

Important information about Syndicate Reports and Accounts

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KEY INFORMATION

RESULTS – 2016 ACCOUNT

5.5% Profit
 After standard personal expenses

FORECAST – 2017 ACCOUNT

3.0% Loss to 7.0% Profit
 After standard personal expenses

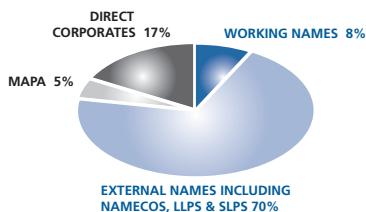
PROSPECTS

2018 Account – an unexpected volume of new business has increased the chances of a profit

2019 Account – cautious optimism, but flow of new business more difficult to predict than is normal

CAPACITY

Total 2019 account £80.8 million



SYNDICATE FUNDS – Syndicate’s position as at 31 December 2018

	CASH, INVESTMENTS, OVERSEAS DEPOSITS AND OTHER ASSETS AT 31 DECEMBER 2018
Sterling	£6.2 million
US dollars	US\$301.6 million
Canadian dollars	CAN\$28.1 million
Total translated into Sterling	<u>£259.9 million</u>

A C T I V E U N D E R W R I T E R ' S R E P O R T



REVIEW OF YEAR OF ACCOUNT

RESULTS AND PROSPECTS

The Closed 2016 Account

The 2016 account has closed with a profit of £4.5m after standard personal expenses.

The account was impacted by claims from the 2017 hurricanes, Harvey, Irma and Maria (HIM) from business written in 2016, but expiring in 2017. The total cost incurred to the Syndicate from these storms is currently \$14.1m, with \$4.9m, net of reinsurance, affecting the 2016 Account. At that time in the underwriting cycle when rates were continuing to soften and terms and conditions broaden, I am pleased to report that we became increasingly more selective of the risks we could underwrite and some classes of our business fell markedly in terms of premium volume. The outcome of this defensive stance was a further reduction in premium income of over 10%, but ultimately this trading down has helped produce a positive result. With the 'old years' 2015 and prior developing well, alongside an improving investment return, an overall result to Names of 5.5% has been achieved.

The Open 2017 Account

The 2017 year of account bore the brunt of the HIM catastrophes, but we are pleased to report that all three storms continue to remain well within early reserve estimates. Currently our incurred losses, net of reinsurance, from these events is \$6.5m for the year. During 2017 further surgery took place on the renewal account and premium income continued to fall back as we reacted to more pressure from brokers and their clients to improve terms in their favour. As a result, we reduced our business to the more established core account; there is no point in doing bad business! Unfortunately, there comes a time where further retreat is not possible, such is the burgeoning expense put upon a Lloyd's syndicate, a minimum level of premium income almost has to be underwritten. We live in a world of increasing regulatory demands and associated costs - getting expense down is almost impossible. But in a poor year, and as with 2016, the further reduction in income (and exposure) has helped maintain the loss ratios at an acceptable level. We are still hopeful that 2017, whilst running 4% worse than 2016 at the same stage, will be in profit. However, it is certainly a lean year and to scale back has proven to be the right course of action at a time best described as one of damage limitation.

2018 Year of Account

The 2018 account at this early stage is showing some encouraging signs. Although the US hurricane season continued to remind us of the catastrophe risk with Hurricane Florence and Michael causing damage in the south-eastern part of the States, alongside a second year of devastating wildfires in California and an active typhoon season in Asia - it is again a year of frequency of severity. However, with our reinsurance catastrophe account much diminished, these events while a nuisance, will not have too meaningful an impact on our loss ratios.

Whilst we must stress it is only an early indication, it was pleasing to see towards the latter part of the year, signs of an improving rating scene in some of our insurance specialty classes. This might well lead to some welcome growth in premium income from some classes of business that we favour and where rate adequacy is returning. Growth not seen since 2014, either old relationships returning or an increased involvement on existing business. This is satisfactory bearing in mind it is not genuinely new, unknown business to the Syndicate.

ACTIVE UNDERWRITER'S REPORT

.....◆.....

REVIEW OF YEAR OF ACCOUNT

Prospects for the 2019 Account

So how does the future look? With all the well-publicised events of 2017 and 2018 - HIM hurricanes, devastating California fires, Hurricanes Florence and Michael, typhoons Jebi, Trami and Manghut - capital providers would quite understandably expect some serious pricing correction in the catastrophe lines of business. The abundance of capital has been well documented, with all sorts of investors and vehicles chasing yield in this low interest rate environment. We have often talked about the type of event or events which change markets, the 'who would have thought it' type scenario, and whilst these events are not of that magnitude, as a combination they are severe. The 17/18 period is now the most costly consecutive two year period for insured catastrophe losses in the industry's history. The only 'who would have thought it' scenario here is that following this frequency of such severity, the reinsurance catastrophe pricing has not moved an inch! Something has to change, but until there is genuine recognition of the downside, it is an area where we will stay on the side lines and remain patient.

On the subject of maintaining our patience, I must touch on the Lloyd's business planning/decile ten process. To give Lloyd's credit, they are trying to carry out something that capital providers (and their managing agents) should already (and always) be doing. Whilst Lloyd's would probably admit at times their approach has been a little heavy handed and should focus predominantly on the poor performers, it is as a whole a sensible process. Surely any disciplined business would be weeding out, or applying corrective medicine to its poorer risks at every opportunity? But it would seem that has not been the case and the corrective action, now being forced upon some syndicates, has begun to disrupt a few areas particularly in the Excess and Surplus lines market, an area where Lloyd's have become far too competitive and over-weight. For a syndicate such as ourselves, disruption is often good. Some further re-rating and tightening of terms on fundamentally good business is at last taking place. The focus is the key, and I am hopeful that Lloyd's will apply a lighter touch to the syndicates who have a proven track record of profit. We can ill afford to add further internal examination and duplicative bureaucracy to the long list of returns already carried out. We must be allowed to stay lean, nimble and quickly decisive.

To know when or where the next major event will take place, in which class or in which market, is not something we can 'business plan' for easily, but it is something we must be ready for and react to quickly. That is where we want to be, ready and prepared to take the opportunity and if it is not there, we will stay patient and preserve capital.

I am grateful to you, the Names, for your support during this difficult time in the cycle, and also my directors and staff, who stoically take on the growing bureaucratic burden, and allow us to remain focused on the all-important task of underwriting the account. One year on since I last reported to you and, for the first time since 2014, I see some reason for a sense of cautious optimism.



M J Meacock
Active Underwriter
18 March 2019

FOURTEEN YEAR SUMMARY OF RESULTS

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31 DECEMBER 2018

	2003	2004	2005	2006	2007	2008	2009
	£	£	£	£	£	£	£
Syndicate allocated capacity	71,041,470	76,741,651	71,564,310	72,278,249	73,492,472	73,681,796	73,789,097
Number of Members of the Syndicate	871	863	809	817	800	782	789
Aggregate net premiums	53,318,722	52,414,403	54,043,726	51,302,698	50,152,597	93,656,352	59,509,108
Results for £10,000 share							
Gross premiums	7,958	7,465	8,156	7,571	6,980	12,909	8,273
Net premiums	7,505	7,179	7,670	7,098	6,824	12,711	8,061
Premium for the reinsurance to close an earlier year of account	9,118	9,850	11,610	11,973	16,875	17,575	23,711
Net claims	(4,286)	(4,512)	(5,524)	(4,379)	(4,627)	(6,454)	(5,461)
Reinsurance to close the year of account (Note 4)	(10,641)	(11,329)	(12,994)	(13,299)	(18,349)	(22,876)	(24,312)
Underwriting result	1,696	1,188	762	1,393	723	956	1,999
Syndicate operating expenses	(399)	(346)	(414)	(399)	(481)	(519)	(550)
Balance on technical account	1,297	842	348	994	242	437	1,449
Profit/(Loss) on exchange	(6)	(91)	(62)	360	575	604	117
Investment income less investment expenses and charges and investment gains less losses	464	683	969	793	1,383	834	382
Profit/(Loss) before personal expenses	1,755	1,434	1,255	2,147	2,200	1,875	1,948
Illustrative profit commission	(226)	(180)	(164)	(291)	(298)	(261)	(271)
Illustrative personal expenses	(185)	(235)	(160)	(210)	(210)	(132)	(142)
Total standard personal expenses	(411)	(415)	(324)	(501)	(508)	(393)	(413)
Profit/(Loss) after standard personal expenses	<u>1,344</u>	<u>1,019</u>	<u>931</u>	<u>1,646</u>	<u>1,692</u>	<u>1,482</u>	<u>1,535</u>

FOURTEEN YEAR SUMMARY OF RESULTS

31 DECEMBER 2018

	2010	2011	2012	2013	2014	2015	2016
	£	£	£	£	£	£	£
Syndicate allocated capacity	79,814,031	79,821,684	79,587,725	80,055,342	80,688,382	80,696,220	80,569,329
Number of Members of the Syndicate	790	792	795	815	820	819	801
Aggregate net premiums	59,102,713	64,602,432	61,713,904	57,826,174	48,027,674	49,724,787	51,455,941
Results for £10,000 share							
Gross premiums	7,544	8,316	7,924	7,347	6,005	6,229	6,449
Net premiums	7,405	8,093	7,754	7,223	5,952	6,162	6,387
Premium for the reinsurance to close an earlier year of account	22,628	21,878	21,987	23,005	23,716	27,617	25,969
Net claims	(5,817)	(6,209)	(5,761)	(4,941)	(4,489)	(5,294)	(5,437)
Reinsurance to close the year of account (Note 4)	(22,783)	(22,235)	(22,280)	(22,750)	(23,185)	(27,628)	(26,177)
Underwriting result	1,433	1,527	1,701	2,537	1,995	857	742
Syndicate operating expenses	(560)	(613)	(583)	(556)	(514)	(524)	(675)
Balance on technical account	873	914	1,118	1,981	1,481	333	67
Profit/(Loss) on exchange	(151)	125	97	(45)	362	290	215
Investment income less investment expenses and charges and investment gains less losses	750	380	325	179	466	457	531
Profit before personal expenses	1,472	1,419	1,540	2,114	2,309	1,080	813
Illustrative profit commission	(200)	(244)	(284)	(397)	(438)	(192)	(138)
Illustrative personal expenses	(137)	(140)	(120)	(132)	(121)	(123)	(124)
Total standard personal expenses	(337)	(384)	(404)	(529)	(559)	(315)	(262)
Profit after standard personal expenses	1,135	1,035	1,136	1,586	1,750	766	551

Notes:

1. This fourteen year summary of results on this and the previous page shows the result for a £10,000 share of the Syndicate for each year of account from 2003 to 2016.
2. Gross premiums and net premiums above, are stated after brokerage and commissions.
3. The illustrative profit commission and personal expenses are estimates of amounts which might be charged on an illustrative share of £10,000 for an individual name.
4. The reinsurance premium received to close an earlier year of account is stated at the exchange rate ruling as to the year-end it transferred the liabilities into the receiving year. The reinsurance to close the current year of account is stated at the average exchange rate for the calendar year in which it closed. The effect of translating it to the closed year end exchange rate is included within the profit or loss on exchange.

SYNDICATE 727
2016 YEAR OF ACCOUNT

SYNDICATE UNDERWRITING
YEAR ACCOUNTS

31 DECEMBER 2018

C O N T E N T S

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

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REPORT OF THE DIRECTORS OF THE MANAGING AGENT

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

The Managing Agent presents its Report of the Directors together with the Syndicate Underwriting Year Accounts for the 2016 Year of Account of Syndicate 727 for the three years ended 31 December 2018.

REVIEW OF THE 2016 YEAR OF ACCOUNT

ACTIVITIES

The principal activity of the Syndicate is that of underwriting insurance and reinsurance risks and this is conducted wholly within the Lloyd's market. A large percentage of the risks underwritten are located in North America while significant exposures are accepted in the UK and more modest exposures in many other areas of the world. Exposures taken on through reinsurance would have a similar geographic spread with perhaps less emphasis on the UK.

The initial stamp capacity for 2016 was £80.8m which is similar to the previous year of account. The business plan proposed total gross premium after brokerage and commissions of £51.3m. Gross Premiums written after brokerage and commissions, converted to sterling at 2016 Business Plan exchange rates, were £44.1m, 86.0% of plan. There are no significant lines of business that were discontinued or commenced for the 2016 year of account and the mix of business by type is similar to the previous year of account except for a reduction in property catastrophe reinsurance and smaller reductions in other property reinsurance. Nevertheless, property continues to be the largest category of business at 45% of the whole, with liability, at 35% being the next largest business category.

Very little reinsurance was purchased, in line with our general philosophy of only accepting exposures if they are worth keeping. That reinsurance which was purchased was largely placed with reinsurers whose security is "A" rated by AM Best (the same level as Lloyd's) or better.

RESULTS

The profit for the 2016 year of account was £4.5m equivalent to 5.5% of the final capacity. Note 3 to the Accounts provides an analysis by class of business.

Within this profit, there was a profit arising from the reinsurance to close received from 2015 year of account of £9.4m before expenses and investment return (see Note 8 on page 26). This arose largely from a reduction in the 2015 and prior years' liability reserves as a result of favourable settlements in 2018. See page 23 for a more detailed analysis of the various sources of profit and loss.

The investment return over the three year period was similar to that of the previous year of account despite interest rate increases and higher bond yields. See page 36 for a more detailed investment report.

AUDITOR

PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

DISCLOSURE OF INFORMATION TO AUDITOR

The Directors of the Managing Agent who held office at the date of the approval of this Report of the Directors confirm that, so far as they are individually aware, there is no relevant audit information of which the Syndicate's auditor is unaware and each Director has taken all the steps that he ought to have taken as Director to make himself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Approved by the Board of Directors of S A Meacock & Company Limited and signed on its behalf by:



K W Jarvis
Director
18 March 2019

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Managing Agent is responsible for preparing Syndicate Underwriting Year Accounts and an accompanying Report of the Directors of the Managing Agent in accordance with applicable law, Lloyd's Byelaws and United Kingdom Generally Accepted Accounting Practice.

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

The Syndicate Underwriting Year Accounts must be prepared on an underwriting year basis which give a true and fair view of the result of the underwriting year at closure.

In preparing the Syndicate Underwriting Year Accounts, the Managing Agent is required by the Syndicate Accounting Byelaw (No. 8 of 2005) to:

- select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the Members of the Syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring Members and reinsured Members are Members of the same Syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in these Financial Statements.

In preparing the Syndicate Underwriting Year Accounts, the Managing Agent is responsible for assessing the Syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

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

Approved by the Board of Directors of S A Meacock & Company Limited and signed on its behalf by:



K W Jarvis
Director
18 March 2019

I N D E P E N D E N T A U D I T O R ' S R E P O R T



2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 727 – 2016 CLOSED YEAR OF ACCOUNT OPINION

We have audited the Underwriting Year Accounts of Syndicate 727 (the 'Syndicate') for the 2016 Year of Account for the three years ended 31 December 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Members' Balances, the Statement of Cash Flows and notes to the Underwriting Year Accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom Accounting Standards, including Financial Reporting Standard 102 "*The Financial Reporting Standard applicable in the UK and Republic of Ireland*" (United Kingdom Generally Accepted Accounting Practice), the Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In our opinion, the Underwriting Year Accounts:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2018 and of its profit for the three years then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

BASIS FOR OPINION

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

EMPHASIS OF MATTER – REINSURANCE TO CLOSE

We draw attention to note 6 of the Underwriting Year Accounts which describes the composition of the Reinsurance to Close ("RITC"). The Syndicate has throughout its history underwritten a large portfolio of US liability business which has potential for latent claims to emerge many years after the risk was underwritten. This together with the limited extent of reinsurance purchased increases the risk that the ultimate level of future claims may vary significantly from the amount at which the RITC has been set. The RITC selected is significantly in excess of the actuary's best estimate to reflect this uncertainty, however should significant latent losses emerge the reserves may be insufficient to fully provide for such development.

