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Coverys Managing Agency Limited

Report and Financial Statements
Syndicate 1110
for the year ended
31 December 2018

Administration

Managing agent
Coverys Managing Agency Limited
One Creechurch Place
London EC3A 5AF

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

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

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

Managing agent's report

Coverys Managing Agency Limited (trading as "Coverys at Lloyd's") presents its report for syndicate 1110 for the year ended 31 December 2018.

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

On 26 October 2017 PSMAL and its corporate members were sold to the R&Q group and subsequently PSMAL novated the syndicate to R&Q Managing Agency Limited (RQMA) which was renamed Coverys Managing Agency Limited on 1 December 2017.

Strategic report

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

Directors

The directors of the managing agent who served during the year ended 31 December 2018 and up to the date of this report were as follows:

E B Bagley	Group non-executive director	
M Bell	Executive director	
C D Charles	Non-executive director	Appointed 03.05.2018
A G Chopourian	Executive director	
J P Fox	Non-executive director	Resigned 31.12.2018
M G Gardiner	Non-executive director	
R E McCoy	Executive director	
T C Mills	Group non-executive director	
K E Randall	Non-executive director	Resigned 04.10.2018
P M Sloan	Executive director	

Managing agent's report (continued)

Auditors

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

Disclosure of information to auditors

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

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

R E McCoy
Chief Executive Officer
15 March 2019

Strategic report

The directors of Coverys at Lloyd's present their strategic report for syndicate 1110 for the year ended 31 December 2018.

Review of the business

For the 2017 year of account, the syndicate's stamp capacity was £280 million, but following the decision by the board of the managing agency (PSMAL) to sell syndicate 1110, the syndicate went into run-off on 8 June 2017. Following this decision the following arrangements were entered into:

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

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

- PSMAL cancelled an aggregate stop loss policy from a subsidiary of the ProSight Group and entered into an adverse development loss contract with that same subsidiary.

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

During 2018, Coverys at Lloyd's has continued to run-off the syndicate's claims and reinsurance operations.

Review of underwriting activities for 2018

The table below summarises the capacity, premium volumes and performance of the syndicate for 2018, with the comparative numbers for 2017. Other than in respect of capacity, the numbers shown are on an annually accounted basis.

Key performance indicators	**2018** **£m**	**2017** **£m**
Capacity (underwriting year)	N/A	280.0
Gross premiums written	11.5	22.6
Net premiums earned	16.6	69.6
Profit/(Loss) for the year	6.8	(5.7)
Combined ratio	79%	111%

The overall profit for the syndicate in 2018 was £6.8m comprising the following amounts by year of account - 2016 Year of Account profit £8.9m and 2017 Year of Account loss £2.1m.

Post balance sheet events

There have been no significant post balance sheet events.

Strategic report (continued)

Other performance indicators

Staff matters

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

Environmental matters

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

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

R E McCoy
Chief Executive Officer
15 March 2019

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the annual report and the syndicate annual financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

In preparing those syndicate annual financial statements, the managing agent is required to:

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

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

Independent auditor's report to the members of syndicate 1110

Opinion

We have audited the financial statements of syndicate 1110 (the 'syndicate') for the year ended 31 December 2018 which comprise the Statement of Profit or Loss, the Balance Sheet, the Statement of Retained Earnings, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

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.

Emphasis of matter - financial statements prepared on a basis other than going concern

We draw your attention to the Going Concern basis paragraph included within the summary of significant accounting policies included in financial statements, which states that the syndicate has ceased underwriting beyond the 2017 year of account. The managing agent therefore no longer considers the syndicate to be a going concern. Our opinion is not modified in this respect of this matter.

Other information

The other information comprises the information included in the report and financial statements, 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.

Independent auditor’s report to the members of syndicate 1110 (continued)

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

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the managing agent

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

In preparing the financial statements, the managing agent is responsible for assessing the syndicate’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the managing agent either intend to liquidate the syndicate or to cease operations, or have 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.

