile

The core insurance portfolio of property, aviation, marine, energy and casualty covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of the business planning and strategy process which operates annually and uses inputs from the technical pricing framework. The business plan is approved by the BSL Board and is monitored monthly.

### (iii) Geographical concentration of premium

The Syndicate enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicate to benefit from a wide geographic diversification of risk. The three principal locations of the Syndicate's policyholders are the United States, UK and Europe. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

| **Premiums written** | **Gross** | **Net** |
|---|---|---|
| **2017** | **US$m** | **US$m** |
| United States | 896.0 | 551.4 |
| United Kingdom | 107.2 | 65.7 |
| Europe (excluding UK) | 103.3 | 62.7 |
| Other (including worldwide) | 950.5 | 617.8 |
| **Total** | **2,057.0** | **1,297.6** |

| **2016** | **US$m** | **US$m** |
|---|---|---|
| United States | 843.1 | 572.4 |
| United Kingdom | 106.7 | 68.5 |
| Europe (excluding UK) | 110.8 | 68.2 |
| Other (including worldwide) | 851.6 | 565.4 |
| **Total** | **1,912.2** | **1,274.5** |

The nature of the London Market business is such that the insureds and reinsureds are often operating on a multi-territory or worldwide basis and hence coverage is often provided on a worldwide basis. Premiums written on a multi-territory or worldwide basis are included in 'Other' in the table above.

### (iv) Portfolio mix

The Syndicate's breakdown of gross premium written by principal categories is summarised below:

| | | **2017** | | **2016** | |
|---|---|---|---|---|---|
| **Gross premium written** | | **US$m** | **%** | **US$m** | **%** |
| **Short-Tail Direct insurance** | Property, Marine, Energy, Accident & Health, BGSU, Aviation, Terrorism and Political | 1,172.2 | 57 | 1,076.1 | 56 |
| **Long-Tail Direct insurance** | Professional lines, Specialty Lines, Specialist Liability | 501.5 | 25 | 470.3 | 25 |
| **Short-Tail Reinsurance** | Property Treaty | 151.5 | 7 | 153.2 | 8 |
| **Long-Tail Reinsurance** | Casualty Treaty | 231.8 | 11 | 212.6 | 11 |
| **Total** | | **2,057.0** | **100** | **1,912.2** | **100** |

## 3 Principal risks and uncertainties (continued)

The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicate's portfolio. The business mix is monitored on an ongoing basis with particular focus on the short tail vs. long tail split and the proportion of delegated underwriting business. Long tail business is currently 36% of the portfolio as at 31 December 2017 (2016: 36%) and delegated underwriting represents 42% (2016: 42%). Underwriting risk is mainly driven by US catastrophe exposure. Casualty Treaty is also a driver due to its long-tail exposure.

### (v) Aggregate exposure management

The Syndicate is exposed to potential large claims from natural catastrophe events. The Syndicate's catastrophe risk appetite is set by the Board who may adjust limits to reflect market conditions. Overall, the Syndicate has a catastrophe risk tolerance for major catastrophe events (such as a Florida Miami Windstorm) of 25% of net tangible assets (NTA). This equates to a maximum acceptable loss (after all reinsurance) of US$266.2m as at 31 December 2017.

The Syndicate closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDS). Below are the key RDS losses to the Syndicate for all classes combined (unaudited):

| Lloyd's Prescribed RDS Event | Estimated | Modelled Syndicate Loss | | Modelled Syndicate Loss | |
|---|---|---|---|---|---|
| | Industry | 2017(i) | | 2016(i) | |
| US$ millions | Loss | Gross | Net | Gross | Net |
| Gulf of Mexico Windstorm | 113,500 | 850 | 80 | 829 | 153 |
| Florida Miami Windstorm | 128,250 | 736 | 69 | 654 | 134 |
| US North East Windstorm | 80,500 | 755 | 54 | 748 | 125 |
| San Francisco Earthquake | 87,750 | 737 | 235 | 716 | 226 |
| Japan Earthquake | 46,066 | 230 | 116 | 237 | 125 |
| Japan Windstorm | 13,731 | 95 | 42 | 92 | 46 |
| European Windstorm | 28,852 | 233 | 115 | 228 | 130 |

(i): At 31 December 2017 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be unmodelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

### (vi) Sensitivity to changes in net claims ratio

The Syndicate result for the financial year is sensitive to an independent 1% change in the net claims ratio by class of business as follows:

| Change in reported result | 2017 | | 2016 | |
|---|---|---|---|---|
| Category | US$m | % | US$m | % |
| **Short-Tail Direct insurance** | 8.0 | 61 | 8.1 | 62 |
| **Long-Tail Direct insurance** | 2.7 | 20 | 2.7 | 20 |
| **Short-Tail Reinsurance** | 0.7 | 5 | 0.6 | 5 |
| **Long-Tail Reinsurance** | 1.8 | 14 | 1.7 | 13 |
| **Total** | **13.2** | **100** | **13.1** | **100** |

## 3 Principal risks and uncertainties (continued)

The impact on member's balance would be the same as that on result following a change in the net claims ratio.

### b. Reinsurance risk

The Syndicate purchases reinsurance to manage exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicate to mitigate exposure to insurance losses against the risk appetite, reduce volatility of reported results and protect capital.

Quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregation of losses. Quota share reinsurance is also used to manage the Syndicate's net exposure to classes of business where the Syndicate's risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

The Syndicate also has in place a comprehensive programme of excess of loss reinsurances to protect itself from severe size or frequency of losses:

(i) Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.

(ii) Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate's risk appetite during the business planning exercise.

(iii) An aggregate catastrophe excess of loss cover is in place to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps and industry loss warranties where they are a cost-efficient means to ensure that the Syndicate remains within its catastrophe risk appetite.

Given the fundamental importance of reinsurance protection to the Syndicate's risk management, the Managing Agent has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Head of Outwards Reinsurance, the Chief Underwriting Officer and Chief Risk Officer/Chief Actuary propose external reinsurance arrangements with input from class underwriters for class level reinsurance. The Chief Financial Officer and Chief Underwriting Officer propose reinsurance arrangements with Brit Reinsurance (Bermuda) Ltd, (formerly known as Brit Insurance (Gibraltar) PCC Limited (BIG), see note 18 for further information). All reinsurance purchases must be signed off by the Underwriting Committee. The Head of Outwards Reinsurance monitors and reports on the placement of reinsurance protections.