I N D E P E N D E N T A U D I T O R ' S R E P O R T

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

Conversely, if the more recent benign pattern of claims developments continues the reserves may ultimately be significantly in excess of the ultimate claims cost.

Our opinion is not modified in this respect.

OTHER INFORMATION

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires us to report to you if, in our opinion:

- the managing agent has not kept proper accounting records in respect of the Syndicate; or
- the Underwriting Year Accounts are not in agreement with the accounting records.

RESPONSIBILITIES OF THE MANAGING AGENT

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

In preparing the Syndicate Underwriting Year Accounts, the managing agent is responsible for assessing the Syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE UNDERWRITING YEAR ACCOUNTS

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

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

I N D E P E N D E N T A U D I T O R ' S R E P O R T

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

USE OF OUR REPORT

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

N A Coulson

Neil Coulson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor

1 Westferry Circus
Canary Wharf
London E14 4HD

19 March 2019

P R O F I T A N D L O S S A C C O U N T
 T E C H N I C A L A C C O U N T – G E N E R A L B U S I N E S S

T H R E E Y E A R S E N D E D 3 1 D E C E M B E R 2 0 1 8

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

	NOTE	£'000	2016 YEAR OF ACCOUNT £'000
Syndicate Allocated Capacity			<u>80,569</u>
Earned Premiums, Net of Reinsurance:			
Gross premiums written	3		67,930
Outward reinsurance premiums			<u>(506)</u>
Net premiums written			67,424
Reinsurance to Close Premiums Received, Net of Reinsurance	5		<u>209,229</u>
			276,653
Allocated Investment Return Transferred from the Non-Technical Account			4,281
Claims Incurred, Net of Reinsurance:			
Claims paid			
Gross amount		(44,475)	
Reinsurers' share		<u>666</u>	
			(43,809)
Reinsurance to Close Premiums Payable, Net of Reinsurance	6	<u>(206,658)</u>	
Net Operating Expenses	7		<u>(27,667)</u>
Balance on the Technical Account – for General Business	8		<u>2,800</u>

P R O F I T A N D L O S S A C C O U N T
 N O N - T E C H N I C A L A C C O U N T

T H R E E Y E A R S E N D E D 3 1 D E C E M B E R 2 0 1 8

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

	NOTE	2016 YEAR OF ACCOUNT £'000
Balance on the Technical Account – for General Business		2,800
Investment income	9	11,636
Unrealised gains on investments	9	11
Investment expenses and charges	9	(3,372)
Unrealised losses on investments	9	(3,994)
Allocated investment return transferred to general business technical account	9	(4,281)
Other charges (profit on exchange)		1,739
Profit for the 2016 Closed Year of Account		4,539

As the 2016 Year of Account following a Reinsurance to Close is no longer trading, all operations relate to ceased activities for this Year of Account.

The above profit is stated after a £1,739,087 exchange profit, included within the Non-Technical Account other charges.

There was no Other Comprehensive Income for the 2016 Year of Account.

S T A T E M E N T O F C H A N G E S
 I N M E M B E R S ' B A L A N C E S

T H R E E Y E A R S E N D E D 3 1 D E C E M B E R 2 0 1 8

	2016 YEAR OF ACCOUNT £'000
Balance at 1 January 2016	–
Profit for the 2016 closed year of account	4,539
Members' agents' fees advances on behalf of Members	(549)
Amounts due to Members at 31 December 2018	3,990

B A L A N C E S H E E T

AT 31 DECEMBER 2018

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

	NOTE	2016 YEAR OF ACCOUNT	
		£'000	£'000
Assets			
Investments	10		203,583
Debtors	11		9,846
Reinsurance Recoveries Anticipated on Gross Reinsurance to Close Premiums Payable	6		377
Other Assets			
Cash at bank and in hand		5,740	
Other (including overseas deposits)		6,215	
		<u>11,955</u>	
Prepayments and Accrued Income			
Accrued interest			2,150
Total Assets			<u>227,911</u>
Liabilities			
Amounts due to Members			3,990
Reinsurance to Close Premium Payable			
– Gross Amount	6		218,093
Creditors	12		5,828
Total Liabilities			<u>227,911</u>

The Syndicate Underwriting Year Accounts were approved by the Board of Directors of S A Meacock & Company Limited on 18 March 2019 and were signed on its behalf by:



M J Meacock
Director



K W Jarvis
Director

S T A T E M E N T O F C A S H F L O W S

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T H R E E Y E A R S E N D E D 3 1 D E C E M B E R 2 0 1 8

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

	NOTE	2016 YEAR OF ACCOUNT £'000
Cashflow from Operating Activities:		
Profit/(loss) for the closed year account		4,539
Adjustments for:		
Increase in reinsurance to close payable	6	217,716
(Increase) in debtors, prepayments and accrued interest		(11,996)
Increase in creditors, accruals and deferred income		5,828
Income from investment	9	(9,063)
Net unrealised (gains)/losses on investments	9	3,983
Currency changes		(1,472)
Net Cash Inflow from Operating Activities		<u>209,535</u>
 Cash Flows from Investing Activities:		
Purchase of equity and debt instruments, overseas deposits and other assets		(316,150)
Sale of equity and debt instruments, overseas deposits and other assets		103,841
Investment income received	9	<u>9,063</u>
Net Cash Outflow from Investing Activities		<u>(203,246)</u>
 Cash Flows from Financing Activities:		
Advances of fees to Members Agents on behalf of Members		<u>(549)</u>
Net Cash Outflow from Financing Activities		<u>(549)</u>
 Net increase in Cash and Cash Equivalents in the three years		 5,740
Cash and cash equivalents at 1 January 2016		–
Effect of exchange rates on cash and cash equivalents		–
Cash and cash equivalents at 31 December 2018		<u>5,740</u>
 Cash and cash equivalents comprise:		
Cash at bank and in hand		5,740
Other Financial Investments:		
Short-term deposits with credit institutions		–
Cash and cash equivalents		<u>5,740</u>

NOTES TO THE SYNDICATE
UNDERWRITING YEAR ACCOUNTS

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

1.1 General Information and Principal Activities

Syndicate 727 is a Lloyd's Syndicate domiciled in England and Wales. It is managed by S A Meacock & Company Limited a private company limited by shares that was incorporated in England and whose registered office is Hasilwood House, 60 Bishopsgate, London EC2N 4AW.

The Syndicate underwrites a diverse book of general insurance and reinsurance business from around the world as part of the Lloyd's of London insurance market. This activity is carried out primarily from a box in the Lloyd's Building in London and from nearby offices.

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

1.2 Basis of Preparation and Compliance with Accounting Standards

These Syndicate Underwriting Year Accounts have been prepared in accordance with United Kingdom Accounting Standards, including both FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts" to the extent necessary to produce a true and fair view of the result, as well as the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No. 8 of 2005).

The Syndicate Underwriting Year Accounts have been prepared on the historical cost basis, except for financial assets at fair value through the profit or loss.

The basis on which the financial statements are prepared is consistent with the Managing Agent's assessment that the Syndicate will be able to realise its assets and discharge its liabilities in the normal course of business. This assessment takes into consideration that the Syndicate is continuing to underwrite for the 2019 year of account.

The Syndicate Underwriting Year Accounts are presented in Pounds Sterling which is also the Syndicate's functional currency.

Members participate on a Syndicate by reference to a year of account and each Syndicate year of account is a separate annual venture. These Syndicate Underwriting Year Accounts relate to the 2016 year of account which has been closed by reinsurance to close into the 2017 year of account of Syndicate 727 at 31 December 2018. Consequently the balance sheet represents the assets and liabilities of the 2016 year of account and the profit and loss account and the Statement of Cash Flows reflect the transactions for that year of account during the 36 months period until closure.

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

Significant Accounting Policies

1.3 Underwriting Transactions

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

- (a) Gross premiums are allocated to years of account on the basis of the policy inception date. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums and claims are allocated to the year of account to which the related premiums are allocated. Commissions or brokerage charged to the Syndicate are allocated to the same year of account as the relevant policy. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

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2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (b) The reinsurance premiums are allocated to a year of account in accordance with the underlying risks being protected. Any reinsurance premium adjustments are charged to a year of account according to the basis on which the adjustments concerned are calculated.
- (c) Gross claims paid include internal and external adjustment and settlement expenses. Salvages and reinsurance recoveries are allocated to the year of account to which the related claim was charged.
- (d) All underwriting transactions are recognised on the basis of transactions processed up to and including the balance sheet date plus accruals in respect of anticipated additional or return premiums, reinsurance premiums and reinsurance recoveries in respect of paid claims.
- (e) A Reinsurance to Close is a contract of insurance which, in return for a premium paid by the closing Year of Account, transfers, normally to the following Year of Account, all known and unknown liabilities arising out of transactions connected with insurance business underwritten by the closing Year of Account. However, it should be noted that a reinsurance to close contract does not extinguish the primary liability of the original underwriter.

The estimate of future liabilities (including internal and external settlement costs) and the premium for the Reinsurance to Close are calculated by the Underwriter based on the latest loss information available at the time of making such calculation. The calculation allows for the estimated net cost of claims which may have been incurred but not yet reported; such allowance is established by the Underwriter exercising his judgement aided by statistical projections based on the history of past claim settlements and by reference to case by case reviews of notified losses. The calculation includes estimates for known outstanding claims, claims which may have been incurred but not reported, and potential reinsurance recoveries. The uncertainties which are inherent in the process of estimating are such that in the normal course of events, unforeseen or unexpected future developments may cause the ultimate cost of settling the outstanding liabilities to differ from that presently estimated. Credit is taken for any reinsurance recoveries that are presently estimated to be recoverable. No credit is taken for investment earnings which may be expected to arise in the future on the funds representing either the Reinsurance to Close or the estimate of future liabilities as applicable. Any unearned premiums are taken into account within the calculation of the Reinsurance to Close premium.

1.4 Financial assets and financial liabilities

(a) Classification

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

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

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

NOTES TO THE SYNDICATE
UNDERWRITING YEAR ACCOUNTS

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Recognition

Financial assets and liabilities are recognised when the Syndicate becomes party to the contractual provisions of the instrument.

Purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

(c) Initial measurement

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

(d) Subsequent measurement

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

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

(e) Derecognition of financial assets and liabilities

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

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

(f) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset or liability in an active market that the entity can access at the measurement date. When quoted prices are unavailable, observable inputs developed using market data, other than quoted prices, for the asset or liability, either directly or indirectly, are used to determine the fair value. If the market for the asset is not active and there are no observable inputs, then the Syndicate estimates the fair value by using unobservable inputs, where market data is unavailable.

NOTES TO THE SYNDICATE
UNDERWRITING YEAR ACCOUNTS

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

(h) Offsetting

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

1.5 Investment Return

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

Investment return is 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.

1.6 Syndicate Operating Expenses

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

1.7 Taxation

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

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

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2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.8 Basis of Currency Translation

The Syndicate has Pounds Sterling as its functional and presentation currency.

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

Although transactions are translated as described above the monetary assets and liabilities, including any unearned premiums or deferred acquisition costs, within the balance sheet in US dollars and Canadian dollars are translated at the rates of exchange ruling on 31 December 2018. Any differences are included within the profit or loss on exchange account in the Non-Technical Account. Any non-monetary assets or liabilities are retained at their original exchange rate.

Where Canadian dollars are sold or bought relating to the profit or loss of a closed underwriting account after 31 December 2018, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States Dollars are transferred to or from Members any exchange profit or loss accrues to those Members.

1.9 Key Accounting Judgements and Estimation Uncertainties

The key accounting judgements, assumptions and estimates made in the preparation of these Underwriting Year Accounts are those relating to the determination of the Reinsurance to Close to transfer all assets and liabilities from the 2016 Year of Account to the 2017 Year of Account. However as this amount has been contractually committed to since the year-end there can be no further change to the amount in respect of the 2016 Year of Account.

The accounting policy for the Reinsurance to Close is described at 1.3(e) and the related risks relating to the underlying net technical provisions that it transfers are described at Note 2.2 (c) on pages 56 to 59 within the Syndicate Annual Financial Statements. The Reinsurance to Close for net technical provisions after the reinsurers' share is £206.7m. The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either a claim event has occurred but the Syndicate has not yet been notified or where there has been insufficient information to date to be certain regarding its ultimate cost. An analysis of the Reinsurance to Close for net technical provisions after the reinsurers' share including disclosure of the provision for Incurred But Not Reported ("IBNR") after potential related reinsurance recoveries is shown at Note 6.

2. RISK AND CAPITAL MANAGEMENT

Since 31 December 2018 a Reinsurance to Close has been completed which transferred all assets and liabilities from the 2016 year of account to the 2017 year of account. Any change in value of the assets or liabilities or further transactions after 31 December 2018 will be borne by the 2017 year of account. The 2016 year of account therefore bears no further risk and accordingly no disclosures relating to risks are disclosed in these Underwriting Year Accounts. The risks remain within the Syndicate and are borne by the 2017 and subsequent years of account and are disclosed in the Syndicate Annual Financial Statements on pages 32 to 76 and in particular within Note 2.2 (c) on Risk Management on pages 56 to 59.

The basis on which capital is managed by the Syndicate in accordance with the requirements of the Society of Lloyd's and the Prudential Regulation Authority is also described within the Syndicate Annual Financial Statements within Note 16 on Regulatory Capital Management on page 73.

NOTES TO THE SYNDICATE
UNDERWRITING YEAR ACCOUNTS

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

3. ANALYSIS BY CLASS OF BUSINESS

An analysis of the underwriting result before investment return for the three years ended 31 December 2018 is set out below:

2016 YEAR OF ACCOUNT	GROSS PREMIUMS WRITTEN & EARNED £'000	GROSS CLAIMS INCURRED £'000	GROSS OPERATING EXPENSES £'000	REINSURANCE BALANCE £'000	TOTAL £'000
Direct insurance:					
Accident and health	5,197	(4,279)	(1,024)	(72)	(178)
Motor (third party liability)	112	(77)	(32)	–	3
Motor (other classes)	3,095	(2,359)	(669)	(2)	65
Marine aviation and transport	655	(347)	(276)	–	32
Fire and other damage to property	21,385	(14,667)	(7,203)	17	(468)
Third party liability	16,302	(15,296)	(3,852)	(1)	(2,847)
Credit and suretyship	414	(196)	(161)	(11)	46
	<u>47,160</u>	<u>(37,221)</u>	<u>(13,217)</u>	<u>(69)</u>	<u>(3,347)</u>
Reinsurance Acceptance	20,770	(7,254)	(9,899)	229	3,846
	<u>67,930</u>	<u>(44,475)</u>	<u>(23,116)</u>	<u>160</u>	<u>499</u>
Reinsurance to Close received/(payable)	209,582	(207,001)	(4,551)	(10)	(1,980)
Total	<u>277,512</u>	<u>(251,476)</u>	<u>(27,667)</u>	<u>150</u>	<u>(1,481)</u>

4. GEOGRAPHICAL ORIGIN OF GROSS DIRECT PREMIUMS WRITTEN

All contracts of insurance were concluded in the United Kingdom.