Independent auditor's report to the members of syndicate 1110 (continued)

Use of our report

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

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

1 Westferry Circus
Canary Wharf
London E14 4HD

15 March 2019

Statement of profit or loss
Technical account - General business
Year ended 31 December 2018

	Notes	2018 £000	2018 £000	2017 £000	2017 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	11,538		22,574	
Outward reinsurance premiums		(1,531)		(58,302)	
Net written premiums		10,007		(35,728)	
Change in the provision for unearned premiums					
Gross amount	9	10,612		112,946	
Reinsurers' share	9	(3,976)		(7,657)	
Net change in the provision for unearned premium		6,636		105,289	
Earned premiums net of reinsurance			16,643		69,561
Allocated investment return transferred from the non-technical account			2,267		3,708
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	10	(36,433)		(243,575)	
Reinsurers' share	10	9,746		33,674	
Net claims paid		(26,687)		(209,901)	
Change in the provision for claims					
Gross amount	10	25,312		153,468	
Reinsurers' share	10	(2,255)		28,821	
Net change in the provision for claims		23,057		182,289	
Claims incurred net of reinsurance			(3,630)		(27,612)
Net operating expenses	3		(9,531)		(49,613)
Balance on the technical account for general business			5,749		(3,956)

All items related to continuing operations.

The accounting policies and notes on pages 16 to 39 form part of these financial statements.

Statement of profit or loss
Non-technical account
Year ended 31 December 2018

	Notes	*2018* *£000*	*2017* *£000*
Balance on the technical account for general business		5,749	(3,956)
Investment income	7	2,644	4,470
Unrealised gains on investments	7	-	-
Unrealised losses on investments	7	(310)	(331)
Investment expenses and charges	7	(67)	(431)
Allocated investment return transferred to technical account – general business		(2,267)	(3,708)
Non-technical account income/(charges)		1,068	(1,711)
Profit/(loss) for the financial year		6,817	(5,667)

Statement of other comprehensive income for the year ended 31 December 2018

Profit/(loss) for the financial year		6,817	(5,667)
Total comprehensive income for the financial year		6,817	(5,667)

Statement of retained earnings

Balance due to/(from) members at 1 January		7,618	(21,170)
Total comprehensive income for the financial year		6,817	(5,667)
Loss/(distribution) in the year		(22)	8,642
Members' agents fees		-	35
Cash call made in the year		-	25,778
Balance due to/(from) members at 31 December	16	14,413	7,618

The accounting policies and notes on pages 16 to 39 form part of these financial statements.

Balance Sheet - Assets
at 31 December 2018

	Notes	***2018*** ***£000***	***2017*** ***£000***
Investments			
Other financial investments	8	37,366	32,488
Reinsurers' share of technical provisions			
Provision for unearned premiums	9	-	3,953
Claims outstanding	10	59,956	60,403
		59,956	64,356
Debtors			
Debtors arising out of direct insurance operations	12	-	6,947
Other debtors	13	4,563	2,496
		4,563	9,443
Other assets			
Cash at bank and in hand	18	1,313	22,226
Overseas deposits	14	9,067	17,808
		10,380	40,034
Prepayments and accrued income			
Deferred acquisition costs	15	-	2,922
Other prepayments and accrued income		330	142
		330	3,064
Total assets		112,595	149,385

The accounting policies and notes on pages 16 to 39 form part of these financial statements.

Balance Sheet - Liabilities
at 31 December 2018

	Notes	*2018* *£000*	*2017* *£000*
Capital and reserves			
Members' balances	16	14,413	7,618
Technical provisions			
Provision for unearned premiums	9	-	10,584
Claims outstanding	10	87,928	111,035
		87,928	121,619
Creditors			
Creditors arising out of reinsurance operations	17	9,643	19,255
Other creditors	17	1	-
		9,644	19,255
Accruals and deferred income		610	893
Total liabilities		112,595	149,385

The accounting policies and notes on pages 16 to 39 form part of these financial statements.

The syndicate annual accounts were approved by the board of directors of Coverys at Lloyd's and were signed on its behalf by:

R E McCoy
Chief Executive Officer

M Bell
Finance Director
15 March 2019

Statement of cash flows
Year ended 31 December 2018

	Notes	*2018* *£000*	*2017* *£000*
Cash flow from operating activities			
Profit/(loss) for the financial year		6,817	(5,667)
Exclude investment return		(2,267)	(3,708)
(Decrease) in technical provisions		(29,291)	(297,115)
Decrease in debtors		4,881	61,343
Decrease in prepayments and accrued income		2,734	33,146
Decrease in other assets		8,741	5,150
(Decrease) in creditors		(9,611)	(6,691)
(Decrease) in accruals and deferred income		(283)	(1,613)
Net cash generated from operating activities		(18,279)	(215,155)
Cash flows from investing activities:			
Investment income received		2,644	3,927
Purchases of debt and equity instruments		(7,964)	-
Sales of debt and equity instruments		-	191,032
Foreign exchange		(377)	(219)
Net cash generated from investing activities		(5,697)	194,740
Cash flows from financing activities:			
(Distribution)/collection in the year		(22)	8,642
Cash call made in the year		-	25,778
Members' agent fees		-	35
Net cash generated from financing activities		(22)	34,455
Net (decrease)/increase in cash and cash equivalents		(23,998)	14,040
Cash and cash equivalents at 1 January		29,206	15,166
Cash and cash equivalents at 31 December	18	5,208	29,206

The accounting policies and notes on pages 16 to 39 form part of these financial statements.

Statement of accounting polices

General information

Syndicate 1110 is a Lloyd's syndicate domiciled in England and Wales. It is managed by Coverys at Lloyd's, a private company limited by shares that was incorporated in England and whose registered office is One Creechurch Place, London EC3A 5AF. The syndicate novated from PSMAL on the 26 October 2017. The syndicate is supported 90.9% by capacity from R&Q Capital No.6 Limited and 9.1% by capacity from R&Q Capital No.7 Limited.

Compliance with accounting standards

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

Basis of preparation

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

Going concern basis

The syndicate has ceased underwriting beyond the 2017 underwriting year of account. The managing agent has, with the agreement of the members of both years, closed the 2016 year of account into the 2017 year of account and the intention is to close the 2017 underwriting year into syndicate 3330 at the agreed level of reserves at the time. As the syndicate has ceased to underwrite, the going concern concept has not been used for the preparation of the financial statements and an unallocated loss adjusted expense reserve (ULAE) of £4,630k has been included within the technical provisions. The managing agent believes that the ULAE reserve is adequate to allow the syndicate to run-off and meet its liabilities as they fall due. No other adjustments are considered necessary as a result of not applying the going concern concept in the preparation of these financial statements.

Basis of accounting

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

Premiums written

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

Reinsurance premium ceded

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

Statement of accounting polices (continued)

Technical provisions – claims incurred and reinsurers' share

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

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

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

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

The most critical assumption as regards claims provisions is that the past is a reasonable predictor of the likely level of claims development. The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

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

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

Net operating expenses

Net operating expenses are accounted for on the accruals basis.
Employee costs include the cost of all employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period, which the managing agent considers to be attributable to this syndicate.

Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are

Statement of accounting polices (continued)

Distribution of profits and collection of losses (continued)

transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

Foreign currencies

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

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

Financial assets and liabilities classification

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

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

Recognition

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

Initial measurement

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

Subsequent measurement

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

Statement of accounting polices (continued)

Subsequent measurement (continued)

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.

De-recognition of financial assets and liabilities

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

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

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse in time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate’s estimate the fair value by using a valuation technique.

Impairment of financial instruments measured at amortised cost or cost

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

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

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

Offsetting

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

Statement of accounting polices (continued)

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.
Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Taxation

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

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

Pension costs

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

Key accounting judgements and estimation uncertainties

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

Technical provisions

The accounting policy for technical provisions is described on page 17 and the related risks are described on pages 21-23. The net technical provisions after the reinsurers’ share is £27,972k (2017: £50,632k).

The most uncertain element within these technical provisions is the amount for gross claims outstanding which covers amounts where either the claim has been notified to the syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. This amounted to £87,928k (2017: £111,035k). As described in the risk note there is a thorough review process of claims notifications and reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments. This is however mitigated by a mixed spread of different types of business from a number of geographical areas

Statement of accounting polices (continued)

Technical provisions (continued)

across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions is mitigated by the element of reinsurers' share, although there are uncertainties in calculating that.

Investment valuations

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

Risk management

Coverys approach to syndicate risk management

The syndicate's activities expose it to a variety of financial and non-financial risks. The syndicate's core business is to accept significant insurance risk, whilst the appetite for other risks is low. The managing agent is responsible for understanding and managing the syndicate's exposure to such risks, and does this through the deployment of its risk management framework.