The Syndicate remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicate.
- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.
- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

These risks are managed through a combination of techniques and controls including exposure management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

### 3 Principal risks and uncertainties (continued)

### c. Reserving risk

Reserving risk arises where the actual cost of losses for policyholder obligations incurred before 31 December 2017 differ from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicate as the reserves for unpaid losses represent the largest component of the Syndicate's liabilities and are inherently uncertain. The BSL Reserving Committee is responsible for the management of the Syndicate's reserving risk.

The Syndicate has a rigorous process for the establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims adjusters validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Syndicate's claims policy. Case reserves are set for notified claims using the experience of specialist claims adjusters, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Syndicate's experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such as underwriting, claims and exposure management to ensure that they have a full understanding of the emerging claims experience across the Syndicate.

The Syndicate's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Reserving Committee, as part of the formal governance arrangements for the Syndicate. The estimate agreed by the committees is used as a basis for the Syndicate financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. This margin increases the reserves reflected in the Syndicate financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicate's auditors.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Syndicate but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Syndicate's reserves are considered to be claims from the long-tail direct and long-tailed reinsurance classes. The issues contributing to this heightened uncertainty are common to all entities which write such business.

### 3.2 Liquidity risk

This is the risk the Syndicate may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Syndicate faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Syndicate monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Syndicate also limits the amount of investment in illiquid securities in line with the liquidity policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled RDS. Contingent liquidity also exists in the form of the Group's revolving credit facility.

## 3 Principal risks and uncertainties (continued)

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of the Syndicate into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

| **As at 31 December 2017**<br>**Assets (fair values)** | **Up to a year**<br>**US$m** | **1-3 years**<br>**US$m** | **3-5 years**<br>**US$m** | **Over 5 years**<br>**US$m** | **Equities**<br>**US$m** | **Total**<br>**US$m** |
|---|---|---|---|---|---|---|
| Reinsurance assets | 491.4 | 573.4 | 298.9 | 416.0 | - | **1,779.7** |
| Financial investments | 1,227.9 | 43.6 | 23.0 | 19.2 | 645.8 | **1,959.5** |
| Derivative contracts | 2.3 | - | - | - | - | **2.3** |
| Insurance receivables | 887.7 | 0.4 | - | - | - | **888.1** |
| Cash at bank and in hand | 138.1 | - | - | - | - | **138.1** |
| Other | 120.3 | 91.1 | 16.3 | 2.6 | - | **230.3** |
| **Total** | **2,867.7** | **708.5** | **338.2** | **437.8** | **645.8** | **4,998.0** |

| **Liabilities (undiscounted values)** | **Up to a year**<br>**US$m** | **1-3 years**<br>**US$m** | **3-5 years**<br>**US$m** | **Over 5 years**<br>**US$m** | **Equities**<br>**US$m** | **Total**<br>**US$m** |
|---|---|---|---|---|---|---|
| Insurance contract liabilities | 1,097.5 | 1,284.2 | 712.1 | 1,039.1 | - | **4,132.9** |
| Derivative contracts | 9.7 | - | - | - | - | **9.7** |
| Insurance & other payables | 593.5 | 0.3 | - | - | - | **593.8** |
| **Total** | **1,700.7** | **1,284.5** | **712.1** | **1,039.1** | **-** | **4,736.4** |

| **As at 31 December 2016**<br>**Assets (fair values)** | **Up to a year**<br>**US$m** | **1-3 years**<br>**US$m** | **3-5 years**<br>**US$m** | **Over 5 years**<br>**US$m** | **Equities**<br>**US$m** | **Total**<br>**US$m** |
|---|---|---|---|---|---|---|
| Reinsurance assets | 321.6 | 376.5 | 212.7 | 304.0 | - | **1,214.8** |
| Financial investments | 1,529.1 | 72.3 | 10.5 | 126.5 | 218.9 | **1,957.3** |
| Derivative contracts | 4.5 | - | - | - | - | **4.5** |
| Insurance receivables | 690.7 | 1.1 | - | - | - | **691.8** |
| Cash at bank and in hand | 165.1 | - | - | - | - | **165.1** |
| Other | 49.9 | 117.2 | 47.8 | 3.3 | - | **218.2** |
| **Total** | **2,760.9** | **567.1** | **271.0** | **433.8** | **218.9** | **4,251.7** |

| **Liabilities (undiscounted values)** | **Up to a year**<br>**US$m** | **1-3 years**<br>**US$m** | **3-5 years**<br>**US$m** | **Over 5 years**<br>**US$m** | **Equities**<br>**US$m** | **Total**<br>**US$m** |
|---|---|---|---|---|---|---|
| Insurance contract liabilities | 857.4 | 1,017.3 | 597.8 | 927.8 | - | **3,400.3** |
| Derivative contracts | 4.0 | - | - | - | - | **4.0** |
| Insurance & other payables | 394.2 | 0.1 | - | - | - | **394.3** |
| **Total** | **1,255.6** | **1,017.4** | **597.8** | **927.8** | **-** | **3,798.6** |

*Note: the tables above exclude provisions for unearned premiums and deferred acquisition costs as, although monetary assets and monetary liabilities under FRS103, these are not considered to be sensitive to liquidity risk.

## 3 Principal risks and uncertainties (continued)

### 3.3 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Syndicate;
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate;
- Investments, through the issuer default of all or part of the value of a financial instrument and derivative financial instrument; and
- Cash and cash equivalents, through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Syndicate.

### a. Investments credit risk

### (i) Investment credit risk management process

The Investment Guidelines and Investment Policy set out clear limits and controls around the level of investment credit risk. The Syndicate has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicate's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

### (ii) Investment credit risk profile

The summary of the investment credit risk exposures for the Syndicate is set out in the tables below:

| US$m | AAA | AA | A | P-1 | P-2 | BBB and below | Equities | Not Rated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | | | | |
| Financial Investments | 920.5 | 289.3 | 14.2 | 39.8 | - | 30.6 | 645.8 | 19.3 | **1,959.5** |
| Derivative contracts | - | - | - | - | - | - | - | 2.3 | **2.3** |
| Cash at bank | - | 16.1 | 44.3 | 62.7 | - | 15.0 | - | - | **138.1** |
| Other | 115.9 | 22.6 | 70.8 | - | - | 18.2 | - | - | **227.5** |
| **Total** | **1,036.4** | **328.0** | **129.3** | **102.5** | **-** | **63.8** | **645.8** | **21.6** | **2,327.4** |
| **As at 31 December 2016** | | | | | | | | | |
| Financial Investments | 146.1 | 1,456.3 | 28.7 | - | - | 45.4 | 218.9 | 61.9 | **1,957.3** |
| Derivative contracts | - | - | - | - | - | - | - | 4.5 | **4.5** |
| Cash at bank | 88.0 | - | - | 70.0 | 7.1 | - | - | - | **165.1** |
| Other | 132.4 | 32.7 | 28.3 | - | - | 18.9 | - | - | **212.3** |
| **Total** | **366.5** | **1,489.0** | **57.0** | **70.0** | **7.1** | **64.3** | **218.9** | **66.4** | **2,339.2** |