5. REINSURANCE TO CLOSE PREMIUMS RECEIVED, NET OF REINSURANCE

	OUTSTANDING CLAIMS REPORTED £'000	IBNR £'000	2016 YEAR OF ACCOUNT TOTAL £'000
Gross reinsurance to close premiums received	40,097	162,731	202,828
Reinsurance recoveries anticipated	(353)	–	(353)
	<u>39,744</u>	<u>162,731</u>	<u>202,475</u>
Provision for internal claims administration expenses			6,754
At 1 January 2018 exchange rate			<u>209,229</u>

IBNR is the provision for claims incurred but not reported.

The value of the RITC received at the 2018 average exchange rate was £210,536,081.

NOTES TO THE SYNDICATE
UNDERWRITING YEAR ACCOUNTS

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

6. REINSURANCE TO CLOSE PREMIUMS PAYABLE NET OF REINSURANCE

	OUTSTANDING CLAIMS REPORTED £'000	IBNR £'000	TOTAL £'000
Gross reinsurance to close premiums payable	39,906	160,925	200,831
Reinsurance recoveries anticipated	(343)	–	(343)
	39,563	160,925	200,488
Provision for internal claims administration expenses			6,170
At 2018 calendar year average exchange rate			206,658
Adjustments to year end foreign exchange rates			11,058
At 31 December 2018 exchange rate			217,716*

* Continuing to use 31 December 2018 exchange rates, this number is made up of anticipated claims settlements of £210.6m and anticipated recoveries from reinsurers of £0.4m, but does not include the allowance of £1.3m for estimated future premium which has been allowed for in arriving at the gross written premium figure of £67.9m. Including the £6.2m reserve against future claims handling costs and the expected future premium of £1.3m, together with the £4.5m provision for exceptional expenses yet to be paid, it can be seen that the total value of all future liabilities of the 2016 and prior years of account has been reserved at £222.2m. Applying the same exchange rates to the RITC of the 2015 Account, it can be seen that the future liabilities of the 2015 and prior years of account were, a year ago, reserved at £220.3m.

As detailed in note 2.2 (c) to the Annual Accounts, the syndicate adopts an approach to claims reserving that is above the actuary's best estimate, primarily to allow for the future emergence of latent losses on its long tail US liability business, as has happened in the past. The excess above best estimate within the RITC is £93.8m. The amount shown above as the Reinsurance to Close premium payable for closing the 2016 year of account into the 2017 year of account of Syndicate 727 as at 31 December 2018 was subsequently approved by the Board of S A Meacock & Company Limited on 24 January 2019.

The table of the development of ultimate claims over the last six years is shown within Note 4 to the Syndicate Annual Financial Statements for the year ended 31 December 2018.

Reconciliation of Reinsurance to Close premiums received to Reinsurance to Close premiums payable

	GROSS CLAIMS £'000	REINSURERS' SHARE £'000	TOTAL £'000
Reinsurance to Close Received at 1-1-18 (Note 5)	209,582	(353)	209,229
Claims paid in relation to 2015 and prior	(16,390)	22	(16,368)
Change in provision for 2015 and prior claims	(11,629)	6	(11,623)
Effect of movements in exchange rates	10,432	(52)	10,380
	191,995	(377)	191,618
Reinsurance to Close Payable for 2015 and prior at 31-12-18	26,098	–	26,098
	218,093	(377)	217,716

NOTES TO THE SYNDICATE
 UNDERWRITING YEAR ACCOUNTS

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

7. NET OPERATING EXPENSES

	2016 YEAR OF ACCOUNT £'000
Brokerage and commissions	15,968
Other acquisition costs	1,235
	17,203
Acquisition costs	17,203
Administrative expenses	10,464
	27,667
Included within administrative costs above are the following:	
Auditors' remuneration – audit	164
– taxation services	5
	169
Legal and related costs incidental to USA underwriting, as described below*:	
A provision for future costs which accompany the underwriting of business in the USA	4,254
New York State Department for Financial Services Consent Order	507
Legal expenses incurred in relation to the above	229
	4,990
Standard personal expenses (excluding Members' agents' fees)	2,011

* The asterisked expense charge of £4,990,000 (which includes a £4,254,000 provision for future payment of similar charges of a US\$ equivalent of US\$5,700,060 expressed at US/£ average FX rate (also identified in Note 12), expressed at US/£ closing FX rate amounting to £4,488,000)), although not arising from any new aspect of the business, is appearing for the first time under a stand-alone label within the accounts following the first significant settlement of such an item, which resulted in a reassessment and change of view about the appropriate presentation of such items. This change chiefly arises from the need to differentiate between sums paid or payable to policyholders and sums payable to others who are agents neither of policyholders nor of underwriters. For a number of years, provision has been made within the RITC for similar non-policy-related expenses, but the marked surge during 2018 in the amounts involved has exceeded the provision created at December 2017.

Costs such as these arise from several sources. From time to time accusations are received regarding alleged transgressions of various regulations including the US Surplus Lines regulations. These Surplus Lines rules vary from state to state and deal both with important issues, such as whether particular business is actually available (basically business is not available to surplus lines writers if any local insurer would underwrite it), and with more mundane matters (such as stipulating font sizes for key policy statements). Some of these rules are so complex that it is necessary to consult US lawyers for guidance on what is and is not permissible. Fines which follow on from such transgressions are often known as 'civil penalties'. During 2018, the New York regulators discovered an alleged transgression in connection with a binding authority that Syndicate 727, along with several other syndicates, had supported for many years. 727 had never been in a lead capacity. NY levied a fine of US\$5 million on the Lloyd's market, 727's share being US\$679,015, spread over 13 contracts from 2005 to 2017 inclusive. There were substantial legal expenses involved in defending this and other cases.

At most times, in fact, various allegations are on the table emanating from the USA and elsewhere, and one current case in particular is worthy of mention. There is a group of US attorneys who believe there is an arguable case that the structure of the centrally-regulated Lloyd's insurance market is inimical to the interests of the US insurance-buying public. In 2007, from the many thousands of policies and contracts done in Lloyd's every year, two arrangements were selected to attack as examples and 727 happened to have been on one of them. The case has been rumbling on ever since and the syndicates on the slips have been obliged to employ US lawyers to defend themselves in the US courts, they have been obliged to produce copious volumes of documentation and to attend mediation in New York, all of which are costly in terms of time and money. (Although the degree of centralisation within Lloyd's is totally beyond our control, and the plaintiffs will, a few years hence and if successful, be able to come back for another bite at the cherry, Lloyd's itself has declined to assist in any way those syndicates unlucky enough to have been caught in this particular net.)

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7. NET OPERATING EXPENSES (CONTINUED)

The surge in costs, mentioned above, reflects the increasingly partisan and acrimonious background in doing business generally in the USA, which will likely get worse before it gets better. Every allegation, no matter how far-fetched, has to be defended, and that costs a lot of money. These costs are today an ever-present part of the cost of conducting business, and they arise no matter how properly and circumspectly the business has been conducted. It is for this reason that it has been concluded that such costs are correctly labelled as operating costs to be borne by the syndicate. In addition, something extra is required in the rates to compensate underwriters accordingly.

8. BALANCE ON THE TECHNICAL ACCOUNT BEFORE NET OPERATING EXPENSES AND ALLOCATED INVESTMENT RETURN AND AFTER BROKERAGE AND COMMISSIONS

	2015 & PRIOR YEARS OF ACCOUNT £'000	2016 PURE YEAR OF ACCOUNT £'000	TOTAL 2016 £'000
Technical account balance before allocated investment return and net operating expenses	9,376	16,810	26,186
Brokerage and commission on gross premium (Note 7)	–	(15,968)	(15,968)
	9,376	842	10,218
Legal and related costs incidental to USA underwriting (Note 7)	(4,588)	(402)	(4,990)
	4,788	440	5,228

9. INVESTMENT RETURN

	2016 YEAR OF ACCOUNT £'000
Income from investments	9,063
Gains on realisation of investments	2,573
Investment Income	11,636
Losses on realisation of investments	(3,372)
Investment expenses and charges	(3,372)
Unrealised gains on investments	11
Unrealised losses on investments	(3,994)
Net unrealised losses on investments	(3,983)
Allocated investment return transferred to the Technical Account from the Non-Technical Account	4,281
The above is comprised of:	
Interest and dividend income from financial assets at fair value through profit or loss	9,063
Net realised and unrealised gains and losses from financial assets at fair value through profit or loss	(4,782)
Total Investment Return	4,281

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2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

10. INVESTMENTS

	MARKET VALUE £'000	2016 YEAR OF ACCOUNT COST £'000
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities and unit trusts	13,611	13,610
Debt securities and other fixed income securities	189,972	193,779
	203,583	207,389

Fair value hierarchy

The above financial instruments carried at fair value have been classified by valuation method into three levels based on the reliability of inputs used in determining fair values, with Level 1 being the most reliable. The three levels are as follows:

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

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

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

	LEVEL 1 £'000	LEVEL 2 £'000	LEVEL 3 £'000	2016 YEAR OF ACCOUNT TOTAL £'000
Financial assets at fair value through profit or loss:				
Shares and other variable yield securities and units in unit trusts	4,842	8,769	–	13,611
Debt securities and other fixed income securities	189,972	–	–	189,972
	194,814	8,769	–	203,583
Overseas deposits included in other assets:				
Loans and deposits with credit institutions	2,511	2,331	–	4,842
	197,325	11,100	–	208,425

Additional details about the methods and assumptions used to determine the fair value of the financial investments is given in Note 1.4 of these Syndicate Underwriting Year Accounts and Note 1.12 of the Syndicate Annual Financial Statements for the year ended 31 December 2018 on pages 19 to 21 and pages 51 and 52 respectively.

11. DEBTORS

	2016 YEAR OF ACCOUNT £'000
Arising out of direct insurance operations:	
Intermediaries	1,015
Arising out of reinsurance operations	805
Other debtors	8,026
	9,846

All amounts are due within one year.

N O T E S T O T H E S Y N D I C A T E
U N D E R W R I T I N G Y E A R A C C O U N T S

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

12. CREDITORS

	2016 YEAR OF ACCOUNT £'000
Provision for other risks and charges (see note 7)	4,488
Creditors arising out of direct insurance operations	21
Creditors arising out of reinsurance operations	16
Other creditors	1,303
Financial liabilities at amortised cost	5,828

The other creditors amounting to £1.303m, include profit commission payable to the syndicate's Managing Agent of £1.014m

All amounts are payable within one year.

13. RELATED PARTIES

(a) S A Meacock and Company Limited (the company) is a Managing Agent which has managed Syndicate 727 since 1 January 1997 with standard agency terms as follows:

	FEE	£'000's	PROFIT COMMISSION	£'000's
2016	0.6%	483	20%	1,014

Profit commission is not charged to staff, Executive Directors of the company or Meacock LLP.

From the 2013 year of account onward, profit commission is calculated based on a seven year rolling average result as a percentage of capacity:

10% or greater	20%
Less than 10% but greater than 5%	17.5%
5% or less	15%

(b) Certain expenses amounting to £3,728,729 were incurred by the company and then recharged to the Syndicate.

(c) The balance due to the company at 31 December 2018 was £1,014,342, in respect of profit commission.

(d) In 2006 Meacock LLP was formed to enable Executive Directors and staff to participate in the Syndicate. Directors' participations are included in Note 13(e) below. For 2016, the aggregate capacity of the Meacock LLP was £2,190,859.

(e) The combined Syndicate participations of the Directors and staff of the Managing Agent, both as individual names (unlimited and Nameco) and through the Meacock LLP, are shown below:

	2016 ACCOUNT	
	£'000s	% OPL
M P Bartlett	130	100
N N S Ford	350	100
K W Jarvis	450	100
D J Jones	200	100
J M Meacock	193	27
M J Meacock	4,227	55
A Taylor	736	100
Sir David Thomson Bt	1,594	34
D A Thorp	450	100
Meacock LLP (other than those shown above, both current and former staff)	285	100

None of these participations were through a MAPA and none has been protected by personal stop loss arrangements. Standard terms have been applied to them with the exception that profit commission has not been charged to staff, Executive Directors of the company or Meacock LLP.

N O T E S T O T H E S Y N D I C A T E
U N D E R W R I T I N G Y E A R A C C O U N T S

2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

13. RELATED PARTIES (CONTINUED)

- (f) Meacock Capital plc (MC) which has a total issued share capital of 5,295,146 ordinary 25 pence shares owns 100% of Meacock Underwriting Limited (MU) which participated on Syndicate 727 on standard terms and with the following capacity:

	£
2016	13,088,183

The following Directors or connected persons held shares in MC:

	ORD. 25P	2016 % SHARE CAP
C N Jarvis (wife of K W Jarvis)	83,000	1.57
C E Meacock	529,000	9.99
J M Meacock	529,000	9.99
J W S Meacock	529,000	9.99
M J Meacock	1,125,886	21.26
W T R Meacock	529,000	9.99
Sir David Thomson Bt	156,600	2.96
D A Thorp	56,000	1.06

- (g) Mr M J Meacock is a Non-Executive Director of Alpha Insurance Analysts Limited (Alpha), a Lloyd's Members' agency. Neither Mr M J Meacock nor the company have a financial interest in Alpha.
- (h) For the period 1 January 2016 to 19 August 2016, Mr J M Meacock was a non-executive director of S A Meacock & Company Ltd and a senior broker with JLT Re, a JLT Re Ltd company (including predecessor companies Towers Watson/Towers Perrin) which placed business with Syndicate 727. Mr J M Meacock was not personally involved in the transaction of any business with Syndicate 727 and did not receive any form of direct remuneration or commission for this business. In view of the potential conflict of interest from this activity and the fact that his father, Mr M J Meacock is the Active Underwriter and 67.2% shareholder of the company, Mr J M Meacock did not participate on any of the board sub-committees that provided 'oversight' to operations or governance. With effect from 1 July 2016, Mr J M Meacock resigned from his position with JLT Re and following Board and regulatory approval was appointed an executive director of the company which commenced on 3 October 2016.
- (i) Mr W T R Meacock, was appointed a Director of Meacock Capital plc and Meacock Underwriting Limited on 1 October 2010. He is also a Director of Guy Carpenter & Company LLC, a Marsh McLennan company, which does place business with Syndicate 727. Mr W T R Meacock is not personally involved in the placing of any business with Syndicate 727 and does not receive any form of direct remuneration or commission for this business.
- (j) The following other 'close family' members of Mr M J Meacock also participated on Syndicate 727, on standard terms:

	2016 ACCOUNT £'000s
C E Meacock (son)	182
J W S Meacock (son)	193
Mrs R J R Meacock (wife)	626
W T R Meacock (son), via Elnry Ltd	160

- (k) There were no unpaid balances due to the Syndicate at 31 December 2018 from any of the Members detailed in notes 13(e) and 13(j) above.

NOTES TO THE SYNDICATE
UNDERWRITING YEAR ACCOUNTS



2016 YEAR OF ACCOUNT CLOSED AT 31 DECEMBER 2018

13. RELATED PARTIES (CONTINUED)

(1) The company managed the Small Business Consortium (SBC) in which Syndicate 727 participated until 31 December 2012. Consortium members (participating Syndicates) reimburse the company (consortium manager) for expenses of management and pay profit commission to the consortium manager on the profits of the consortium. Members' agents (on behalf of the Members for whom they act) and direct participants have given their written agreement to the retention by the company of sums received under the consortium agreement. During the year ended 31 December 2018 the company received profit commission of £nil (2017: £nil).

14. PENSION OBLIGATIONS

The company operates a defined contribution scheme for its employees including Syndicate staff. The cost of the contributions charged to the 2016 year of account was £126,515 and there were no outstanding or prepaid contributions at 31 December 2018 in respect of the 2016 year of account. As the 2016 year of account has now been reinsured to close, no further pension contributions are chargeable to the Members of this year of account.