The Coverys at Lloyd's risk management framework includes an annual review, setting and board approval of risk appetite for the syndicate as a part of the syndicate business planning and capital setting process. The risk management function regularly assess the risks to which the syndicate is exposed, and where deemed necessary, ensure that controls and procedures are in place to mitigate the effects of such risk to an acceptable level. A risk and capital committee meets regularly to monitor performance against the approved risk appetite using a set of key risk indicators, and provide oversight and challenge to ensure the syndicate operates in a robust control environment.

Critical to the risk management of the syndicate is ensuring sufficient capital is in place to meet the solvency needs of the syndicate. An internally developed capital model (Coverys at Lloyd's internal model) is used to quantify the syndicate's capital requirements based on the assessment of the risks impacting the syndicate's business and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. As described in note 9, the managing agent is required to prepare a Solvency Capital Requirement (SCR) return to Lloyd's annually, using the results of the internal model, to agree capital requirements of the syndicate with Lloyd's.

Syndicate risk exposures

The following provides a summary of the types of risks to which the syndicate is exposed, the materiality of the risk to the syndicate and their key drivers, and the risk management tools and procedures in place to mitigate these risks.

Insurance risk

The very nature of the syndicate's business exposes it to the possibility that claims will arise on business underwritten. Insurance risk is the principal risk the syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The main insurance risk which affects the syndicate is reserving risk as described below. Insurance risk is quantified in the internal model using the plan data and projections (informed by syndicate experience and discussions with business owners) in relation to the key drivers of the risk.

Reserving risk

There are a number of drivers of reserving risk.

Reserves are established for earned premium income, there is no unearned premium as the syndicate is in its final year. The reserves in relation to the former are claims reserves. In relation to the latter, as there is no unearned premium reserve there is no unexpired risk provision. A reserve for unallocated loss adjustment expenses (ULAE) will also be established and an allowance made for bad debt.

In order to mitigate reserving risk, the Coverys at Lloyd's actuarial function uses a number of actuarial techniques, to project gross and net premiums and gross and net insurance liabilities on a best estimate basis. The results of these techniques are then subject to formal peer review. This is an iterative process where the internal and external actuaries meet to discuss data, models, methods and assumptions. This involves a considerable amount of challenge.

Risk management (continued)

Reserving risk (continued)

Once both sets of actuaries have completed their view of reserves, the results of the external actuary's projections are then compared to those proposed by the Coverys at Lloyd's actuarial function.

The chief actuary will then present the proposed reserves for scrutiny by the audit committee who then make a reserve recommendation to the board. The level of booked reserves requires formal approval by the board and is subject to an external audit and further actuarial opinion. The independent reserve assessment is presented in a Statement of Actuarial Opinion (SAO) to confirm the adequacy of the reserves and is provided annually to Lloyd's.

	2018	***2017***
	£000	***£000***
Gross outstanding claims provision	87,928	111,035
Net outstanding claims provision	27,972	50,632
1% movement in net outstanding claims	(280)	(506)

The above assumes that the reinsurers share pro-rata in any deterioration in outstanding claims which may not be the case.

Investment risk

The syndicate's asset holdings expose it to investment risk, driven by the following sub-risk types: spread risk, currency and interest rate risks, and a low liquidity risk.

The syndicate's investment policy is established by the board following recommendations by the Coverys at Lloyd's investment committee and/or panel. In order to mitigate market risk, the board assesses reports from finance to monitor the economic situation and to seek to anticipate any future interest rate movements and to take appropriate action to mitigate its effect on the value of syndicate assets. At the time of writing this report, the investment committee's terms of reference and scope were being reviewed as a result of the recent Coverys at Lloyd's governance review.

Market risk is quantified in the internal model using the syndicate's asset holdings positions and an economic scenario generator (ESG) to simulate the impact of the risks below to the asset portfolio.