## 3 Principal risks and uncertainties (continued)

### b. Insurance credit risk

### (i) Insurance credit risk management process

The Credit Committee, chaired by the Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities. Some responsibilities for reinsurance related credit decisions have been delegated to the Reinsurance Security Panel chaired by the Head of Treasury and Investments.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Reinsurance Security Panel. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current statement of financial position exposures and in relation to a number of extreme loss scenarios.

Reinsurance aged debt is monitored and managed against the management risk appetite limits set by the Credit Committee. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk tolerance and/or appetite are reported to the Risk Oversight Committee and the Board on at least a quarterly basis.

### (ii) Insurance credit risk profile

The summary of the insurance credit risk exposures for the Syndicate is set out in the tables below:

| US$m | AAA | AA | A | Collateral | Not rated | Total |
|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | |
| Reinsurance on claims outstanding | 1.5 | 347.4 | 191.6 | 1,190.3 | 48.9 | **1,779.7** |
| Insurance and reinsurance receivables | - | - | - | - | 888.1 | **888.1** |
| **Total** | **1.5** | **347.4** | **191.6** | **1,190.3** | **937.0** | **2,667.8** |
| | | | | | | |
| **As at 31 December 2016** | | | | | | |
| Reinsurance on claims outstanding | 1.9 | 154.8 | 162.7 | 843.1 | 52.3 | **1,214.8** |
| Insurance and reinsurance receivables | - | - | - | - | 691.8 | **691.8** |
| **Total** | **1.9** | **154.8** | **162.7** | **843.1** | **744.1** | **1,906.6** |

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Syndicate in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Syndicate in a timely manner).

Collateral of US$1,268.5m (2016: US$1,086.3m) is held in third party trust accounts or as a letter of credit (LOC) to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. As at 31 December 2017 US$1,190.3m (2016: US$843.1m) of amounts recoverable from reinsurers were protected by cash and cash equivalents held in third party trust accounts or by LOC's.

## 3 Principal risks and uncertainties (continued)

The following table shows movements in impairment provisions during the year:

| US$m | Provision against Reinsurance Assets | Provision against Insurance Receivables |
|---|---|---|
| **2017** | | |
| At 1 January 2017 | 0.7 | 11.6 |
| Release for the year | - | (3.5) |
| Net foreign exchange differences | - | 2.4 |
| **At 31 December 2017** | **0.7** | **10.5** |
| | | |
| **2016** | | |
| At 1 January 2016 | 1.0 | 12.9 |
| Release for the year | - | (1.2) |
| Net foreign exchange differences | (0.3) | (0.1) |
| **At 31 December 2016** | **0.7** | **11.6** |

The following table shows the amount of insurance receivables that were past due but not impaired at the end of the year:

| | 2017<br>US$m | 2016<br>US$m |
|---|---|---|
| 0-3 months past due | 15.4 | 14.7 |
| 4-6 months past due | 8.0 | 1.9 |
| 7-9 months past due | 0.1 | 1.6 |
| 10-12 months past due | - | 1.7 |
| More than 12 months past due | 0.8 | 1.9 |
| **Total** | **24.3** | **21.8** |

### 3.4 Market risk

This 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 three types of risk: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

### a. Currency risk

Currency risk is the risk that movements in exchange rates impact the financial performance or solvency position of the Syndicate. The split of assets and liabilities for each of the Syndicate's main currencies, converted to US dollars, is set out in the tables below:

| Converted US$m | UK £ | US $ | CAD $ | EUR € | Total |
|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | |
| Total assets | 1,258.6 | 3,421.2 | 559.3 | 338.9 | **5,578.0** |
| Total liabilities | (1,082.7) | (3,913.7) | (295.0) | (342.1) | **(5,633.5)** |
| **Net assets excluding the effect of currency derivatives** | **175.9** | **(492.5)** | **264.3** | **(3.2)** | **(55.5)** |
| Adjustment for foreign exchange derivatives | (133.1) | 394.1 | (261.0) | - | **-** |
| **Adjusted net assets** | **42.8** | **(98.4)** | **3.3** | **(3.2)** | **(55.5)** |

## 3 Principal risks and uncertainties (continued)

| **Converted US$m** | **UK £** | **US $** | **CAD $** | **EUR €** | **Total** |
|---|---|---|---|---|---|
| **As at 31 December 2016 (restated)** | | | | | |
| Total assets | 1,117.2 | 2,797.0 | 511.7 | 301.7 | **4,727.6** |
| Total liabilities | (931.9) | (3,123.7) | (269.1) | (301.1) | **(4,625.8)** |
| **Net assets excluding the effect of currency derivatives** | **185.3** | **(326.7)** | **242.6** | **0.6** | **101.8** |
| Adjustment for foreign exchange derivatives | (227.4) | 473.5 | (246.1) | - | **-** |
| **Adjusted net assets** | **(42.1)** | **146.8** | **(3.5)** | **0.6** | **101.8** |

The non-US dollar denominated net assets of the Syndicate may lead to profit or losses (depending on the mix relative to the liabilities), should the US dollars vary relative to these currencies.

The Syndicate manages its exposure in each of the main five currencies and the net asset position is rebalanced periodically. Where mismatches occur these may lead to FX gains and losses reported through the income statement.

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Syndicate may also choose to utilise foreign currency derivatives manage the risk of reported losses due to changes in foreign exchange rates. The degree to which derivatives are used is dependent on the prevailing cost versus the perceived benefit to the Syndicate from reducing the chance of a reported loss due to changes in foreign exchange rates. The details of all foreign currency derivatives contracts entered into are given in Note 11.