SYNDICATE 727

ANNUAL REPORT AND
FINANCIAL STATEMENTS
2018

31 DECEMBER 2018

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AT 31 DECEMBER 2017

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DIRECTORS AND ADVISERS



31 DECEMBER 2018

MANAGING AGENT:

Managing agent

S A Meacock & Company Limited
Hasilwood House
60 Bishopsgate
London EC2N 4AW

Directors

Sir David Thomson Bt (Non-Executive Chairman)
M P Bartlett
N N S Ford
K W Jarvis
D J Jones
J M Meacock
M J Meacock
A Taylor
D A Thorp (Non-Executive Director)
D K L White (Non-Executive Director)

SYNDICATE:

Active Underwriter

M J Meacock

Independent Auditor

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

S T R A T E G I C R E P O R T



31 DECEMBER 2018

The Directors of S A Meacock & Company Limited present their Strategic Report for Syndicate 727 for the year ended 31 December 2018.

Syndicate Underwriting Year Accounts

In addition to these Syndicate Annual Financial Statements there is also a separate set of Underwriting Year Accounts shown at pages 7 to 30 drawn up on the three year funded basis which have been prepared to show the cumulative result for the 2016 closed underwriting account as at 31 December 2018 which is being distributed in 2019.

REVIEW OF THE BUSINESS

Activities

The principal activity of the Syndicate is that of underwriting insurance and reinsurance risks and this is conducted wholly within the Lloyd's market. A large percentage of the risks underwritten are located in North America while significant exposures are accepted in the UK and more modest exposures in many other areas of the world. Exposures taken on through reinsurance would have a similar geographic spread with perhaps less emphasis on the UK. Note 3 to the Financial Statements provides an analysis of the business by class. There are no significant lines of business that have been discontinued or commenced during the year.

Key Performance Indicators

The Managing Agent considers the following to be key performance indicators of the Syndicate:

Calendar year	2018	2017
Capacity (underwriting year)	£80.5m	£80.6m
Gross premiums written (Note 3)	£73.1m	£63.1m
Gross premium (less reinsurance) earned	£67.8m	£63.7m
Acquisition costs earned (Note 5)	£18.0m	£16.7m
Profit/(Loss) for the year earned on the General Business Technical Account	£11.3m	£(8.2)m
Claims ratio (net)	46.9%	83.1%
Combined ratio (net)	89.8%	118.6%
Cash and investments	£259.9m	£254.3m

The 2018 Account capacity finished at £80.5m and the capacity for the 2019 Underwriting Year of Account is initially at £80.8m. The gross premiums underwritten in the year ended 31 December 2018 were £73.1m, a 16% increase over the previous year. Casualty has now become the largest line of business, developing 45.5% of the earned premium, while property is 43.4% of the earned premium. All other business categories are quite small in comparison. In line with the stated philosophy of taking on only exposures worth keeping, very little reinsurance has been purchased. That reinsurance which has been purchased is largely placed with reinsurers whose security is "A" rated by AM Best (the same level as Lloyd's) or better.

As the rating integrity in the excess of loss reinsurance business has steadily disappeared over the last few years, in both property and casualty, the share of the business written through binding authorities has steadily increased. In 2018, 68.9% of the £67.8m of net earned premium came from binding authorities.

Results

The profit on the General Business Technical Account for the calendar year 2018 was £11.3m. In calendar year 2017 the loss was £8.2m (comparing claims recognised during 2018 with the premium earned during 2018 produces ratios of 32.5% for the property book and 64.5% for the liability book).

S T R A T E G I C R E P O R T



31 DECEMBER 2018

Current Trading Conditions and Future Developments

The current trading conditions are still disappointing in many areas, although in recent months we have seen some encouraging signs in some of our specialty classes. The Syndicate intends to underwrite a largely similar mix of business in 2019 subject to any changes in market conditions and any opportunities that may arise. A similar level of reinsurance protection is proposed for 2019 to that purchased in 2018. The initial stamp capacity has been maintained at £80.8 million for 2019.

There have been no significant post-balance-sheet events other than the proposed distribution of profits to Members detailed in Note 14 to the Financial Statements.

As a Syndicate that underwrites over 70% of its business in the USA we continue to monitor the developments arising from the Trump Administration. Lloyd's and the broking community in particular have a healthy presence in the USA that should ensure effective management of any issues that may arise to challenge the existing arrangements regarding Excess and Surplus Line and Reinsurance Markets.

Brexit

On 23 June 2016, the UK electorate voted to leave the European Union (EU) and the UK is due to leave on 29 March 2019. A potential impact of leaving the EU, for Lloyd's syndicates, is the loss of insurance passporting rights and the ability of the syndicate, through its Lloyd's authorisation, to engage in a wide range of insurance and reinsurance business in the EU, including the settlement of claims on risk written prior to 31 December 2018. To enable underwriting to continue within the EU after the UK leaves the EU, Lloyd's have put in place an insurance company in Belgium through which any European policies from 1 January 2019 can be underwritten.

However, should the UK leave the EU without any agreement in place, syndicates may not be able to settle any valid claims for EU insurance business written prior to 31 December 2018. The corporation of Lloyd's has recently announced it is currently engaged in actions to mitigate this risk, on a central basis, for all Lloyd's syndicates. These actions, if successful, would allow the syndicate to continue to meet all valid claims for EU source business without any agreement in place. Should Lloyd's not be able to mitigate this risk, then the effect on the syndicate is unknown at this stage.

As the syndicate only underwrites less than 2% of its business in the EU, this is not considered to represent a significant risk to the syndicate's ongoing business. As most of the syndicate's business relates to risks outside the UK and Europe and are mostly located in North America, the directors do not consider that the outcome of Brexit is likely to have any immediate significant impact upon its ability to continue to trade. In addition, as the syndicate is largely aligned with regard to its assets and liabilities within currencies, any change to exchange rates arising out of Brexit are not considered to present a significant risk to the syndicate.

Analysis of Risk Management and Underwriting Analysis

The key risks for the business are related to insurance and comprise business volumes and pricing levels, claims levels from catastrophic events and attritional claims and reserving adequacy. Investment risks are the next largest element of risk for the business.

The Annual Financial Statements include further details of risks and risk management at Note 2. In addition details of the underwriting business written by Class of Business and claims development are included within Notes 3 and 4 respectively.

S T R A T E G I C R E P O R T



31 DECEMBER 2018

OTHER PERFORMANCE INDICATORS

Staff Matters

The Managing Agent considers its staff to be a key resource and seeks to provide a good working environment for its staff that is safe and complies with appropriate employee legislation. During the year there have been no significant actions taken by any regulatory bodies with regard to staff matters.

Environmental Matters

The Managing Agent does not consider that a business such as a Syndicate at Lloyd's has a large adverse impact upon the environment. As a result the agent does not manage its business by reference to any environmental key performance indicators. Directors and employees of the Managing Agent are not provided with company cars and travel requisitions and expenses are subject to review as to whether the journey is necessary for the business. The Agent seeks to maintain a high proportion of its records electronically. To help achieve this the Agent is a party to the current electronic data exchange programme in the London market, which is intended to reduce the amount of paper records circulating in the market. The Agent also seeks to recycle over 80% of its paper consumption by the use of recycling bags for all business waste paper and shredding.

Investment Return

	2018	2017
	£'000	£'000
Income from investments	9,498	8,216
Net losses on realised investments	(1,021)	(5,540)
Net (losses)/gains on unrealised investments	(3,884)	843
	<u>4,593</u>	<u>3,519</u>
Total investment return, expressed at year end rates for the purpose of calculating the calendar year investment yield	<u>4,593</u>	<u>3,519</u>

Average amount of Syndicate funds available for investment during the year (expressed in Sterling at year-end rates):

Sterling	6,376	11,583
US Dollar (in Sterling)	227,842	226,995
Canadian Dollar (in Sterling)	15,027	15,918
	<u>249,245</u>	<u>254,496</u>
Combined in Sterling at year-end rates	<u>249,245</u>	<u>254,496</u>

Gross calendar year investment yield:

	%	%
Sterling	0.1%	2.7%
US Dollar	1.9%	1.4%
Canadian Dollar	1.6%	0.7%
	<u>1.8%</u>	<u>1.4%</u>
Combined	<u>1.8%</u>	<u>1.4%</u>

The above investment returns are calculated using average funds based on the monthly balances of bank accounts and investments as revalued to month-end market prices including accrued interest. The investment return was higher than that of 2017 and there is a general trend of increasing interest rates in the USA where most of the investments are held. The return achieved was above the average return on short-dated government securities during the period in US\$. The available funds were mostly held in US Dollars with much smaller amounts held in the other two currencies.

STRATEGIC REPORT



31 DECEMBER 2018

The investments are managed in-house and the custodians for investments were Hargreaves Lansdown, Citibank and Royal Bank of Canada.

Approved by the Board of Directors of S A Meacock & Company Limited, and signed on its behalf by:

A handwritten signature in blue ink, appearing to read 'K.W. Jarvis'.

K W Jarvis
Director
18 March 2019

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

31 DECEMBER 2018

The Managing Agent presents its Directors' Report for Syndicate 727 for the year ended 31 December 2018.

Strategic Report

The Managing Agent's Report should be read in conjunction with the Strategic Report as it includes information required to be disclosed in the Managing Agent's Report. This information is primarily relating to a review of the business and a description of principal risks and uncertainties, although there is more extensive disclosure of risk management in Note 2 to the Annual Financial Statements.

Directors Serving in the Year

The Directors of the Managing Agent, who served during the year ended 31 December 2018 and up to the date of this report were as follows:

Sir David Thomson Bt (Non-Executive Chairman)
M P Bartlett
N N S Ford
K W Jarvis
D J Jones
J M Meacock
M J Meacock
A Taylor
D A Thorp (Non-Executive Director)
D K L White (Non-Executive Director)

Annual General Meeting

The Directors do not propose to hold an Annual General Meeting for the Syndicate. If any Members' agent or direct corporate supporter of the Syndicate wishes to meet them, the Directors will be happy to do so.

Auditor

PKF Littlejohn LLP has signified its willingness to continue in office as auditor.

Disclosure of Information to Auditor

The Directors of the Managing Agent who held office at the date of the approval of this Report of the Directors confirm that, so far as they are individually aware, there is no relevant audit information of which the Syndicate's auditor is unaware and each Director has taken all the steps that he ought to have taken as Director to make himself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Approved by the Board of Directors of S A Meacock & Company Limited, and signed on its behalf by:



K W Jarvis
Director
18 March 2019

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

.....◆.....

31 DECEMBER 2018

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

Regulation 5 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") requires the Managing Agent to prepare Syndicate Annual Financial Statements at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate Annual Financial Statements are required by law to give a true and fair view of the state of affairs of the Syndicate and of its profit or loss for that year.

In preparing those Syndicate Annual Financial Statements, the Managing Agent is required to:

- select suitable accounting policies, and apply them consistently except where relevant accounting requirements change in the year;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Syndicate Annual Financial Statements; and
- prepare the Syndicate Annual Financial Statements on a going concern basis, unless it is inappropriate to do so.
- assess the Syndicate's ability to continue to write new business, disclosing as applicable, matters related to its ability to continue to operate and using the going concern basis of accounting, unless the Managing Agent intends to cease to operate the Syndicate or has no realistic alternative but to do so.

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

Approved by the Board of Directors of S A Meacock & Company Limited, and signed on its behalf by:



K W Jarvis
Director
18 March 2019

I N D E P E N D E N T A U D I T O R ' S R E P O R T

31 DECEMBER 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 727

Opinion

We have audited the financial statements of Syndicate 727 (the 'Syndicate') for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Members' Balances, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

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

Conclusions relating to going concern

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

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

Emphasis of matter – Technical provisions

We draw attention to note 2.2 (c) of the financial statements which describe the reserving risk of the Syndicate and the approach taken to addressing this risk. The syndicate has throughout its history underwritten a large portfolio of US liability business which has potential for latent claims to emerge many years after the risk was underwritten. This together with the limited extent of reinsurance purchased increases the risk that the ultimate level of future claims may vary significantly from the amount at which the technical provisions have been set. The claims provision selected is significantly in excess of the

I N D E P E N D E N T A U D I T O R ' S R E P O R T

31 DECEMBER 2018

actuary's best estimate to reflect this uncertainty, however should significant latent losses emerge the reserves may be insufficient to fully provide for such development. Conversely, if the more recent benign pattern of claims developments continues the reserves may ultimately be significantly in excess of the ultimate claims cost.

Our opinion is not modified in this respect.

Other information

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

We have nothing to report in this regard.

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

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

- the information given in the strategic report and the report of the directors of the managing agent for the financial year for which the financial statements are prepared are consistent with the financial statements; and
- the strategic report and the report of the directors of the managing agent have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

I N D E P E N D E N T A U D I T O R ' S R E P O R T

31 DECEMBER 2018

Responsibilities of the managing agent

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

N A Coulson

Neil Coulson (Senior Statutory Auditor)

For and on behalf of PKF Littlejohn LLP

Statutory Auditor

19 March 2019

1 Westferry Circus

Canary Wharf

London E14 4HD

PROFIT AND LOSS ACCOUNT
 TECHNICAL ACCOUNT – GENERAL BUSINESS

YEAR ENDED 31 DECEMBER 2018

	NOTE	£'000	2018	£'000	2017	£'000
Earned Premiums, Net of Reinsurance						
Gross premiums written	3	73,070			63,113	
Outward reinsurance premiums		<u>(433)</u>			<u>(531)</u>	
Net premiums written			72,637			62,582
Change in the provision for unearned premiums						
Gross amount	4	(4,858)			1,151	
Reinsurers' share	4	<u>(24)</u>			<u>(11)</u>	
Change in the net provision for unearned premiums			<u>(4,882)</u>			<u>1,140</u>
Earned premiums, net of reinsurance			67,755			63,722
Allocated investment return transferred from the Non-Technical Account			4,368			3,664
Claims Incurred, Net of Reinsurance						
Claims paid						
Gross amount		(45,048)			(43,980)	
Reinsurers' share		<u>72</u>			<u>2,367</u>	
Net claims paid		<u>(44,976)</u>			<u>(41,613)</u>	
Change in the provision for claims						
Gross amount	4	13,220			(11,077)	
Reinsurers' share	4	<u>(7)</u>			<u>(248)</u>	
Change in the net provision for claims		<u>13,213</u>			<u>(11,325)</u>	
Claims incurred, net of reinsurance			(31,763)			(52,938)
Net Operating Expenses	5		<u>(29,057)</u>			<u>(22,663)</u>
Balance on the Technical Account – for General Business			<u>11,303</u>			<u>(8,215)</u>

There are no discontinued operations.

P R O F I T A N D L O S S A C C O U N T
 N O N - T E C H N I C A L A C C O U N T

Y E A R E N D E D 3 1 D E C E M B E R 2 0 1 8

	NOTE	2018 £'000	2017 £'000
Balance on the General Business Technical Account		11,303	(8,215)
Investment income	8	11,594	8,898
Unrealised gains on investments	8	21	1,306
Investment expenses and charges	8	(3,425)	(6,106)
Unrealised losses on investments	8	(3,822)	(434)
Allocated investment return transferred to general business technical account	8	(4,368)	(3,664)
Other charges, including value adjustments – (Loss) on foreign exchange		(129)	(154)
Profit/(Loss) for the Financial Year		11,174	(8,369)

There is no Other Comprehensive Income for 2018 or 2017.