Liquidity risk

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

Risk management (continued)

Liquidity risk (continued)

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

As at 31 December 2018	*Within one year £000*	*Between one and three years £000*	*Between three and five years £000*	*Over five years £000*	*Total £000*
Outstanding claims liabilities	23,829	31,061	16,794	14,244	87,928
Creditors	3,761	5,883	-	-	9,644
As at 31 December 2017					
Outstanding claims liabilities	31,090	38,862	22,207	18,876	111,035
Creditors	19,255	-	-	-	19,255

Currency risk

The main exposure to foreign currency risk arises from insurance business originating overseas. The syndicate attempts to fully match assets with liabilities on a regular basis. The syndicate is exposed to changes in unmatched the value of assets and liabilities due to movements in foreign exchange rates. The syndicate deals mainly in four currencies, UK sterling, Canadian dollars, Euros and US dollars. Transactions also take place in other currencies, although these are immediately converted to UK sterling. Transactions also take place in other currencies, although these are immediately converted to UK sterling. A 10% fall in the in the value of all overseas net assets would lead to a £2,222k loss (2017: £1,494k loss) with US dollar net assets being the largest element of that at £1,128k loss (2017: £1,573k loss). The syndicate monitors these currency balances and aims to ensure excessive balances above 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.

At 31 December 2018	*Sterling £000*	*US Dollar £000*	*Euro £000*	*CAD £000*	*Total £000*
Total assets	50,840	50,551	2,159	9,045	112,595
Total liabilities	(50,587)	(38,139)	(4,736)	(4,720)	(98,182)
Net assets	253	12,412	(2,577)	4,325	14,413
At 31 December 2017					
Total assets	52,194	86,999	(114)	10,306	149,385
Total liabilities	(61,010)	(69,695)	(5,991)	(5,071)	(141,767)
Net assets	(8,816)	17,304	(6,105)	5,235	7,618

Risk management (continued)

Interest rate risk

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

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

	2018	***2017***
	£000	***£000***
Impact of a 50 basis point increase in interest rates on result	(213)	(24)
Impact of a 50 basis point decrease in interest rates on result	213	24
Impact of a 50 basis point increase in interest rates on net assets	(213)	(24)
Impact of a 50 basis point decrease in interest rates on net assets	213	24

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:** Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the syndicate.
- **Brokers and intermediaries:** Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the syndicate.
- **Financial instruments:** Whereby issuer default results in the syndicate losing all or part of the value of a financial instrument.

Reinsurance credit risk

The syndicate is in run-off and many of the external reinsurance programs in place would have been purchased some time ago. Reinsurance aged debt and risk of default are monitored by R&Q who report to Coverys at Lloyd's through the syndicate management committee. Apart from the external reinsurances in place, a number of quota share and stop loss arrangements were put in place in 2017 when the syndicate went into run-off. There is a large exposure, £57.9m (2017: £57.4m), to New York Marine and General Insurance Company (NYMAGIC), which mitigates the majority of the gross reserving risk. There are a number of ways in which the syndicate considers and monitors reinsurance counterparty financial strength. Firstly, Coverys at Lloyd's holds collateral for the ASL reinsurance. In addition, the Coverys at Lloyd's internal model takes into account the financial rating of ProSight Group rather than NYMAGIC, to allow for more credit risk in the model (approach documented and shared with Lloyd's).

Risk management (continued)

Financial instruments risk

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

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

At 31 December 2018	***AAA £000***	***AA £000***	***A £000***	***Other/ non rated £000***	***Total £000***
Variable yield securities and unit trusts	-	-	-	3,895	3,895
Debt securities and other fixed income securities (including derivative contracts)	2,804	11,025	9,135	2,134	25,098
Participation in investment pools	-	-	-	8,373	8,373
Reinsurers share of outstanding claims	-	18	59,938	-	59,956
Cash at bank and in hand	-	-	-	1,313	1,313
Overseas deposits	5,460	1,429	778	1,400	9,067
Total	8,264	12,472	69,851	17,115	107,702
Amounts attributable to largest single counterparty	-	-	57,964	-	57,964

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

Risk management (continued)

Operational risk

Much of the effect of the syndicate's exposure to operational risks is reflected in the various other risk headings above, and is mitigated and managed through the exercise of the management controls and actions described above. The main additional exposures are in relation to business continuity, i.e. the risk that the ability of the syndicate to continue in business will be affected by events not reflected under other headings, for example the impact of terrorist activity, and in the management of relationships and arrangements with key individuals.