### b. Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on result of a percentage movement in the relative strength of the US dollar against the value of the Sterling, Canadian dollar, Euro and Australian dollar simultaneously, after taking into consideration the effect of hedged positions. The analysis is based on the information at 31 December 2017:

| **US$m** | **Impact on result for the financial year and net assets** | |
|---|---|---|
| | **2017** | **2016 (Restated)** |
| **US dollar weakens** | | |
| 10% against other currencies | 4.3 | (4.5) |
| 20% against other currencies | 8.6 | (9.0) |
| **US dollar strengthens** | | |
| 10% against other currencies | (4.3) | 4.5 |
| 20% against other currencies | (8.6) | 9.0 |

### c. Interest rate risk and price risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Syndicate is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

## 3 Principal risks and uncertainties (continued)

The banded durations of the Syndicate's financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

| US$m<br>As at 31 December 2017 | 1 year or less | 1 to 3 years | 3 to 5 years | Over 5 years | Equities | Total |
|---|---|---|---|---|---|---|
| Cash at bank and in hand | 138.1 | - | - | - | - | **138.1** |
| Financial investments | 1,227.9 | 43.6 | 23.0 | 19.2 | 645.8 | **1,959.5** |
| Derivatives | 2.3 | - | - | - | - | **2.3** |
| Other | 117.5 | 91.1 | 16.3 | 2.6 | - | **227.5** |
| **Total** | **1,485.8** | **134.7** | **39.3** | **21.8** | **645.8** | **2,327.4** |
| **As at 31 December 2016** | | | | | | |
| Cash at bank and in hand | 165.1 | - | - | - | - | **165.1** |
| Financial investments | 1,529.1 | 72.3 | 10.5 | 126.5 | 218.9 | **1,957.3** |
| Derivatives | 4.5 | - | - | - | - | **4.5** |
| Other | 44.0 | 117.2 | 47.8 | 3.3 | - | **212.3** |
| **Total** | **1,742.7** | **189.5** | **58.3** | **129.8** | **218.9** | **2,339.2** |

The Syndicate takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicate. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration. This is achieved by the use of interest rate derivatives.

Insurance liabilities are measured on an undiscounted basis and therefore the reported liabilities are not sensitive to changes in interest rates.

### d. Sensitivity to changes in investment yields

The sensitivity of the result and net assets to changes in the investment yields is set out in the table below.

| US$m | Impact on result for financial year<br>2017 | 2016 |
|---|---|---|
| **Increase** | | |
| 25 basis points | (0.4) | (4.5) |
| 50 basis points | (0.9) | (9.1) |
| 100 basis points | (1.7) | (18.1) |
| **Decrease** | | |
| 25 basis points | 0.4 | 4.5 |
| 50 basis points | 0.9 | 9.1 |
| 100 basis points | 1.7 | 18.1 |

## 3 Principal risks and uncertainties (continued)

### 3.5 Capital risk management

**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, and in accordance with the Solvency II framework.

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 respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2987 is not disclosed in these financial statements.

**Lloyd's capital setting process**

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR to ultimate.

**Provision of capital by members**

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the member balances reported on the statement of financial position on page 14, represent resources available to meet member and Lloyd's capital requirements.

**Capital calculation**

The SCR to Ultimate is calculated using a stochastic risk-based capital model developed by the Brit Group which allows the Board of the Managing Agent to identify an appropriate level of capital required. This capital requirement is specific to the actual reserving history, reinsurance programme and business profile of Syndicate 2987 rather than being based on company market averages. The Board of the Managing Agent reviews and approves all capital modelling submissions to Lloyd's.

## 4 Analysis of underwriting result

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

| **Year ended 31 December 2017** | **Gross written premiums US$m** | **Gross premiums earned US$m** | **Gross claims incurred US$m** | **Gross operating expenses US$m** | **Reinsurance balance US$m** | **Total US$m** |
|---|---|---|---|---|---|---|
| Direct Insurance: | | | | | | |
| Accident and health | 44.3 | 38.6 | (23.6) | (13.7) | (2.0) | **(0.7)** |
| Motor (other classes) | - | - | (0.7) | - | 0.2 | **(0.5)** |
| Marine aviation and transport | 216.6 | 221.1 | (187.6) | (68.8) | 19.9 | **(15.4)** |
| Fire and other damage to property | 434.2 | 422.0 | (397.9) | (138.6) | 54.3 | **(60.2)** |
| Third party liability | 446.4 | 434.0 | (403.6) | (118.4) | 48.4 | **(39.6)** |
| Miscellaneous | 115.1 | 115.8 | (64.0) | (50.9) | (2.9) | **(2.0)** |
| | **1,256.6** | **1,231.5** | **(1,077.4)** | **(390.4)** | **117.9** | **(118.4)** |
| Reinsurance | 800.4 | 775.7 | (608.0) | (274.0) | 82.0 | **(24.3)** |
| **Total** | **2,057.0** | **2,007.2** | **(1,685.4)** | **(664.4)** | **199.9** | **(142.7)** |

| **Year ended 31 December 2016** | Gross written premiums US$m | Gross premiums earned US$m | Gross claims incurred US$m | Gross operating expenses US$m | Reinsurance balance US$m | Total US$m |
|---|---|---|---|---|---|---|
| Direct Insurance: | | | | | | |
| Accident and health | 25.3 | 24.0 | (15.3) | (9.5) | (0.8) | **(1.6)** |
| Motor (other classes) | - | - | (1.1) | - | 1.1 | **-** |
| Marine aviation and transport | 197.9 | 215.4 | (107.3) | (64.3) | (25.6) | **18.2** |
| Fire and other damage to property | 411.9 | 413.3 | (208.2) | (142.5) | (74.4) | **(11.8)** |
| Third party liability | 407.7 | 406.7 | (329.1) | (121.5) | (0.2) | **(44.1)** |
| Miscellaneous | 116.5 | 109.6 | (51.2) | (52.0) | (7.9) | **(1.5)** |
| | **1,159.3** | **1,169.0** | **(712.2)** | **(389.8)** | **(107.8)** | **(40.8)** |
| Reinsurance | 752.9 | 740.8 | (371.2) | (249.4) | (72.4) | **47.8** |
| **Total** | **1,912.2** | **1,909.8** | **(1,083.4)** | **(639.2)** | **(180.2)** | **7.0** |

Commissions on direct insurance gross premiums written during 2017 were US$337.0m (2016: US$313.5m).

All premiums were concluded in the UK.

Amounts disclosed as 'Reinsurance' in the table above include inwards facultative reinsurance which is presented within the Brit Global Speciality Direct segment in the following tables.