S T A T E M E N T O F C H A N G E S
 I N M E M B E R S ' B A L A N C E S

Y E A R E N D E D 3 1 D E C E M B E R 2 0 1 8

	2018 £'000	2017 £'000
Balance due (from)/to Members at 1 January	(16,356)	6,256
Profit/(Loss) for the financial year	11,174	(8,369)
Profit distributed to Members – 2015 (2014) Year of Account	(5,762)	(13,877)
Advances of fees to Members' agents on behalf of Members	(346)	(366)
Balance due (from)/to Members at 31 December	(11,290)	(16,356)

B A L A N C E S H E E T – A S S E T S

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AT 31 DECEMBER 2018

	NOTE	£'000	2018 £'000	2017 £'000
Investments				
Other financial investments	9		244,134	240,402
Reinsurers' Share of Technical Provisions				
Provision for unearned premiums	4	88		106
Claims outstanding	4	<u>377</u>		<u>353</u>
			465	459
Debtors				
Debtors arising out of direct insurance operations	10	12,356		6,829
Debtors arising out of reinsurance operations	11	9,491		8,618
Other debtors	12	<u>2,282</u>		<u>234</u>
			24,129	15,681
Other Assets				
Cash at bank and in hand		5,741		4,853
Other (including overseas deposits)		<u>9,996</u>		<u>9,083</u>
			15,737	13,936
Prepayments and Accrued Income				
Accrued interest and rent		2,391		2,191
Deferred acquisition costs	4	11,011		9,030
Other prepayments and accrued income		<u>87</u>		<u>–</u>
			13,489	11,221
Total assets			<u>297,954</u>	<u>281,699</u>

BALANCE SHEET – LIABILITIES

AT 31 DECEMBER 2018

	NOTE	£'000	2018	£'000	2017	£'000
Capital and Reserves						
Members' balances			(11,290)		(16,356)	
Technical Provisions						
Provision for unearned premiums	4	39,060		32,502		
Claims outstanding	4	262,608		262,391		
			301,668		294,893	
Provision for other risks and charges	4		5,152		–	
Creditors payable within one year						
Creditors arising out of direct insurance operations	13	312		645		
Creditors arising out of reinsurance operations	13	668		659		
Other creditors including taxation and social security	13	1,234		1,858		
			2,214		3,162	
Creditors payable after one year						
Other creditors including taxation and social security			210		–	
Total Liabilities			<u>309,244</u>		<u>298,055</u>	
Total Liabilities and Equity			<u>297,954</u>		<u>281,699</u>	

The Syndicate Annual Financial Statements were approved by the Board of Directors of S A Meacock & Company Limited on 18 March 2019 and signed on its behalf by:



M J Meacock
Director



K W Jarvis
Director

S T A T E M E N T O F C A S H F L O W S

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YEAR ENDED 31 DECEMBER 2018

	NOTE	2018 £'000	2017 £'000
Cash Flow from Operating Activities:			
Profit/(Loss) for the financial year		11,174	(8,369)
Adjustments for:			
Increase/(decrease) in gross technical provisions		6,775	(11,904)
(Increase)/decrease in reinsurers' share of technical provisions		(6)	325
(Increase)/decrease in debtors, prepayments & accrued income		(11,013)	2,808
Increase/ (decrease) in creditors		(738)	(1,333)
Other changes in value of investments		(1,640)	23,334
Movement in other assets/liabilities		5,152	–
Investment return		(4,368)	(3,664)
Net Cash Generated from Operating Activities		<u>5,336</u>	<u>1,197</u>
Cash Flows from Investing Activities:			
Purchase of equity & debt instruments		(89,176)	(157,193)
Sale of equity & debt instruments		82,667	162,453
Investment income received		8,169	2,791
Net Cash from Investing Activities		<u>1,660</u>	<u>8,051</u>
Cash Flows from Financing Activities:			
Distribution of 2015 (2014) Closed Year Profit		(5,762)	(13,877)
Advances of fees to Member's Agent on behalf of Members		(346)	(366)
Net Cash used in Financing Activities		<u>(6,108)</u>	<u>(14,243)</u>
Net increase/(decrease) in Cash and Cash Equivalents in year		888	(4,995)
Cash and cash equivalents at beginning of the year		4,853	9,848
Cash and cash equivalents at end of the year		<u>5,741</u>	<u>4,853</u>
Cash and cash equivalents comprise:			
Cash at bank and in hand		5,741	4,853
Cash and cash equivalents		<u>5,741</u>	<u>4,853</u>

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S



31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

General Information

1.1 General Information and principal activities

Syndicate 727 is a Lloyd's Syndicate domiciled in England and Wales. It is managed by S A Meacock & Company Limited a private company limited by shares that was incorporated in England and whose registered office is Hasilwood House, 60 Bishopsgate, London, EC2N 4AW.

The Syndicate underwrites a diverse book of general insurance and reinsurance business from around the world as part of the Lloyd's of London insurance market. This activity is carried out primarily from our box in the Lloyd's Building in London and our nearby offices.

The Syndicate is supported by capacity from related and third party members.

Significant Accounting Policies

1.2 Basis of Preparation and Compliance with Accounting Standards

These Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

The Financial Statements are presented in Pounds Sterling which is also the Syndicate's functional currency.

1.3 Going Concern Basis

These Financial statements are prepared on a going concern basis.

Syndicates by their nature only underwrite for single underwriting years on behalf of their supporting Members, however this is within a context of not finalising results until after 36 months so that typically there are three underwriting years in progress at any given time. In addition syndicates will normally expect to continue to trade for more underwriting years into the future and the syndicate is continuing to underwrite in 2019.

The Syndicate's business activities, together with the factors likely to affect its future development are set out in the Review of Business within the Strategic Report. In addition at Note 2 below information on Risk Management is provided detailing the insurance and financial risks the Syndicate is exposed to and how those risks are managed.

The Syndicate has considerable financial resources together with long term relationships with a number of brokers and policyholders across different classes of business and geographical areas. As a consequence, the Directors of the Managing Agent believe that the Syndicate is well placed to manage its business risks successfully despite the current uncertain economic outlook.

The Directors have a reasonable expectation that the Syndicate has adequate resources including the Funds at Lloyd's of the Members supporting the Syndicate (as explained in Note 16) to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the Annual Financial Statements.

1.4 Premiums Written

Premiums written comprise premiums on contracts of insurance incepted during the financial year in respect of direct and inwards reinsurance business. Premiums written include any adjustments made in the year to estimates of premiums written in prior years and estimates are also made for pipeline premiums, including amounts due to the Syndicate not yet notified. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S



31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.5 Unearned Premiums

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

1.6 Reinsurance Premium Ceded

Outwards reinsurance premiums are accounted for on an earned basis in the same accounting period as the premiums for the related direct or inwards business being reinsured.

1.7 Claims Incurred and Reinsurers' Share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the balance sheet date but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties. The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The provision for claims also includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

Adjustments to the amounts of claims provisions established in prior years are reflected in the Financial Statements for the period in which the adjustments are made.

The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities.

Reinsurance assets are assessed for impairment at the balance sheet date, based upon an assessment of the likely amount to be recovered. Any impairment will be charged to the profit or loss for the period in which it is recognised.

The methods used, and the estimates made in arriving at the amounts for technical provisions in respect of outstanding claims, are more fully described in Note 2.2.

1.8 Unexpired Risks Provision

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

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.9 Net Operating Expenses (including Acquisition Costs)

Net operating expenses include acquisition costs and amounts charged to Members through the Syndicate. Profit commission is charged by the Managing Agent as it is incurred but is not payable until the year of account closes, normally at 36 months.

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

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

1.10 Balance due to Members and distribution of profits and collection of losses

The balance due to Members represents Syndicate profits or losses attributable to Members net of any early releases to Members or cash calls received from Members.

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

1.11 Foreign currencies

The presentation currency of the Syndicate is Pounds Sterling.

The functional currency of the Syndicate is Pounds Sterling.

Income and expenditure in US Dollars and Canadian Dollars are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which in accordance with FRS 103 are deemed to include unearned premiums and deferred acquisition costs) are translated into the Sterling functional currency at the rates of exchange at the balance sheet date and the resulting foreign exchange gains and losses are recognised in the Profit and Loss Account - Non-Technical Account.

Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at the exchange rate at the date of the original transaction. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rate of any non-monetary assets and liabilities denominated in foreign currencies are recognised in Other Comprehensive Income for those items which are required to be recognised within Other Comprehensive Income and in the Non-Technical Account when the gain or loss is required to be recognised in the Profit and Loss Account.

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S



31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.12 Financial assets and liabilities

(a) Classification

The full provisions of FRS102 have been applied to the treatment of financial instruments. The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the profit or loss or other comprehensive income. These classifications are made at initial recognition and subsequent reclassification is only permitted in restricted circumstances.

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

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

(b) Recognition

Financial assets and liabilities are recognised when the Syndicate becomes party to the contractual provisions of the instrument. Regular way of purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date i.e. the date that the Syndicate commits itself to purchase or sell the asset.

(c) Initial measurement

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

(d) Subsequent measurement

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

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

(e) Derecognition of financial assets and liabilities

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

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

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S



31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Fair value measurement

The best evidence of fair value is a quoted price for an identical asset or liability in an active market that the entity can access at the measurement date. When quoted prices are unavailable, observable inputs developed using market data, other than quoted prices, for the asset or liability, either directly or indirectly, are used to determine the fair value. If the market for the asset is not active and there are no observable inputs, then the Syndicate estimates the fair value by using unobservable inputs, where market data is unavailable

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

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

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

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

(h) Offsetting

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

1.13 Investment Return

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

Investment return is 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.

Dividend income is recognised when the right to receive income is established and interest income is recognised as it accrues on the next coupon payment. For assets measured at fair value, gains and losses are the difference between the purchase price and the net sale proceeds and unrealised gains and losses are the difference between the latest valuation and purchase price. Movements in unrealised gains and losses in the period represent the change in value of investments still held from their previous period end value or purchase price if acquired in the period and the reversal of any gains or losses in previous periods in relation to investments sold in the current period. For any investments at amortised cost realised gains are the difference between the carrying value at the previous year end or purchase price if acquired in the period and the sale proceeds or carrying value at the end of the current period.

1.14 Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date and are carried at amortised cost.

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S



31 DECEMBER 2018

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1.15 Taxation

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

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

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

1.16 Pension Costs

S A Meacock & Company Limited operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate as incurred and included within net operating expenses.

1.17 Key Accounting Judgements and Estimation Uncertainties

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

Technical provisions: The net technical provisions shown in Note 4 after the reinsurers' share is £301m (2017: £294m). The most uncertain element within these technical provisions is the amount for the incurred but not reported (IBNR) element of claims outstanding which covers amounts where either the claim has not yet been notified to the Syndicate or where there has been a notification but there is insufficient information to date to be certain regarding its ultimate cost. This amounted to £209m (2017: £208m). As described in the risk management note there is a thorough review process of claims notifications and reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments. This is mitigated by a mixed spread of different types of business from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions may be mitigated by the element that is reinsurer's share, although there are also uncertainties in calculating that.

Premium income: The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten through binding authorities but not yet notified. The earning of this written premium has then been calculated on a basis of time apportionment and seeking to take account of when underlying binding authority risks inception. The Directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management note there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid with brokers until they are received. This risk is mitigated by a granular evaluation of estimated income from the bottom up and the income arising from a large number of policies and brokers which lessens the impact of variances in individual estimates. Certain quota share reinsurances would further mitigate the effect of any error in this estimate. The premium debtor for insurance and reinsurance business amounted to £22m (2017: £15m).

Investment valuations: Most investments are shown at their market value as described in the accounting policy at Note 1.13 and details of the risks relating to investments are disclosed at Notes 2.3 to 2.5. As the majority of investments are highly rated securities and regularly traded on major stock exchanges the risks in their valuations are reduced for most of them. As shown in Note 9 investments amount to £244m (2017: £240m). The nature of the underlying investments, their short date to maturity and the close monitoring of the Syndicate's investment committee, together with these amounts being spread across a number of investments are considered by the Directors to reduce this risk.

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S



31 DECEMBER 2018

2. RISK MANAGEMENT

2.1 Risk Background

The Syndicate's activities expose it to a variety of financial and non-financial risks. The Managing Agent is responsible for managing the Syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the Managing Agent is required to prepare a Solvency Capital Requirement (SCR) for the Syndicate, its purpose being to agree capital requirements with Lloyd's, based on an agreed assessment of the risks affecting the Syndicate's business and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are all reflected in the SCR; over 90% of the total assessed value of the risks concerned is attributable to Insurance Risk.

The Board of the Managing Agent sets the risk appetites annually as part of the Syndicate's business planning and capital-setting process. A Risk Committee meets regularly to monitor performance against risk appetite using a series of key risk indicators. The Risk Committee is chaired by the Senior Independent Director and includes the Chief Executive Officer, who also acts as the Chief Risk Officer, risk staff and all risk owners. It is responsible for the maintenance of a comprehensive risk register, risk ranking, risk control measures and the production of an annual Own Risk and Solvency Assessment (ORSA).

The Syndicate operates a "three lines of defence" model of risk management. The first line of defence is the operational departments of the Syndicate, with identified risk owners, overseen by the Executive Committee. The second line is the risk-management and compliance functions including the oversight of the Risk Committee. The third line of defence is the internal audit function.

The Syndicate recognises the following types of risk:

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Operational risk
- Group risk

The Syndicate is not part of a larger group; consequently it considers that it is not exposed to group risk. The other types of risk are discussed below.

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

2.2 Insurance Risk

The very nature of the Syndicate's business exposes it to the possibility that claims will arise on business written at a level that is greater than expected. The risk attaching to insurance contracts is based on the fortuity that events will occur which will lead to a claim under the contract. The main insurance risks which affect the Syndicate are:

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2018

2. RISK MANAGEMENT (CONTINUED)

(a) Catastrophic Events

The Syndicate writes property insurance, including excess of loss cover as a reinsurer, that exposes it to multiple claims in the event of a catastrophe. Catastrophe losses are therefore a normal part of the Syndicate's claims experience, but it is subject to the risk that particular catastrophes will occur that cause claims that are well in excess of the expected level. The nature of the Syndicate's business is that this will indeed occur from time-to-time while in most years the level of claims due to catastrophes is lower than expected. The modelling used to set the SCR shows that this is one of the principal determinants of the capital requirement.

The Managing Agent has developed underwriting guidelines which express limits to the authority of the underwriters and to exposure analysed geographically and by assured entities. The Syndicate has also developed Realistic Disaster Scenarios ("RDS"s) which provide an estimate of the effect on the Syndicate results of an aggregation of claims arising from a number of disasters specified by Lloyd's. The Syndicate uses a number of modelling tools to monitor the aggregation of exposure and to simulate catastrophe losses, in order to measure the effectiveness of the underwriting guidelines in limiting exposure to these scenarios and the effectiveness of the Syndicate's reinsurance programmes and to calculate the appropriate levels of capital required to cover the more-extreme catastrophe events.

The anticipated effect of three Lloyd's specified RDSs with the largest projected claims on the Syndicate's results for 2018 are as follows:

Description of RDS	Gross loss to Syndicate US\$m	Net loss to Syndicate US\$m	Net loss as % of forecast Gross written premium	
2018 (as at 01/12/18)				
Florida windstorm – Miami-Dade	\$16.737	\$16.474	18.93	} using £1=\$1.35
Florida windstorm – Pinellas	\$14.464	\$14.129	16.24	
Gulf of Mexico windstorm	\$13.959	\$13.656	15.69	
2017 (as at 01/12/17)				
Florida windstorm – Miami-Dade	\$16.676	\$16.110	18.28	} using £1=\$1.24
Gulf of Mexico windstorm	\$16.261	\$15.707	17.82	
California earthquake – San Francisco	\$16.511	\$15.242	17.29	

These exchange rates are used in the Lloyd's Realistic Disaster Scenario return.