In relation to the former, the managing agent maintains a Business Continuity Plan (BCP) which sets out the anticipated risks, including those relating to the robustness and sustainability of IT infrastructure and business applications, and the arrangements in place to mitigate those risks. The BCP is monitored and updated regularly. In relation to the latter, the managing agent has established arrangements designed to achieve an appropriate commonality of interest between the syndicate and the individuals concerned, and these arrangements are reviewed periodically. In addition, to mitigate the risk of loss of key staff, the managing agent seeks to maintain a sufficient personnel resource with appropriate experience and expertise to reduce the dependence on any one individual so far as is practicably possible.

Operational risk is monitored via regular risk and control assessments and tested for adequate risk mitigation in place through scenario assessments; the insight from these processes is used to quantify operational risk in the internal model.

Regulatory risk

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

Regulatory risk is quantified under operational risk in the internal model.

Solvency risk

The board sets the risk appetite in line with its strategy and ensures that sufficient capital resources are raised to cover those risks in line with regulatory and Lloyd's capital setting processes. The Coverys at Lloyd's risk and capital committee monitors risk appetite and tolerances on behalf of the board.

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

Risk management (continued)

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 risks written prior to 31 December 2018. Should the UK leave the EU without any agreement in place, the syndicate 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.

Notes to the annual financial statements
at 31 December 2018

1. Analysis of underwriting results
An analysis of the technical account balance before investment return is set out below:

2018	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses*	*Re-insurance balance*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Direct insurance:						
Fire and other damage to property	1,299	5,208	6,907	(744)	2,894	14,265
Marine, aviation and transport	6,481	7,441	(644)	(4,046)	(1,769)	982
Third party liability	1,408	5,288	(19,162)	(806)	(75)	(14,755)
Pecuniary loss	1,552	3,087	428	(888)	(278)	2,349
Other	578	735	1,252	(2,921)	(191)	(1,125)
	11,318	21,759	(11,219)	(9,405)	581	1,716
Reinsurance acceptances:						
Casualty	220	391	98	(126)	1,403	1,766
	11,538	22,150	(11,121)	(9,531)	1,984	3,482
2017						
Direct insurance:						
Fire and other damage to property	23,768	45,793	(15,449)	(17,936)	(11,573)	835
Marine, aviation and transport	(3,239)	8,431	(12,151)	(3,087)	2,766	(4,041)
Third party liability	19,717	50,423	(17,850)	(17,288)	(10,603)	4,682
Pecuniary loss	(282)	4,301	(1,721)	(1,574)	(900)	106
Other	2,283	4,937	(1,239)	(1,808)	(1,543)	347
	42,247	113,885	(48,410)	(41,693)	(21,853)	1,929
Reinsurance acceptances:						
Fire and other damage to property	801	2,200	(802)	(805)	(515)	78
Marine, aviation and transport	594	353	(286)	(129)	26	(36)
Casualty	(21,068)	19,082	(40,609)	(6,986)	18,878	(9,635)
	(19,673)	21,635	(41,697)	(7,920)	18,389	(9,593)
	22,574	135,520	(90,107)	(49,613)	(3,464)	(7,664)

All premiums were concluded in the United Kingdom.

Notes to the annual financial statements (continued)
at 31 December 2018

2. Particulars of business written

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

Net assets are not managed by reference to the classes on page 28.

	2018 Gross premiums written £000	***2018 Profit/(loss) £000***	***2017 Gross premiums written £000***	***2017 Profit/(loss) £000***
Direct	11,318	3,998	42,247	5,045
Reinsurance	220	1,751	(19,673)	(9,001)
	11,538	5,749	22,574	(3,956)

Geographical analysis by destination	**2018** ***Gross premiums written £000***	**2017** ***Gross premiums written £000***
UK	4,414	28,515
EU	7,038	3,271
USA	(915)	(13,538)
Other	1,001	4,326
	11,538	22,574

3. Net operating expenses

	2018 £000	***2017 £000***
Acquisition costs	4,337	8,032
Change in deferred acquisition costs (note 16)	2,927	31,453
Administrative expenses	2,267	10,128
	9,531	49,613

Members' standard personal expenses amounting to £15k (2017: £756k) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, new central fund contributions and managing agent's fees.

**Notes to the annual financial statements (continued)
at December 2018**

3. Net operating expenses (continued)

Administrative expenses include:

	2018	**2017**
	£000	***£000***
Auditor's remuneration:		
Audit of the syndicate's financial statements	65	60
Other services pursuant to regulations and Lloyd's byelaws	16	32
Standard personal expenses	15	756

Total commissions for direct insurance accounted for in the year amounted to £7.1m (2017: £4.4m).