## 4 Analysis of underwriting result (continued)

The geographical analysis of premiums by the location of the underlying risk is as follows:

| | 2017<br>US$m | 2016<br>US$m |
|---|---|---|
| United Kingdom | 107.2 | 106.7 |
| Europe (excluding UK) | 103.3 | 110.8 |
| United States | 896.0 | 843.1 |
| Other (including worldwide) | 950.5 | 851.6 |
| **Total** | **2,057.0** | **1,912.2** |

The analysis of technical result by Brit segment is as follows:

| **Year ended 31 December 2017** | **Brit Global Specialty Direct US$m** | **Brit Global Specialty Reinsurance US$m** | **Total US$m** |
|---|---|---|---|
| Gross premiums written | 1,673.7 | 383.3 | **2,057.0** |
| Net premiums written | 1,053.9 | 243.7 | **1,297.6** |
| Net premiums earned | 1,065.6 | 253.8 | **1,319.4** |
| Claims incurred, net of reinsurance | (721.1) | (132.3) | **(853.4)** |
| Net operating expenses | (511.2) | (97.5) | **(608.7)** |
| **Underwriting result** | **(166.7)** | **24.0** | **(142.7)** |
| Investment return | 44.7 | 16.1 | **60.8** |
| **Balance on technical account** | **(122.0)** | **40.1** | **(81.9)** |

| **Year ended 31 December 2016** | **Brit Global Specialty Direct US$m** | **Brit Global Specialty Reinsurance US$m** | **Total US$m** |
|---|---|---|---|
| Gross premiums written | 1,546.4 | 365.8 | **1,912.2** |
| Net premiums written | 1,026.8 | 247.7 | **1,274.5** |
| Net premiums earned | 1,061.3 | 244.8 | **1,306.1** |
| Claims incurred, net of reinsurance | (602.3) | (103.4) | **(705.7)** |
| Net operating expenses | (509.3) | (84.1) | **(593.4)** |
| **Underwriting result** | **(50.3)** | **57.3** | **7.0** |
| Investment return | 102.6 | 39.1 | **141.7** |
| **Balance on technical account** | **52.3** | **96.4** | **148.7** |

## 5 Net operating expenses

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Acquisition costs | 500.4 | 467.5 |
| Change in deferred acquisition costs | (15.1) | (7.4) |
| Administrative expenses | 179.1 | 179.1 |
| | **664.4** | **639.2** |
| Reinsurance commissions income | (55.7) | (45.8) |
| **Total** | **608.7** | **593.4** |

The auditors' remuneration and audit services charged to the Syndicate within the fixed fee charged by the Managing Agent and the auditors' remuneration borne by another group company are as follows:

| | 2017 US$'000 | 2016 US$'000 |
|---|---|---|
| Audit of the Syndicate annual accounts | 370.5 | 454.0 |
| Other services pursuant to Regulations and Lloyd's Byelaws | 142.0 | 190.0 |
| **Total** | **512.5** | **644.0** |

Member's standard personal expenses of US$15.3m (2016: US$15.2m) are included within administrative expenses.

## 6 Staff numbers and costs

All staff in the UK are employed by the Group services company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

## 7 Remuneration of the Directors of Brit Syndicates Limited and Active Underwriter

No remuneration of the Directors of Brit Syndicates Limited have been charged to the Syndicate for the 2017 and 2016 calendar years.

The active underwriter received the following remuneration charged to the Syndicate and included within the fixed fee charged by the Managing Agent:

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Aggregate remuneration | 0.9 | 2.5 |
| Pension contributions | 0.1 | 0.1 |
| **Total** | **1.0** | **2.6** |

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

## 8 Investment return

The investment income retained in the non-technical account relates to investment income on Funds in Syndicate (see note 20).

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Income from investments | 29.4 | 44.1 |
| Gains on investments | 129.3 | 264.0 |
| Losses on investments | (91.6) | (159.6) |
| Investment management charges | (6.0) | (6.8) |
| | **61.1** | **141.7** |
| Allocated investment return transferred to the general business technical account | 60.8 | 141.7 |
| Net investment return included in the non-technical account | 0.3 | - |
| **Total investment return** | **61.1** | **141.7** |

## 9 Claims development tables

The following tables illustrate the development of the estimates of earned ultimate cumulative claims incurred, including claims notified and IBNR, for each successive underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non US dollar cumulative claims estimates and cumulative payments are translated into US dollars at the period end rate as at 31 December 2017.

As these tables are on an underwriting year basis, there is an apparent large increase from amounts reported for the end of the underwriting year to one year later as a large proportion of premiums are earned in the year of account's second year of development.

Advantage has been taken of the transitional rules of FRS 103 that permit the stepped increase in disclosure of claims development information. The claims development information disclosed will be increased from seven years to ten years over the period 2018 to 2020.

### Estimate of cumulative gross incurred claims

| US$m<br>Underwriting year | 2010 & prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | 446.8 | 480.2 | 447.1 | 480.0 | 456.3 | 536.2 | 910.6 |
| One year later | | 839.8 | 904.2 | 958.7 | 1,098.6 | 1,012.5 | 1,248.9 | |
| Two years later | | 886.2 | 968.7 | 1,007.4 | 1,149.0 | 1,088.5 | | |
| Three years later | | 884.3 | 945.4 | 999.9 | 1,163.9 | | | |
| Four years later | | 889.6 | 982.5 | 1,019.5 | | | | |
| Five years later | | 869.9 | 992.5 | | | | | |
| Six years later | | 856.7 | | | | | | |
| Current estimate of cumulative claims incurred | | **856.7** | **992.5** | **1,019.5** | **1,163.9** | **1,088.5** | **1,248.9** | **910.6** |
| Cumulative payments | | 708.2 | 694.7 | 652.2 | 662.5 | 460.6 | 350.6 | 140.4 |
| **Gross outstanding claims provision as at 31 December 2017** | **521.5** | **148.5** | **297.8** | **367.3** | **501.4** | **627.9** | **898.3** | **770.2** |