(b) Business Volumes and Rating Levels

The Managing Agent produces an annual business plan for the Syndicate. The plan is produced by anticipating rating levels and terms and conditions attaching to risks expected to be underwritten by the Syndicate. In the context of the market in which the Syndicate operates, it might be possible to underwrite the required volume of business if rating levels and terms were to be compromised, although the underlying profitability would worsen.

Performance against the plan is monitored regularly through a system of underwriting committees, as well as regular review by the Board. If market conditions change significantly after the plan is produced, a revised plan will be prepared and authorised by the Board. In this way, rating levels of both business written and reinsurance purchased are subject to constant review. Should risks be assessed as uneconomical, they will be declined.

If the volume of business underwritten is less than that planned by the Managing Agent, the expense ratio is likely to increase, although this risk is mitigated by the operating structure of the Syndicate, in which the material element of the acquisition costs which flows through brokers is accordingly variable. Achieved business volumes may be linked to rating levels, for instance because of easier or tougher market conditions, in which case the effects of changes in both rating levels and business volumes will accumulate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2018

2. RISK MANAGEMENT (CONTINUED)

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

However, the most likely cause of new business being less profitable than expected is that claims other than catastrophe claims arise at a higher level than expected in the rating basis. Since this risk emerges only after business has been written and its cause may be changes in the underlying risk it is difficult to mitigate before the next year's renewals and the appropriate risk-management approach is to hold sufficient capital to offset any expected level of deviation.

	2018	2017
	£'000	£'000
Net premiums earned	67,755	63,722
Technical Account result (excluding investment return)	6,935	(11,879)
1% reduction in volume pro-rata Technical result (exc. Investment return)	(69)	(119)
1% rating price reduction in profit per £1 of earned premium	(678)	(637)

(c) Reserving risk

	2018	2017
	£'000	£'000
Current reserves		
Gross Claims Provision	262,608	262,391
Net Claims Provision	262,231	262,038
Net Unearned Premium Provision	38,972	32,396
10% movement in Net Claims Provision	26,223	26,204

The above assumes that the Syndicate's reinsurers share pro-rata in any deterioration in outstanding claims, which may not be the case, as excess of loss reinsurance will mitigate deteriorations in large losses more significantly than for attritional losses. The effect of any such distortion should be minor because the Syndicate does not affect significant amounts of outwards reinsurance. Unearned premiums should not be affected by such movements in outstanding claims; however, larger movements in loss ratios could trigger a need for an Unexpired Risk Provision if future expected claims rose above the level of the unearned premiums.

In order to mitigate reserving risk, the Syndicate uses a number of approaches, including actuarial techniques, to project gross and net premiums written and gross and net insurance liabilities. The results of these techniques are then subject to formal peer review to independently check the integrity of the estimates produced by the underwriting team. In addition, the Chief Actuary performs his own assessment of the Syndicate's ultimate gross and net premiums and insurance liabilities; this is used for reporting under Solvency II. The results of the actuary's projections are then compared to the underwriting team's assessment before determining the levels of reserve to be held.

The provision for claims yet to be paid comprises amounts separately set aside for claims reported and for claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's in-house reserving team. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The level of uncertainty with regard to the estimations within these provisions generally decreases with time after the underlying contracts were exposed to risk. By the nature of short-tail claims such as property, where claims are typically notified and settled within a short period of time, there will normally be materially less uncertainty after a few years than with long-tail risks such as some liability business where it is usually at least several years more before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes. These amounts are uncertain, being subject to uncertainty over the facts of reported claims, the number of claims still to be reported and still to occur on business that has been written, the level of inflation until the time of settlement, the outcome of disputes, including

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



31 DECEMBER 2018

2. RISK MANAGEMENT (CONTINUED)

court cases, on individual claims and any changes in the law regarding the settlement of particular claims. As time goes by a greater proportion of claims are settled, which reduces the level of uncertainty, although those remaining unsettled after a number of years are generally the most intractable, so the proportionate level of uncertainty increases.

The Syndicate's held technical provisions are set according to the Syndicate's reserving policy, which specifies that they should be set on a conservative basis, which means that they are higher than the technical provisions for Solvency II, which are based on projections of ultimate claims using actuarial methods designed to produce an estimate of the statistically expected best-estimate value of ultimate claims. This best-estimate basis is explained in more detail later in this note.

This margin above the net earned best estimate of technical provisions amounted to £100.3 million as at 31 December 2018, (2017: £79.1m) with over 93% of this relating to 2016 Account and prior years. This margin represents 33% of the net technical reserves at this year-end (2017: 30%). The extent of the margin is also influenced by the extent to which the actuary considers it appropriate to recognise reserves based upon the information available at a given time within his best estimate.

The increase by £21m in the margin above the actuary's best estimate to £100m is largely driven by underlying factors rather than an increase in the prudence in the approach to the selected ultimate claims reserves. Of this increase approximately £5m is due to the roughly 6% strengthening of the US\$ during 2018 (most of these liabilities are in US\$). An increase of approximately £4m arises from the inclusion of the business of an additional year. The remaining £12m arises from a reduction in the actuary's best-estimate reserves. Previously these best estimates included an element of prudence primarily allowing for an element of latent losses to emerge beyond the normal development tail. As a result of discussions with Lloyd's regarding business planning loss ratios it is no longer considered appropriate by the actuary to include such allowance within his best estimate and therefore the best estimate reserve has reduced, although the syndicate's selected reserve levels have remained largely unchanged as claims have to be paid for no matter when they emerge and this should not be a matter for future syndicate backers.

These held technical provisions are shown in these Financial Statements and are designed to be consistent with accounting regulations; the Signing Actuary provides statements of actuarial opinion on the sufficiency of these provisions. The margin in the reserves so created can absorb unexpectedly high payments of reserves and thus reduce reserving risk.

The largest element of this margin above best estimate is to address the risk of the emergence of latent claims for which no significant notifications have yet been received, especially from liability classes of business. These are claims that arise from causes from which damage is not identified until some years after the event that caused them. When they are identified they can give rise to substantial amounts of claims on many past years of account that had appeared to be fully run off. In the most important historical examples, the history of claims from asbestos and pollution show that changing scientific knowledge and legal frameworks can completely transform expected claims outcomes on any book of business. There have been few such categories of significant claims in the last 20 years but exposures remain. Potential sources for such future emergence of latent claims include failings in care and abuse of individuals, financial manipulation, various chemicals and products in everyday use and risks arising from the increasingly cyber-dependent world.

A general model for evaluating latent exposures from occurrence-form liability business has been developed by the Syndicate, using post World War 2 history as a guide, and is being used for the third time as at December 2018. The calculation takes into account various factors including the comparative scale of the previous losses, the Syndicate's relevant exposure, exposure periods and the frequency and probability of such losses in order to estimate the impact of losses of a similar scale to historical losses on post-1993 exposures. The most critical assumption is the probability that such a scale of latent loss will recur and affect these exposed years. The Syndicate continues to analyse and refine this calculation and calibrate it in line with all available information, and to refine its evaluation of its exposure to latent losses emerging, particularly from its long tail US business.

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2. RISK MANAGEMENT (CONTINUED)

An explicit reserve amount for latent liability exposures of £78.7m has been calculated as at 31 December 2018, which represents 78% of the overall margin (2017: £70.4m and 89% of the overall margin). Based purely upon flexing the probability element of the assumptions used, a 75th percentile would be £99.2m and a 50th percentile reserve would be £27.9m. The whole of this reserve falls within the margin as reserves for “the emergence of new claims types” is not included in the best-estimate calculation, according to Lloyd’s Valuation of Liabilities Rules.

An example of a new set of liabilities, which first came to the attention of the Syndicate in 2016, is the developing understanding of brain damage arising from certain sporting activity. While it has not yet been decided if any wrong has been committed, or any error made, this has already produced many plaintiffs who have plainly suffered real harm from their participation. Legal action has commenced in the USA to determine questions of responsibility. The events being complained of allegedly took place in the 1970s and in almost every year since. Certain theoretically possible outcomes of this litigation could cause claims to be brought against many thousands of occurrence-form policies issued over the same period, some directly involving the Syndicate as insurer, others likely to involve entities reinsured by the Syndicate. The Syndicate made significant allowance for the potential emergence of such claims at the previous year-end and this has been maintained at a similar level this year-end.

Accordingly the Syndicate considers it appropriate to maintain a reserve that has a significant margin to absorb a reasonable amount of such losses and to allow for the possibility of claims developments on policies decades after those policies have expired. For a Syndicate such as 727 which has remained at a similar size for several years the latent exposure from past years has the potential to have a significant effect on the Syndicate’s reserves should losses materialise. This allowance for latent exposures within reserves means that the Syndicate does not suddenly suffer a shock to its reserves every time a new potential source of latent exposure is identified. The margin that has been included in the reserves is not simply a general level of prudence that would see the capital providers through any storm, but is the result of a specific analysis on the effect an asbestos-like scenario would have on the business written since 1993 and the probabilities thereof. The outcome of this has assisted in the reserve-setting process.

The Syndicate also assesses its liabilities on a best-estimate basis, the results of which are not intended to be conservative, and which are designed to be used in certain returns to Lloyd’s. These estimates are designed to comply with the technical provisions requirements of Solvency II, which also require other elements to be added to the technical provisions. The estimated unpaid claims on the best-estimate basis are lower than those used by the Syndicate for accounting purposes; these differences tend to be greatest in long-tailed lines of business, such as liability, and smallest in the short-tail property-related lines. The best-estimate provisions are set using a variety of standard and adapted actuarial methods. Both sets of estimates are considered by the Board, which adopts them for their particular uses.

For Solvency II reporting purposes the technical provisions are separately submitted to Lloyd’s on an underwriting-year basis rather than an earnings basis, and start with a best-estimate amount. This is then adjusted to include allowance for certain extra expenses and a provision for losses arising from events not in the data and then discounted for the time value of money. These technical provisions also are required to include a risk margin calculated in accordance with Solvency II principles to reflect the uncertainty inherent in the run-off of claims. To a certain extent this risk margin performs the same function as the margin in the held reserves in that it is available to fund a deterioration in reserves and protects against reserve risk. In accordance with Lloyd’s valuation of liability rules these reserves include an allowance for claims arising for events not in the data, but do not allow for the possibility of the emergence of new claims types.

The assessment of these provisions is usually the most subjective aspect of an insurer’s accounts and may result in greater uncertainty within an insurer’s accounts than within those of many other businesses. The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

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31 DECEMBER 2018

2. RISK MANAGEMENT (CONTINUED)

Adjustments to the amounts of claims provisions established in prior years are reflected in the Financial Statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

2.3 Market Risk

Market risk arises where the value of assets and liabilities change as a result of movements in foreign exchange rates, known as currency risk, interest rates, inflation rates and market prices (spread risk). Detailed guidelines for the in-house investment managers are in place and the Board and its Investment Committee regularly monitor investment performance and the associated risks. Financial investments represent a significant proportion of the Syndicate's assets.

(a) Currency Risk

Currency risk is the risk that the Syndicate makes losses in sterling because the value of assets or liabilities denominated in foreign currency falls or rises as exchange rates change. The principal mitigant for currency risk is matching: holding assets by currency in the same proportions as the liabilities, so that a reduction in the sterling value of non-sterling assets is offset by a similar reduction in the sterling value of non-sterling liabilities and similarly that an increase in the value of liabilities is offset by an increase in the value of assets.

The Syndicate's main exposure to foreign currency risk arises from insurance business originating overseas, particularly in US Dollars. The Syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The Syndicate deals in three main currencies: UK Sterling, Canadian Dollars and US Dollars. Transactions also take place in other currencies, although these are immediately converted to UK Sterling.

A 10% fall in the value of all non-sterling currencies at 31 December 2018 would lead to a £0.976m loss (2017: £0.263m) with Canadian Dollar net assets being the largest element of that at £0.767m (2017: US Dollar 0.501m). The Syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The Syndicate has not taken out any transactions to hedge these balances; the holding of assets in similar proportions to liabilities provides an important element of hedging.

Because of the US Dollar Trust Fund requirements a large proportion of the overall net assets are held in US Dollars, and there is a deficit in Sterling due to expenses. The total net assets held by the Syndicate in US Dollars represented 90% compared with 91% at the end of 2017. The setting of the Syndicate Capital Requirement has shown that the Syndicate's capital is held mainly against the risk of unexpectedly high claims occurring in US dollars. The holding of net assets predominantly in US dollars is therefore a good match for the capital requirement and the mismatching of assets to liabilities by currency is more apparent than real.

Recent key exchange rates to Pounds Sterling have been:

	2018 Year-end Rate	2018 Average Rate	2017 Year-end Rate	2017 Average Rate
US Dollar	1.27	1.34	1.35	1.29
Canadian Dollar	1.74	1.73	1.70	1.67

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2. RISK MANAGEMENT (CONTINUED)

	£ £'000	US\$ £'000	Can\$ £'000	Total £'000
As at 31-12-18				
Financial investments	–	229,601	14,533	244,134
Reinsurers' share of technical Provisions	(152)	617	–	465
Insurance & reinsurance debtors	3,826	17,229	792	21,847
Cash at bank & overseas deposits	6,206	6,516	1,642	14,364
Other assets (including Letters of Credit)	2,420	13,494	1,230	17,144
Total assets	12,300	267,457	18,197	297,954
Technical provisions	(31,443)	(259,708)	(10,517)	(301,668)
Provision for other risks and charges	–	(5,152)	–	(5,152)
Insurance & reinsurance creditors	(52)	(914)	(14)	(980)
Other creditors	(1,388)	(56)	–	(1,444)
Total liabilities	(32,883)	(265,830)	(10,531)	(309,244)
Surplus/(deficiency) of assets	(20,583)	1,627	7,666	(11,290)
	£ £'000	US\$ £'000	Can\$ £'000	Total £'000
As at 31-12-17				
Financial investments	6,291	219,067	15,044	240,402
Reinsurers' share of technical provisions	(139)	596	2	459
Insurance & reinsurance debtors	3,864	10,369	1,214	15,447
Cash at bank & overseas deposits	5,368	5,666	1,826	12,860
Other assets (including Letters of Credit)	2,676	8,540	1,315	12,531
Total assets	18,060	244,238	19,401	281,699
Technical provisions	(35,672)	(246,961)	(12,260)	(294,893)
Provision for other risks and charges	–	–	–	–
Insurance & reinsurance creditors	(145)	(1,146)	(13)	(1,304)
Other creditors	(716)	(1,142)	–	(1,858)
Total liabilities	(36,533)	(249,249)	(12,273)	(298,055)
Surplus/(deficiency) of assets	(18,473)	(5,011)	7,129	(16,356)

All other currencies are converted to Sterling and no significant balance is held.

(b) Interest Rate Risk

Interest-rate risk is the risk of loss due to changes in asset values arising from changes in rates of interest. The Syndicate's main exposure to fluctuation in interest rates arises from its effect on the value of funds invested in bonds. In order to mitigate this risk, the Board monitors the economic situation to seek to anticipate any future interest-rate movements and to take appropriate action to mitigate its effect on the value of investments held. However, the main mitigant to this risk is that the Syndicate's investments are predominantly held in bonds with outstanding terms of two years or less: the sensitivity of the value of bonds of such short duration to changes in interest rates is very low.

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

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2. RISK MANAGEMENT (CONTINUED)

The fair value of the Syndicate's fixed income assets as at 31 December 2018 was £244m (2017: £240m). If interest rates increase bond values will fall, although future yields on these values will be higher and interest earnings on balances with banks and credit institutions should increase. The following analysis shows only the sensitivity of bond values to movements in interest rates.