4. Employees

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

	2018	***2017***
	£000	***£000***
Wages and salaries	2,360	3,493
Social security costs	313	473
Other pension costs	170	441
	2,843	4,407

Salaries and related costs, where they relate to ULAE are treated as paid claims and charged against the ULAE reserve.

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

	2018	***2017***
Underwriting	1	7
Underwriting support	3	5
Claims	2	2
Administration and finance	10	26
	16	40

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

The following amounts in respect of emoluments paid to the directors of the managing agent and the run-off manager, M Langridge, were charged to the syndicate during the year.

	2018	***2017***
	£000	***£000***
Run-off manager's emoluments	17	-
Directors' emoluments	103	27
	120	27

Notes to the annual financial statements (continued)
at 31 December 2018

6. Active underwriter's emoluments

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

	2018 *£000*	*2017* *£000*
Emoluments	-	112

7. Investment return

(a) Investment return

	2018 *£000*	*2017* *£000*
Income from financial investments	1,477	4,470
Realised gains on investments	1,167	-
Investment income	2,644	4,470
Realised losses on investments	-	(257)
Investment expenses	(67)	(174)
Investment expenses and charges	(67)	(431)
Unrealised gains on investments	-	-
Unrealised losses on investments	(310)	(331)
Net unrealised gains and losses on Investments	(310)	(331)
Allocated investment return transferred to the technical account from the non-technical account.	2,267	3,708

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

	2018 *£000*	*2017* *£000*
U.S. dollars	24,004	145,620
Sterling (including Australian and Euro TF)	27,409	28,885
Canadian dollars	9,738	10,590
Combined in sterling	61,151	185,095

Net calendar year investment yield	*2018*	*2017*
U.S. dollars	7.9%	1.9%
Sterling (including Australian and Euro TF)	1.2%	3.4%
Canadian dollars	1.6%	0.6%
Combined in sterling	3.9%	2.0%

Notes to the annual financial statements (continued)
at 31 December 2018

8. Other financial investments

	2018	*2018*	*2017*	*2017*
	Cost £000	*Market value £000*	*Cost £000*	*Market value £000*
Shares and other variable yield securities and units in unit trusts (note 19)	3,895	3,895	6,980	6,980
Debt securities and other fixed income securities	24,988	25,098	25,827	25,508
Participation in investment pools	8,397	8,373	-	-
Other investments	-	-	-	-
	37,280	37,366	32,807	32,488

Breakdown of investments by currency

	US dollar US$000	*Canadian dollar Can$000*	*Other £000*	*Total £000*
Year ended 31 December 2018				
Shares and other variable yield securities and units in unit trusts	723	5,786	-	3,895
Debt securities and other fixed income securities	25,895	8,192	-	25,098
Participation in investment pools	-	-	8,373	8,373
Other investments	-	-	-	-
	26,618	13,978	8,373	37,366
Year ended 31 December 2017				
Shares and other variable yield securities and units in unit trusts	4,318	6,428	-	6,980
Debt securities and other fixed income securities	26,718	9,718	-	25,508
Loans secured by mortgages	-	-	-	-
Other investments	-	-	-	-
	31,036	16,146	-	32,488

Notes to the annual financial statements (continued)
at 31 December 2018

8. Other financial investments (continued)

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

	Level 1 *£000*	*Level 2* *£000*	*Level 3* *£000*	*Total* *£000*
Year ended 31 December 2018				
Shares and other variable yield securities and units in unit trusts	203	3,692	-	3,895
Debt securities and other fixed income securities		25,098	-	25,098
Participation in investment pools	-	8,373	-	8,373
Other investments	-	-	-	-
Total	203	37,163	-	37,366
Year ended 31 December 2017				
Shares and other variable yield securities and units in unit trusts	6,980	-	-	6,980
Debt securities and other fixed income securities	25,508	-	-	25,508
Participation in investment pools	-	-	-	-
Other investments	-	-	-	-
Total	32,488	-	-	32,488

In accordance with FRS 102 paragraph 11.27 the above financial instruments have been classified using three levels to estimate their fair values, with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