## 9 Claims development tables (continued)

### Estimate of cumulative net incurred claims

| US$m<br>Underwriting year | 2010 & prior | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| At end of underwriting year | | 313.2 | 330.0 | 300.4 | 333.6 | 309.0 | 338.4 | 466.1 |
| One year later | | 593.3 | 628.1 | 647.7 | 735.8 | 694.5 | 737.3 | |
| Two years later | | 618.6 | 662.9 | 679.7 | 771.0 | 729.9 | | |
| Three years later | | 606.0 | 648.1 | 677.5 | 773.4 | | | |
| Four years later | | 605.8 | 657.2 | 682.9 | | | | |
| Five years later | | 592.0 | 656.5 | | | | | |
| Six years later | | 579.9 | | | | | | |
| Current estimate of cumulative claims incurred | | **579.9** | **656.5** | **682.9** | **773.4** | **729.9** | **737.3** | **466.1** |
| Cumulative payments to date | | 483.3 | 479.4 | 446.6 | 463.1 | 316.0 | 254.2 | 125.9 |
| **Net outstanding claims provision as at 31 December 2017** | **295.7** | **96.6** | **177.1** | **236.3** | **310.3** | **413.9** | **483.1** | **340.2** |

## 10 Financial investments

| | Market Value | | Cost | |
|---|---|---|---|---|
| | 2017<br>US$m | 2016<br>US$m | 2017<br>US$m | 2016<br>US$m |
| Shares and other variable yield securities and units in unit trusts | 645.8 | 458.9 | 576.8 | 482.5 |
| Debt securities and other fixed income securities | 1,284.2 | 1,460.7 | 1,271.9 | 1,531.5 |
| Derivative contracts | 2.3 | 4.5 | 18.9 | 16.8 |
| Other investments | 29.5 | 37.7 | 26.6 | 44.1 |
| **Total** | **1,961.8** | **1,961.8** | **1,894.2** | **2,074.9** |

‘Other investments’ relates to loan instrument securities including senior secured and second line debt.

US$424.7m (2016: US$293.6m) of ‘Shares and other variable yield securities and units in unit trusts’ and ‘Debt securities and other fixed income securities’ are listed. These comprise 21.6% (2016: 15.0%) of the total market value of investments.

All financial investments have been designated as held at fair value through profit or loss.

## 10 Financial investments (continued)

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

| **Year ended 31 December 2017** | **Level 1 US$m** | **Level 2 US$m** | **Level 3 US$m** | **Total US$m** |
|---|---|---|---|---|
| Equity securities | 36.5 | 28.4 | 103.3 | **168.2** |
| Debt securities | 1,205.8 | 59.2 | 19.2 | **1,284.2** |
| Loan instrument securities | - | - | 29.5 | **29.5** |
| Derivatives | - | 1.5 | 0.8 | **2.3** |
| Specialised investment funds | 21.3 | 441.0 | 15.3 | **477.6** |
| **Total** | **1,263.6** | **530.1** | **168.1** | **1,961.8** |

| **Year ended 31 December 2016** | **Level 1 US$m** | **Level 2 US$m** | **Level 3 US$m** | **Total US$m** |
|---|---|---|---|---|
| Equity securities | 47.1 | 68.1 | 103.7 | **218.9** |
| Debt securities | 1,150.1 | 297.4 | 13.2 | **1,460.7** |
| Loan instrument securities | - | 37.7 | - | **37.7** |
| Derivatives | 0.7 | - | 3.8 | **4.5** |
| Specialised investment funds | - | 230.2 | 9.8 | **240.0** |
| **Total** | **1,197.9** | **633.4** | **130.5** | **1,961.8** |

### a. Basis for determining the fair value hierarchy of financial instruments

The Syndicate has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

(i) Level one - quoted prices (unadjusted) in active markets for identical assets;
(ii) Level two - inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
(iii) Level three - inputs for the assets that are not based on observable market data (unobservable inputs).

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Syndicate determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Syndicate by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

## 10 Financial investments (continued)

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

### b. Valuation techniques

***Level one***

Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume). The fair values of securities sold short and the majority of the Syndicate’s equities are based on published quotes in active markets. These also include government bonds and treasury bills issued in Canada and in the US.

***Level two***

Inputs include directly or indirectly observable inputs (other than Level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non US government agency securities are priced with OTC quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

***Level three***

Level three securities contain certain investments in asset backed securities (ABS), residential mortgage backed securities (RMBS), investments in private equity/limited partnerships where the fund’s underlying investments are not traded/quoted in an active market. Level three ABS include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral. Level three RMBS include non-agency RMBS backed by non-conforming residential mortgages. Pricing models factor in interest rates, bond or credit swap spreads and volatility.

Level three specialised investment funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to net asset values (NAVs) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties. In some instances, certain investment funds are classified as Level three because they may require at least three months’ notice to liquidate.

## 10 Financial investments (continued)

Level three equities include investments in limited partnerships where the fund's underlying investments are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months of notice to liquidate.

## 11 Derivative contracts

The Syndicate purchases derivative financial instruments:

i) to hedge its foreign currency exposure on future commitments;
ii) as part of its investment management strategy.

| | *Fair value* | |
|---|---|---|
| | **2017** | **2016** |
| **Assets and liabilities** | **US$m** | **US$m** |
| Foreign exchange forward contract assets | 1.4 | 0.7 |
| Equity options | 0.1 | - |
| Non-currency based inflation options | 0.8 | 3.8 |
| Other financial investments – derivatives | **2.3** | **4.5** |
| Foreign exchange forward contracts liabilities | (9.7) | (4.0) |
| **Net value of derivatives at 31 December** | **(7.4)** | **0.5** |

The hierarchy of fair values of derivatives contracts is included within the Fair Value Hierarchy in note 10 above.

## 12 Provision for unearned premium

| | Gross US$m | Reinsurers' share US$m | Net US$m |
|---|---|---|---|
| **Balance at 1 January 2017** | 827.2 | (256.8) | **570.4** |
| Premiums written in the year | 2,057.0 | (759.4) | **1,297.6** |
| Premiums earned in the year | (2,007.2) | 687.8 | **(1,319.4)** |
| Effect of movement in exchange rates | 20.1 | (10.0) | **10.1** |
| **Balance at 31 December 2017** | **897.1** | **(338.4)** | **558.7** |

| | Gross US$m | Reinsurers' share US$m | Net US$m |
|---|---|---|---|
| **Balance at 1 January 2016** | 850.6 | (244.4) | 606.2 |
| Premiums written in the year | 1,912.2 | (637.7) | 1,274.5 |
| Premiums earned in the year | (1,909.8) | 603.7 | (1,306.1) |
| Effect of movement in exchange rates | (25.8) | 21.6 | (4.2) |
| **Balance at 31 December 2016** | **827.2** | **(256.8)** | **570.4** |