	2018	2017
	£'000	£'000
Impact of a 50 basis point increase in interest rates on result & net assets	(1,172)	(1,241)
Impact of a 50 basis point decrease in interest rates on result & net assets	1,196	1,222

(c) Inflation risk

This is the risk that changes in the rate of inflation may adversely affect the value of investments. The Syndicate does not hold any inflation-linked assets, which means that this risk is eliminated. The possible effect of higher inflation on claims values is allowed for under insurance risk.

(d) Spread risk

This is the risk that the interest-rate spread between bonds of various credit ratings may increase and therefore drive down the value of investments even in the absence of a general reduction in interest rates. This risk is mitigated in a similar manner to interest-rate risk: since all assets are held in short-term securities the effect of any increase in spread is minimised.

2.4 Credit Risk

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

- Reinsurers: reinsurers may fail to pay valid claims against a reinsurance contract held by the Syndicate.
- Brokers and Intermediaries: counterparties fail to pass on premiums collected or claims paid on behalf of the Syndicate.
- Investments: issuer default or credit downgrading results in the Syndicate losing all or part of the value of a financial instrument.

The Syndicate effects very little outwards reinsurance and does not rely on it significantly to mitigate insurance risk: it is the Syndicate's policy to write a book of business that can be fully retained. Therefore the Syndicate's exposure to reinsurance credit risk is low.

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31 DECEMBER 2018

2. RISK MANAGEMENT (CONTINUED)

The following ratings are based upon Standard & Poor's classifications or other rating agencies classifications equivalents with AAA being the highest.

	AAA £'000	AA £'000	A £'000	BBB £'000	Unrated £'000	Total £'000
As at 31-12-2018						
Debt securities and other fixed income securities	–	26,150	77,919	113,530	–	217,599
Shares and other variable yield securities	280	1,581	24,468	–	206	26,535
Overseas deposits	5,487	829	1,145	760	402	8,623
Reinsurers' share of claims outstanding	–	–	36	–	341	377
Cash at bank and in hand	–	5,741	–	–	–	5,741
Reinsurance debtors	–	–	–	–	–	–
Total credit risk	5,767	34,301	103,568	114,290	949	258,875
As at 31-12-2017						
Debt securities and other fixed income securities	–	16,219	70,264	116,283	–	202,766
Shares and other variable yield securities	2,176	8,375	26,275	–	808	37,634
Overseas deposits	4,522	920	1,367	801	394	8,004
Reinsurers' share of claims outstanding	–	–	45	–	308	353
Cash at bank and in hand	–	4,853	–	–	–	4,853
Reinsurance debtors	–	–	–	–	–	–
Total credit risk	6,698	30,367	97,951	117,084	1,510	253,610

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

No Syndicate assets are classified as past due except for insurance debtors of £NIL (2017: £NIL), and reinsurance debtors of £56,653 (2017: £175,511).

Assets are classified as past due when the contractual payment is in arrears. An assessment is performed on all assets, which may result in an impairment charge being recorded in the profit and loss account if the Managing Agent considers this to be appropriate.

2.5 Liquidity Risk

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligations when due, or to ensure compliance with the Syndicate's obligations under the various trust deeds to which it is party.

The Syndicate's aim is to manage its liquidity position so that it can fund claims arising from significant catastrophic events, as modelled in its Lloyd's realistic disaster scenarios.

The Syndicate's approach is to maintain an adequate level of liquid assets that can be translated into cash at short notice without any significant capital loss. These funds are monitored by management on a daily basis and as a result the Managing Agent does not consider that there is a material risk of loss arising from liquidity risk.

No payments are contractually deferred other than the £1.014m (2017: £1.415m) profit commission due to the Managing Agent in respect of the closing year, which is not due for payment until three months after closure.

The expected cashflow in respect of outstanding claims is set out separately in Note 4.

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S



31 DECEMBER 2018

2. RISK MANAGEMENT (CONTINUED)

2.6 Operational Risk

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

2.7 Other Risks

(a) Annual Venture Risk

Under the Lloyd's annual-venture regime, the Syndicate has to show annually that it has enough supporting capital to carry on underwriting. To mitigate the risk that the Syndicate will not have sufficient backing to continue to trade, the Managing Agent has adopted a policy of diversifying the Syndicate's capital base, including using funds supplied by related parties to support the Syndicate's underwriting.

(b) Solvency Risk

In the event of extreme adverse claims experience, it is possible that the Syndicate may not be able to settle its claim liabilities out of its own funds. In that event, the capital structure underpinning the Syndicate is such that any deficits can be called from the Syndicate's capital providers (Members) in accordance with Lloyd's rules. In the event of any Member being unable to fulfil its share of such a call, Lloyd's Central Guarantee Fund may, at Lloyd's discretion, be applied to make good any deficits for the benefit of policyholders.

(c) Regulatory Risk

The Managing Agent is authorised by the Prudential Regulatory Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority in respect of its management of the Syndicate. Failure to comply with applicable regulations could result in a variety of sanctions, the most extreme being a withdrawal of the right to underwrite business.

The Managing Agent has established a business ethos in which best practice is the required standard for all operations, both in the commercial interests of the business and to ensure regulatory compliance.

Management has also put in place appropriate monitoring structures to mitigate the risk of failing to meet this standard.

(d) Other Risks

Comments on other risks are also included in the Strategic Report.

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3. ANALYSIS BY CLASS OF BUSINESS

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

	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000	Total technical result £'000
2018						
Direct Insurance						
Accident and health	5,016	5,051	(2,001)	(1,889)	(69)	1,092
Motor (third party liability)	193	186	(143)	(57)	–	(14)
Motor (other classes)	7,097	5,224	(2,959)	(2,010)	(2)	253
Marine aviation and transport	1,523	1,029	(552)	(409)	–	68
Fire and other damage to property	19,840	20,867	(10,502)	(8,265)	25	2,125
Third party liability	18,366	16,294	(10,735)	(11,125)	(9)	(5,575)
Credit and suretyship	225	252	122	(114)	–	260
Total Direct	<u>52,260</u>	<u>48,903</u>	<u>(26,770)</u>	<u>(23,869)</u>	<u>(55)</u>	<u>(1,791)</u>
Reinsurance inwards	<u>20,810</u>	<u>19,309</u>	<u>(5,058)</u>	<u>(5,188)</u>	<u>(337)</u>	<u>8,726</u>
Total	<u>73,070</u>	<u>68,212</u>	<u>(31,828)</u>	<u>(29,057)</u>	<u>(392)</u>	<u>6,935</u>
2017						
Direct Insurance						
Accident and health	4,001	4,209	(4,385)	(1,606)	(12)	(1,794)
Motor (third party liability)	128	119	140	(35)	–	224
Motor (other classes)	4,070	3,558	(2,958)	(1,207)	–	(607)
Marine aviation and transport	587	554	59	(257)	–	356
Fire and other damage to property	19,993	19,813	(18,482)	(7,242)	(74)	(5,985)
Third party liability	16,088	16,507	(16,753)	(5,746)	16	(5,976)
Credit and suretyship	184	177	162	(117)	(6)	216
Total Direct	<u>45,051</u>	<u>44,937</u>	<u>(42,217)</u>	<u>(16,210)</u>	<u>(76)</u>	<u>(13,566)</u>
Reinsurance inwards	<u>18,062</u>	<u>19,327</u>	<u>(12,840)</u>	<u>(6,453)</u>	<u>1,653</u>	<u>1,687</u>
Total	<u>63,113</u>	<u>64,264</u>	<u>(55,057)</u>	<u>(22,663)</u>	<u>1,577</u>	<u>(11,879)</u>

Total commissions for direct insurance written in the year amounted to £15.3m (2017: £13.3m).

All premiums written are in respect of contracts concluded in the UK.

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3. ANALYSIS BY CLASS OF BUSINESS (CONTINUED)

To provide some indication of geographic spread of risks, the following is an analysis of gross premiums earned by currency, which has been used as a proxy for risk location.

	2018 £'000	2017 £'000
United Kingdom	9,293	9,499
European Union (excluding UK)	1,870	1,999
United States	49,062	45,137
Other	7,987	7,629
Total	<u>68,212</u>	<u>64,264</u>
	2018 £'000	2017 £'000
Reinsurers' share of earned premiums	(457)	(542)
Reinsurers' share of incurred claims	65	2,119
(Loss)/profit arising from reinsurance ceded	<u>(392)</u>	<u>1,577</u>

4. TECHNICAL AND OTHER PROVISIONS

	2018 £'000	2017 £'000
Gross Provisions		
Provision for unearned premiums	(39,060)	(32,502)
Claims outstanding	<u>(262,608)</u>	<u>(262,391)</u>
Gross technical provisions	(301,668)	(294,893)
Provision for other risks and charges (Note 5)	(5,152)	–
	<u>(306,820)</u>	<u>(294,893)</u>
Reinsurers' Share of Technical Provisions		
Provision for unearned premiums	88	106
Claims outstanding	<u>377</u>	<u>353</u>
	<u>465</u>	<u>459</u>
Net Provisions		
Provision for unearned premiums	(38,972)	(32,396)
Claims outstanding	<u>(262,231)</u>	<u>(262,038)</u>
Net technical provisions	(301,203)	(294,434)
Provision for other risks and charges (Note 5)	(5,152)	–
	<u>(306,355)</u>	<u>(294,434)</u>

Reconciliation of Movements in Year

2018	At 01-01-2018 £'000	Mvt in Tech Ac £'000	Exch Mvt £'000	At 31-12-18 £'000
Gross provision for claims	(262,391)	13,220	(13,437)	(262,608)
Reinsurers' share of provision	353	(7)	31	377
Unearned premium – gross	(32,502)	(4,858)	(1,700)	(39,060)
Reinsurers' share of unearned premium	106	(24)	6	88
Deferred acquisition costs (Note 5)	9,030	1,553	428	11,011

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4. TECHNICAL AND OTHER PROVISIONS (CONTINUED)

	At 01-01-17 £'000	Mvt in Tech Ac £'000	Exch Mvt £'000	At 31-12-17 £'000
2017				
Gross provision for claims	(271,047)	(11,077)	19,733	(262,391)
Reinsurers' share of provision	659	(248)	(58)	353
Unearned premium	(35,750)	1,151	2,097	(32,502)
Reinsurers' share of unearned premium	125	(11)	(8)	106
Deferred acquisition costs (Note 5)	9,514	13	(497)	9,030

Claims development triangulations

Gross Claims Development as at 31 December 2018

Pure underwriting year ultimate gross claims	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
At the end of the underwriting year	43,809	42,298	33,754	27,154	24,396	19,931	27,719	18,375	–
After one year	75,549	71,638	56,945	53,173	49,176	50,005	51,508	–	–
After two years	78,749	71,093	57,167	55,052	61,731	54,883	–	–	–
After three years	72,500	66,617	54,667	53,287	58,589	–	–	–	–
After four years	69,938	64,985	51,909	50,554	–	–	–	–	–
After five years	66,706	61,864	51,072	–	–	–	–	–	–
After six years	65,013	60,037	–	–	–	–	–	–	–
After seven years	68,526	–	–	–	–	–	–	–	–
Gross ultimate claims on premium earned to date	68,526	60,037	51,072	50,554	58,589	54,883	51,508	18,375	413,544
Gross ultimate claims on premium earned to date for 2010 and prior years	–	–	–	–	–	–	–	–	1,421,358
Less gross claims paid	(51,988)	(44,966)	(34,017)	(30,619)	(33,153)	(28,784)	(21,494)	(3,875)	(1,572,294)
Gross outstanding claims reserve	16,538	15,071	17,055	19,935	25,436	26,099	30,014	14,500	262,608

Net Claims Development as at 31 December 2018

Pure underwriting year ultimate net claims	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
At the end of the underwriting year	43,759	42,193	33,702	27,104	24,346	19,881	26,288	18,322	–
After one year	75,353	71,371	56,743	53,048	49,114	49,351	50,078	–	–
After two years	78,613	70,837	56,983	53,389	60,619	54,229	–	–	–
After three years	72,366	66,361	54,483	53,181	58,524	–	–	–	–
After four years	69,804	64,729	51,720	50,448	–	–	–	–	–
After five years	66,572	61,608	50,884	–	–	–	–	–	–
After six years	64,880	59,780	–	–	–	–	–	–	–
After seven years	68,392	–	–	–	–	–	–	–	–
Net ultimate claims on premium earned to date	68,392	59,780	50,884	50,448	58,524	54,229	50,078	18,322	410,657
Net ultimate claims on premium earned to date for 2010 and prior years	–	–	–	–	–	–	–	–	1,275,673
Less net claims paid	(51,857)	(44,718)	(33,828)	(30,512)	(33,087)	(28,131)	(20,063)	(3,823)	(1,424,098)
Net outstanding claims reserve	16,535	15,062	17,056	19,936	25,437	26,098	30,015	14,499	262,231

The table above utilises the transition provisions available on adoption to show only 8 years development history.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2018

4. TECHNICAL AND OTHER PROVISIONS (CONTINUED)

The expected cashflows of the gross technical provisions for outstanding claims as at 31 December 2018, is as follows:

	Less than 1 Year £'000	1-2 Years £'000	3-5 Years £'000	Over 5 Years £'000	Total £'000
Gross technical provisions for outstanding claims	(59,604)	(70,267)	(38,204)	(94,533)	(262,608)

The expected cashflows of the gross technical provisions for outstanding claims as at 31 December 2017, is as follows:

	Less than 1 Year £'000	1-2 Years £'000	3-5 Years £'000	Over 5 Years £'000	Total £'000
Gross technical provisions for outstanding claims	(58,248)	(69,058)	(36,261)	(98,824)	(262,391)

Significant movements in year 2018 for net ultimate claims provisions created at previous year end and relating to accident years up to year 2017 (positive values show increases in provisions):

	2018 £'000	2017 £'000
Accident and health	(1,346)	494
Fire & other damage to property	(4,583)	936
Third party liability	(3,955)	(637)
Property Reinsurance	(6,114)	(3,484)
Liability Reinsurance	(815)	(2,433)

The overall pattern is consistent with a prudent reserving approach.

5. NET OPERATING EXPENSES

	2018 £'000	2017 £'000
Brokerage and commissions	18,303	15,500
Other acquisition costs	1,216	1,190
Acquisition costs	19,519	16,690
Change in deferred acquisition costs (Note 4)	(1,553)	(13)
Acquisition costs earned	17,966	16,677
Administrative expenses	11,091	5,986
	<u>29,057</u>	<u>22,663</u>

Administrative expenses include:

Legal and related costs incidental to USA underwriting, as described below*:

A provision for future costs as a result of underwriting certain classes of business in the USA	4,883	-
New York State Department for Financial Services Consent Order (see note below*)	507	-
Legal expenses incurred in relation to the above	229	-
	<u>5,619</u>	<u>-</u>
Members' personal expenses	<u>1,917</u>	<u>2,514</u>
Fees Payable to the Syndicate's Auditors for:		
The audit of the Syndicate's Financial Statements	113	90
Other services pursuant to legislation (e.g. Returns to Lloyd's)	50	50
Services relating to taxation	5	5
All other services	1	-
	<u>169</u>	<u>145</u>

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



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5. NET OPERATING EXPENSES (CONTINUED)

*The asterisked expense charge of £5,619,000 (which includes a £4,883,000 provision for future payment of similar charges of a US\$ equivalent of US\$6,543,060 expressed at US\$/£ average fix rate (also identified in Note 5, expressed at US\$/£ closing fix rate amounting to £5,152,000), although not arising from any new aspect of the business, is appearing for the first time under a stand-alone label within the accounts following the first significant settlement of such an item, which resulted in a reassessment and change of view about the appropriate presentation of such items. This change chiefly arises from the need to differentiate between sums paid or payable to policyholders and sums payable to others who are agents neither of policyholders nor of underwriters. For a number of years, provision has been made within the RITC for similar non-policy-related expenses, but the marked surge during 2018 in the amounts involved has exceeded the provision created at December 2017.