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

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

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

Notes to the annual financial statements (continued)
at 31 December 2018

9. Provision for unearned premiums

2018	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2018	10,584	(3,953)	6,631
Premiums written in the year	11,538	(1,531)	10,007
Premiums earned in the year	(22,150)	5,507	(16,643)
Foreign exchange	28	(23)	5
At 31 December 2018	-	-	-

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

10. Claims outstanding

2018	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2018	111,035	(60,403)	50,632
Claims incurred in the year	11,121	(7,491)	3,630
Claims paid during the year	(36,433)	9,746	(26,687)
Foreign exchange	2,205	(1,808)	397
At 31 December 2018	87,928	(59,956)	27,972

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

A surplus run-off amount of £3.5m was experienced in 2018 (2017: £18.1m surplus). This was made up of a surplus on the prior year claims provisions of £1.7m on direct business (2017: £22.5m surplus) and a £1.8m surplus on reinsurance accepted business (2017: £4.4m deficit).

Notes to the annual financial statements (continued)
at 31 December 2018

11. Significant reinsurance arrangements

The syndicate has ceased to accept any new business, other than business that was already committed. Following this decision the following arrangements were entered into during 2017 and are still in force:

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

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

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

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

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

12. Debtors

	2018	***2017***
	£000	***£000***
Debtors due within one year		
Due from intermediaries		
Amounts arising out of direct insurance operations	-	6,947
Amounts falling due within one year	-	6,947

13. Other debtors

	2018	***2017***
	£000	***£000***
Inter-syndicate loan	3,500	-
Short term	32	529
Long Term	1,031	1,967
	4,563	2,496

14. Overseas deposits

	2018	***2017***
	£000	***£000***
Amounts advanced in other countries as a condition of carrying on business there, in particular Australia	9,067	17,808

Notes to the annual financial statements (continued)
at 31 December 2018

15. Deferred acquisition costs

	2018 £000	2017 £000
At 1 January	2,922	35,303
Change in deferred acquisition costs (note 3)	(2,927)	(31,453)
Foreign exchange	5	(928)
At 31 December	-	2,922

16. Reconciliation of members' balances

	2018 £000	2017 £000
Members' balances at 1 January	7,618	(21,170)
Closed year result	(22)	8,642
Cash calls made	-	-
	(22)	8,642
Profit/(loss) for the financial year	6,817	(5,667)
Members' agents' fees	-	35
Cash calls paid by members	-	25,778
Members' balances carried forward at 31 December	14,413	7,618

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

17. Creditors

	2018 £000	2017 £000
Creditors due within one year		
Amounts arising out of:		
Reinsurance operations	9,643	19,255
Other creditors including taxation	1	-
Amounts falling due within one year	9,644	19,255

18. Cash and cash equivalents

	2018 £000	2017 £000
Cash at bank and in hand	1,313	22,226
Short-term deposits with financial institutions (note 8)	3,895	6,980
	5,208	29,206

Notes to the annual financial statements (continued)
at 31 December 2018

19. Regulatory capital requirements

Funds at Lloyd's

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

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

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

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1110 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 is participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which

Notes to the annual financial statements (continued)
at 31 December 2018

19. Regulatory capital requirements (continued)

is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members'

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (FAL), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates. There are no funds in syndicate held for this syndicate, accordingly all of the assets less liabilities of the syndicate, as represented by the member's balances reported on the balance sheet represent resources available to meet members' and Lloyd's capital requirements.

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

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

20. Related parties

(i) A number of executive directors of Coverys at Lloyd's were also directors and approved persons of other UK subsidiaries of the Coverys Group.

(ii) During the year Coverys MA Services Limited (CMAS), a UK subsidiary of the Coverys Group, was paid £2,148k (2017: £194k) by the syndicate for services provided. This amount has been charged at arms-length based on time spent by individuals. CMAS also provided a number of services to syndicate 1110 including Accommodation and Human Resources.

(iii) R E McCoy and M Bell are directors of CMAS.

(iv) Up to 30 November 2017 the managing agent was owned by the R & Q Group. Disclosure relating to related parties transactions with R & Q in 2017 are detailed in last year's report and accounts.

(v) During the year, syndicate 1110 has lent funds to syndicate 3330. The maximum amount of this inter syndicate loan was £3.5m which is also the balance at 31 December 2018. Interest has been charged to syndicate 3330 on commercial terms.

21. Derivatives

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

22. Off-balance sheet items

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