## 13 Claims outstanding

| | Gross US$m | Reinsurers' share US$m | Net US$m |
|---|---|---|---|
| **Balance at 1 January 2017** | 3,400.3 | (1,214.8) | **2,185.5** |
| Claims incurred in relation to current underwriting year | 1,628.5 | (758.6) | **869.9** |
| Claims incurred in relation to prior underwriting years | 56.9 | (73.4) | **(16.5)** |
| Claims paid in the year | (1,066.2) | 344.5 | **(721.7)** |
| Effect of movement in exchange rates | 113.4 | (77.4) | **36.0** |
| **Balance at 31 December 2017** | **4,132.9** | **(1,779.7)** | **2,353.2** |

| | Gross US$m | Reinsurers' share US$m | Net US$m |
|---|---|---|---|
| **Balance at 1 January 2016** | 3,314.9 | (1,214.1) | **2,100.8** |
| Claims incurred in relation to current underwriting year | 1,118.3 | (373.2) | **745.1** |
| Claims incurred in relation to prior underwriting years | (34.9) | (4.5) | **(39.4)** |
| Claims paid in the year | (876.4) | 261.8 | **(614.6)** |
| Effect of movement in exchange rates | (121.6) | 115.2 | **(6.4)** |
| **Balance at 31 December 2016** | **3,400.3** | **(1,214.8)** | **2,185.5** |

## 14 Cash and cash equivalents

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Cash at bank and in hand | 138.1 | 165.1 |
| Short-term deposits | 647.9 | 378.4 |
| **Total** | **786.0** | **543.5** |

Cash and cash equivalents comprise of cash at bank and in hand, short-term deposits and other highly liquid investments with a maturity of three months or less at the date of acquisition.

## 15 Other assets

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

## 16 Deferred acquisition costs

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Balance at 1 January | 219.1 | 222.9 |
| Change in deferred acquisition costs | 15.1 | 7.4 |
| Effect of movement in exchange rates | 7.4 | (11.2) |
| **Balance at 31 December** | **241.6** | **219.1** |

## 17 Creditors arising out of direct insurance operations

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Due to intermediaries within one year | 14.8 | 12.3 |
| Due to intermediaries after one year | - | - |
| **Total** | **14.8** | **12.3** |

## 18 Related parties

### a. Group companies

All trading with companies within the Brit Limited Group has been carried out on an arm's length basis.

### (i) Fairfax Financial Holdings Limited (FFHL)

In June 2015, the parent company of the Managing Agent was acquired by FFHL Group Limited, a subsidiary of FFHL. The Syndicate has historically entered into various reinsurance arrangements with affiliates of FFHL.

In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of FFHL were as follows:

## 18 Related parties (continued)

| | 2017 US$m | 2016 US$m |
|---|---|---|
| Gross premiums written | 8.9 | 7.9 |
| Less premiums ceded to reinsurers | (11.8) | (2.1) |
| Premiums written, net of reinsurance | **(2.9)** | **5.8** |
| | | |
| Gross amount of change in provision for unearned premiums | 3.2 | (0.5) |
| Reinsurers' share of change in provision for unearned premiums | (0.7) | (2.5) |
| Net change in provision for unearned premiums | 2.5 | (3.0) |
| Earned premiums, net of reinsurance | **(0.4)** | **2.8** |
| | | |
| Gross claims paid | (14.5) | (5.0) |
| Reinsurers' share of claims paid | 20.2 | 5.1 |
| Claims paid, net of reinsurance | **5.7** | **0.1** |
| | | |
| Gross change in the provision for claims | 6.9 | - |
| Reinsurers' share of change in the provision for claims | (9.6) | (8.2) |
| Net change in the provision for claims | **(2.7)** | **(8.2)** |
| | | |
| Commission income | (0.8) | 1.8 |
| Commission expense | (2.4) | (1.2) |

The amounts included in the statement of financial position outstanding with affiliates of FFHL and its affiliates as at 31 December 2017 were as follows:

| | 2017 US$m | 2016 US$m |
|---|---|---|
| **Debtors arising out of direct insurance and reinsurance operations:** | | |
| Insurance premium receivable | 7.0 | 3.6 |
| Recoverable from reinsurers | 47.5 | 50.7 |
| | | |
| **Creditors arising out of direct insurance and reinsurance operations:** | | |
| Payable to reinsurers | (1.6) | (2.4) |
| Unpaid claims liabilities | (43.4) | (44.8) |
| | | |
| Deferred acquisition costs | 2.0 | 0.9 |
| Gross unearned premiums | (7.3) | (5.6) |
| Unearned premium recoverable from reinsurers | **0.6** | **1.0** |

## 18 Related parties (continued)

### (ii) Brit UW Limited

Brit UW Limited, a subsidiary of the Group and the corporate member of Syndicate 2987, provided £1,200m capacity in respect of the 2017 year of account (2016: £1,075m). Refer to note 19 for further information on how capacity is funded by the member.

### (iii) Brit Syndicates Limited (BSL or the Managing Agent)

During the year, the Syndicate paid fees to Brit Syndicates Limited, the Managing Agent subsidiary of the Group, amounting to US$131.5m (2016: US$134.7m). As at 31 December 2017, no amounts were outstanding (2016: US$nil). The Syndicate also participates and leads on various Lloyd's consortia. During the year, the Syndicate paid no management fee (2016: US$nil) and no technical advisor fees or profit commission to Brit Syndicates Limited in respect of the consortia agreements.

### (iv) Brit Reinsurance (Bermuda) Limited

In December 2017, Brit Insurance (Gibraltar) PCC Limited, a reinsurance company in the Group, re-domiciled to Bermuda. On relocation, the entity's name changed to Brit Reinsurance (Bermuda) Limited (Brit Re). During the year, the Syndicate ceded reinsurance premiums to Brit Re amounting to US$230.7m (2016: US$211.0m). As at 31 December 2017, the Syndicate owed US$104.2m of premiums to Brit Re (2016: US$60.8m). Collateral available for immediate drawdown in the event of a default includes collateral for Brit Re of up to US$706.9m (2016: US$690.4m).

### (v) Brit Insurance Services USA, Inc.

During the year, the Syndicate paid commissions to Brit Insurance Services USA, Inc., a service company of the Group, amounting to US$21.3m (2016: US$19.8m). As at 31 December 2017, no amounts of commission were outstanding (2016: US$nil). As at 31 December 2017, Brit Insurance Services USA, Inc. owed US$52.3m of premiums to the Syndicate (2016: US$47.5m).