Costs such as these arise from several sources. From time to time accusations are received regarding alleged transgressions of various regulations including the US Surplus Lines regulations. These Surplus Lines rules vary from state to state and deal both with important issues, such as whether particular business is actually available (basically business is not available to surplus lines writers if any local insurer would underwrite it), and with more mundane matters (such as stipulating font sizes for key policy statements). Some of these rules are so complex that it is necessary to consult US lawyers for guidance on what is and is not permissible. Fines which follow on from such transgressions are often known as 'civil penalties'. During 2018, the New York regulators discovered an alleged transgression in connection with a binding authority that Syndicate 727, along with several other syndicates, had supported for many years. 727 had never been in a lead capacity. NY levied a fine of US\$5 million on the Lloyd's market, 727's share being US\$679,015, spread over 13 contracts from 2005 to 2017 inclusive. There were substantial legal expenses involved in defending this and other cases.

At most times, in fact, various allegations are on the table emanating from the USA and elsewhere, and one current case in particular is worthy of mention. There is a group of US attorneys who believe there is an arguable case that the structure of the centrally-regulated Lloyd's insurance market is inimical to the interests of the US insurance-buying public. In 2007, from the many thousands of policies and contracts done in Lloyd's every year, two arrangements were selected to attack as examples and 727 happened to have been on one of them. The case has been rumbling on ever since and the syndicates on the slips have been obliged to employ US lawyers to defend themselves in the US courts, they have been obliged to produce copious volumes of documentation and to attend mediation in New York, all of which are costly in terms of time and money. (Although the degree of centralisation within Lloyd's is totally beyond our control, and the plaintiffs will, a few years hence and if successful, be able to come back for another bite at the cherry, Lloyd's itself has declined to assist in any way those syndicates unlucky enough to have been caught in this particular net.)

The surge in costs, mentioned above, reflects the increasingly partisan and poisoned atmosphere regarding doing business generally in the USA, which will likely get worse before it gets better. Every allegation, no matter how far-fetched, has to be defended, and that costs a lot of money. These costs are today an ever-present part of the cost of conducting business, and they arise no matter how properly and circumspectly the business has been conducted. It is for this reason that it has been concluded that such costs are correctly labelled as operating costs to be borne by the syndicate. In addition, something extra is required in the rates to compensate underwriters accordingly.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



31 DECEMBER 2018

6. EMPLOYEES

All staff are employed by the Managing Agency. The following amounts were recharged to the Syndicate in respect of salary costs (this excludes any benefits where the costs are retained elsewhere in the Managing Agency):

	2018	2017
	£'000	£'000
Wages and salaries	2,784	2,669
Social security costs	346	331
Other pension costs	102	95
	3,232	3,095

The average number of employees employed by the Managing Agency but working for the Syndicate during the year was as follows:

	No.	No.
Administration and finance	18	18
Underwriting	6	6
Claims	3	3
	27	27

7. DIRECTORS' AND ACTIVE UNDERWRITER'S EMOLUMENTS

The Directors of S A Meacock & Company Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2018	2017
	£'000	£'000
Emoluments	1,387	1,351
Contributions to defined contribution pension schemes	10	10
	1,397	1,361

The above total also represents Key Management Personnel Compensation as there are no other staff who are considered key management and there is no other compensation receivable by the Directors recharged to this Syndicate.

Active Underwriter's emoluments:

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

Emoluments	197	196
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The above amounts exclude any benefits not recharged to the Syndicate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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8. INVESTMENT RETURN

	2018 £'000	2017 £'000
Income from investments	9,021	8,591
Gains on the realisation of investments	2,573	307
Investment income	11,594	8,898
Losses on realisation of investments	(3,425)	(6,106)
Investment expenses and charges	(3,425)	(6,106)
Unrealised gains on investments	21	1,306
Unrealised losses on investments	(3,822)	(434)
Net unrealised gains/(losses) on investments	(3,801)	872
Allocated investment return transferred to the Technical Account from the Non-Technical Account	4,368	3,664
Total Investment Return	4,368	3,664
The above is comprised of:		
Interest and dividend income from financial assets at fair value through profit or loss	9,021	8,591
Net realised and unrealised gains and losses from financial assets at fair value through profit or loss	(4,653)	(4,927)
Total Investment Return	4,368	3,664

9. OTHER FINANCIAL INVESTMENTS

	2018 £'000	Valuation 2017 £'000	2018 £'000	Cost 2017 £'000
Financial assets at fair value through profit or loss:				
Shares and other variable yield securities and units in unit trusts	26,535	37,635	26,535	37,407
Debt securities and other fixed income securities	217,599	202,767	221,698	206,073
Total	244,134	240,402	248,233	243,480

Fair value hierarchy

The above financial instruments carried at fair value have been classified by valuation method into three fair value hierarchy levels based on the reliability of inputs used in determining fair values, with Level 1 being the most reliable. The three levels are as follows:

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2018

9. OTHER FINANCIAL INVESTMENTS (CONTINUED)				
2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets at fair value through profit or loss				
Shares and other variable yield securities and units in unit trusts	10,026	16,509	–	26,535
Debt securities and other fixed income securities	217,599	–	–	217,599
	<u>227,625</u>	<u>16,509</u>	<u>–</u>	<u>244,134</u>
Overseas deposits as other assets				
Deposits with credit institutions	4,381	4,242	–	8,623
	<u>232,006</u>	<u>20,751</u>	<u>–</u>	<u>252,757</u>
2017				
Financial assets at fair value through profit or loss				
Shares and other variable yield securities and units in unit trusts	8,263	29,372	–	37,635
Debt securities and other fixed income securities	202,767	–	–	202,767
	<u>211,030</u>	<u>29,372</u>	<u>–</u>	<u>240,402</u>
Overseas deposits as other assets				
Deposits with credit institutions	3,310	4,696	–	8,006
	<u>214,340</u>	<u>34,068</u>	<u>–</u>	<u>248,408</u>

The investments within the 3 levels mainly comprise the following:

Level 1 includes government and corporate bonds and equities based on listed prices on active markets.

Level 2 includes government and corporate bonds based upon prices supplied by investment managers and custodians and mutual funds invested in moneymarket investments.

Level 3 includes unquoted equities and other investment funds based upon net asset values provided by fund administrators.

10. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2018 £'000	2017 £'000
Due within one year:		
Intermediaries	<u>12,356</u>	<u>6,829</u>

11. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

Due within one year	<u>9,491</u>	<u>8,618</u>
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12. OTHER DEBTORS

Other debtors	<u>2,282</u>	<u>234</u>
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 DECEMBER 2018

13. CREDITORS

	2018	2017
	£'000	£'000
Creditors arising out of Direct Insurance Operations:		
Due within one year:		
Intermediaries	312	645
Creditors arising out of Reinsurance Operations		
Due within one year:		
Intermediaries	668	659
Financial liabilities at amortised cost	980	1,304

Other creditors amounting to £1.234m (2017: £1.858m) include profit commission payable to the syndicates Managing Agent of £1.014m (2017: £1.415m).

14. POST BALANCE SHEET EVENTS

The following amounts are proposed to be transferred to the Members' personal reserve funds during 2019 (2018).

	2018	2017
	£'000	£'000
2016 Year of account (2015 Year of account)	3,990	5,762

15. YEAR OF ACCOUNT DEVELOPMENT

The following table shows how the results of the recent Years of Account were earned by calendar year:

	2015	2016	2017	Calendar Years	Cumulative
Year of Account	£'000	£'000	£'000	2018	Result
				£'000	£'000
2015	(5,592)	3,903	8,003	–	6,314
2016		(4,827)	(3,852)	13,218	4,539
2017			(12,520)	2,025	(10,495)
2018				(4,069)	(4,069)
Calendar Year Result			(8,369)	11,174	

16. REGULATORY CAPITAL REQUIREMENTS

Funds at Lloyd's

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



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16. REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with Solvency II legislation from 1 January 2016.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and Member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 727 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 2019 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.

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

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S

31 DECEMBER 2018

17. RELATED PARTIES

- (a) Lloyd's market regulations require that a Managing Agent is responsible for employing the underwriting staff and managing the affairs of each Syndicate at Lloyd's on behalf of the Syndicate Members. The Managing Agent of Syndicate 727 is S A Meacock & Company Limited.

The underwriting participations of the Directors of S A Meacock & Company Limited, both as individual Names (unlimited and Nameco) and through their share in Meacock LLP, a corporate vehicle, are shown below:

Underwriting Participations in years of account (£000s):

	2019 Account		2018 Account		2017 Account		2016 Account		2015 Account	
	£000's	%OPL	£000's	%OPL	£000's	%OPL	£000's	%OPL	£000's	%OPL
M P Bartlett	130	100	130	100	130	100	130	100	130	100
N N S Ford	350	100	350	100	350	100	350	100	350	100
K W Jarvis	450	100	450	100	450	100	450	100	450	100
D J Jones	200	100	200	100	200	100	200	100	200	100
J M Meacock	245	27	243	27	218	28	193	27	193	27
M J Meacock	4,227	50	4,227	50	4,327	52	4,227	55	4,086	53
A Taylor	736	100	736	100	736	100	736	100	736	100
Sir David Thomson Bt	1,719	32	1,594	30	1,594	31	1,594	34	1,480	32
D A Thorp	450	100	450	100	450	100	450	100	450	100
D K L White	-	-	-	-	-	-	-	-	-	-
Meacock LLP (other than those shown above, both current and former staff)	260	100	260	100	185	100	285	100	285	100

- (b) Corporate Member related to the Managing Agent:

Meacock Capital plc (MC) which has a total issued share capital of 5,295,146 ordinary 25 pence shares owns 100% of Meacock Underwriting Limited (MU) which participates on Syndicate 727 on standard terms and with the following capacity:

	£
2015	13,088,183
2016	13,088,183
2017	13,202,112
2018	13,622,091
2019	13,622,091

The following Directors, related parties or connected persons, hold shares in MC:

	2015-2017		2018-2019	
	ORD. 25P	%SHARE CAP	ORD. 25P	%SHARE CAP
C N Jarvis (wife of K W Jarvis)	83,000	1.57	83,000	1.57
C E Meacock	529,000	9.99	529,000	9.99
J M Meacock	529,000	9.99	529,000	9.99
J W S Meacock	529,000	9.99	529,000	9.99
M J Meacock	1,125,886	21.26	1,372,509	25.92
W T R Meacock	529,000	9.99	529,000	9.99
Sir David Thomson Bt	156,600	2.96	156,600	2.96
D A Thorp	56,000	1.06	56,000	1.06

N O T E S T O T H E A N N U A L F I N A N C I A L S T A T E M E N T S

31 DECEMBER 2018

17. RELATED PARTIES (CONTINUED)

(c) Amounts due to/(from) Members for each underwriting year for the above Members are calculated and distributed in the same way as for all other Members, and are included in the total of £(11.290)m (2017: £(16.356)m) shown as Members' Balances in the balance sheet as at 31 December 2018.

Directors of S A Meacock & Company Limited and related companies of S A Meacock & Company Limited entered into transactions with the Syndicate as follows:-

- (d) Members' expenses, being agent's fees and profit commission payable to the Managing Agent, and subscriptions and Central Fund contributions paid to Lloyd's, are charged on an underwriting year of account, rather than calendar year basis. For the 2018 underwriting year of account S A Meacock & Company Limited has charged an agent's fee of 0.6% of capacity and, when the year of account result is finalised, usually after 36 months, will charge a profit commission of 20% of the relevant profit (2017: 0.6% and profit commission 20%). Within the annual financial statements for the 2018 calendar year, fees of £0.484m and profit commission of £1.014m have been reflected within net operating expenses (2017: fees £0.484m and profit commission £1.415m). At 31 December 2018 there are no unpaid fees but profit commission of £1.014m (2017: £1.415m) was unpaid.
- (e) The Managing Agent incurs a large proportion of the expenses incurred in operating the Syndicate and recharges them to the Syndicate on a basis that reflects the Syndicate's use of resources. The recharges are included within amounts disclosed as net operating expenses, acquisition costs, claims incurred and investment expenses and charges. Included within the recharges are amounts relating to the remuneration of Directors of S A Meacock & Company Ltd. The total amount recharged by the Managing Agent to the Syndicate during 2018 was £3.853m (2017: £3.695m) excluding agent fees and profit commission. As at 31 December 2018 an amount of £Nil was due to the Managing Agent in relation to expenses (2017: £Nil).
- (f) Mr M J Meacock is a Non-Executive Director of Alpha Insurance Analysts Limited (Alpha), a Lloyd's Members' agency. Neither Mr M J Meacock nor the company have a financial interest in Alpha.
- (g) For the period 1 January 2006 to 19 August 2016, Mr J M Meacock was a non-executive director of S A Meacock & Company Ltd and a senior broker with JLT Re, a JLT Re Ltd company (including predecessor companies Towers Watson/Towers Perrin) which placed business with Syndicate 727. Mr J M Meacock was not personally involved in the transaction of any business with Syndicate 727 and did not receive any form of direct remuneration or commission for this business. In view of the potential conflict of interest from this activity and the fact that his father, Mr M J Meacock is the Active Underwriter and 67.2% shareholder of the company, Mr J M Meacock did not participate on any of the board sub-committees that provided 'oversight' to operations or governance. With effect from 1 July 2016, Mr J M Meacock resigned from his position with JLT Re and following Board and regulatory approval was appointed an executive director of the company which commenced on 3 October 2016.
- (h) Mr W T R Meacock, was appointed a Director of Meacock Capital plc and Meacock Underwriting Limited on 1 October 2010. He is also a Director of Guy Carpenter & Company LLC, a Marsh McLennan company, which does place business with Syndicate 727. Mr W T R Meacock is not personally involved in the placing of any business with Syndicate 727 and does not receive any form of direct remuneration or commission for this business.
- (i) The following other 'close family' members of Mr M J Meacock also participated on Syndicate 727, on standard terms:

	2019 ACCOUNT £000's	2018 ACCOUNT £000's	2017 ACCOUNT £000's	2016 ACCOUNT £000's	2015 ACCOUNT £000's
C E Meacock (son)	182	182	182	182	182
J W S Meacock (son)	193	193	193	193	193
Mrs R J R Meacock (wife)	626	626	626	626	626
W T R Meacock (son), via Elnry Ltd	160	160	160	160	160

U N D E R W R I T E R ' S R E P O R T



31 DECEMBER 2018

17. RELATED PARTIES (CONTINUED)

(j) There were no unpaid balances due to the Syndicate at 31 December 2018 from any of the Members detailed in Notes 17(a) and 17(i) above.

(k) The company managed the Small Business Consortium (SBC) in which Syndicate 727 participated until 31 December 2012. Consortium members (participating Syndicates) reimburse the company (consortium manager) for expenses of management and pay profit commission to the consortium manager on the profits of the consortium. Members' agents (on behalf of the Members for whom they act) and direct participants have given their written agreement to the retention by the company of sums received under the consortium agreement. During the year ended 31 December 2018 the company received profit commission of £nil (2017: £nil).

18. PENSION OBLIGATIONS

The Managing Agent operates a defined contribution scheme for its employees including Syndicate staff. The cost of the contributions made for the year recharged to the Syndicate was £0.10m (2017: £0.09m) and there were no outstanding or prepaid contributions at the end of this year or the previous year.