### (vi) BGS Services (Bermuda) Limited

During the year, the Syndicate paid commissions to BGS Services (Bermuda) Limited, a service company of the Group, amounting to US$4.9m (2016 US$5.8m). As at 31 December 2017, no amounts of commission were outstanding (2016: US$nil). As at 31 December 2017, BGS Services (Bermuda) Limited owed US$53.9m of premiums to the Syndicate (2016: US$27.0m).

### (vii) Brit Global Specialty Singapore Pte. Ltd.

In February 2016, Brit announced the opening of an office in Singapore. The new office, which operates on the Lloyd's Singapore platform, began operations on 1 March 2016 after receiving approval from both Lloyd's and the Monetary Authority of Singapore (MAS). No commissions are charged directly to the Syndicate (2016: US$nil) and instead are charged as part of the Managing Agent fees via Brit Syndicates Limited.

### b. North America Property Insurance Series 2017 Account A-3 (a segregated account within Versutus Limited)

During 2017, the Syndicate entered into a new reinsurance arrangement, effective 1 January 2017, with a segregated account of Versutus, a Bermuda-domiciled special purpose reinsurer with which the Brit Group has an established relationship. During the year, the Syndicate ceded reinsurance premiums to Versutus amounting to US$6.1m (2016: US$nil). As at 31 December 2017 reinsurance reserves in respect of Versutus amounted to US$7.1m (2016: US$nil). Collateral available for immediate drawdown in the event of a default includes collateral for Versutus of up to US$22.1m (2016: US$nil).

## 18 Related parties (continued)

### c. Syndicate 2988

In December 2016, Brit Syndicates Limited received approval from Lloyd's to set up Syndicate 2988 and underwrite for the 2017 year of account. Syndicate 2988 participates only on new and renewal business written by Syndicate 2987 and in excess of Syndicate 2987's underwriting capacity. No commissions or fees are paid or payable between the two Syndicate entities.

### d. Directors of Brit Syndicates Limited

For information relating to the remuneration of the Directors of Brit Syndicates Limited, refer to note 7.

There are no related party director disclosures to note for the year ended 31 December 2017, nor for the comparative year ended 31 December 2016.

### e. Associated undertakings - Ambridge Partners LLC

The Group holds 50% of Ambridge Partners LLC and has entered into call and put options for the remaining 50%, exercisable in 2019. Ambridge Partners LLC is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including entities within the Brit Group.

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Ambridge Partners LLC for the year to 31 December 2017 included commission for introducing insurance business of US$4.7m (31 December 2016: US$4.3m.)

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 31 December 2017 was US$6.6m (2016: US$7.4m).

The amount of fees in the statement of financial position payable to Ambridge Partners LLC as at 31 December 2017 was US$0.1m (2016: US$0.2m).

### f. Associated undertakings – Camargue Underwriting Managers Proprietary Limited

On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and has entered into call and put options for the remaining 50%, exercisable in 2021. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit.

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the year to 31 December 2017 included commission for introducing insurance business of US$1.1m (period from 30 August to 31 December 2016: US$0.2m).

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Camargue as at 31 December 2017 and 2016 were not material.

### g. Key Management personnel compensation

For the purposes of FRS 102, the active underwriter is deemed to be the key management personnel. Compensation, including share-based payments, incurred by the key management personnel in 2017 was US$1.1m (2016: US$3.1m).

## 19 Funds at Lloyd's

Every member is required to provide 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 the UK Prudential Regulation Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including but not limited to 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. Secured instruments and assets supporting the underwriting at Lloyd's at 31 December 2017 are US$918.6m (2016: US$794.6m). The Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

## 20 Funds in Syndicate

As at 31 December 2017, the Syndicate held US$71.5m (2016: US$nil) of undistributed profit. The investment return for the calendar year was US$0.3m (2016: US$nil). For 2017, funds in syndicate are included in the statement of financial position under financial investments and the associated investment income reported in the non-technical account.

## 21 Subsequent events

There are no subsequent events to note as at the date of approval of the accounts.

## 22 Ultimate holding company

The Managing Agent is a wholly owned subsidiary of Brit Insurance Holdings Limited, a company registered in England and Wales. The intermediate holding company, in which the Managing Agent's result is consolidated, is Brit Limited (Brit), a company registered in England and Wales. Copies of Brit's consolidated accounts can be obtained by writing to The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AB, or from the website www.britinsurance.com.

The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited (Fairfax), a company registered in Toronto. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website www.fairfax.ca.

## Notes to the Accounts
For the year ended 31 December 2017

### Directors of the Managing Agent

***Executive***
Mark Andrew Allan
Nigel Sinclair Meyer
Matthew Dominic Wilson

***Non-Executive***
Ipe Jacob (resigned 30 June 2017)
Anthony John Medniuk
Dr Richard Churchill Ward
Simon Philip Guy Lee
Caroline Frances Ramsay (appointed 14 June 2017)

**Secretary**
Tim James Harmer

**Active Underwriter**
Christiern Dart

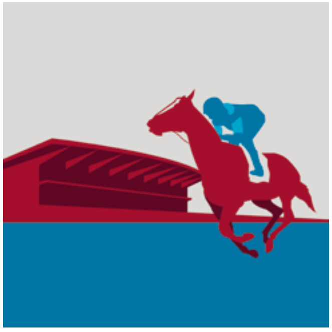
**Registered Office**
The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AB

**Independent Auditors**
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London, Riverside
London
SE1 2RT

**Brit Syndicates Limited**
The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB, UK
www.britinsurance.com

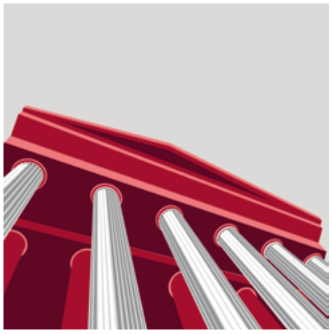


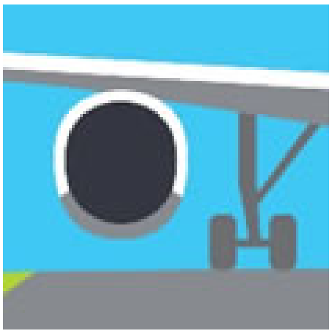









SEEING THE DIFFERENCE **MAKES THE DIFFERENCE**