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COVERYS

Coverys Managing Agency Limited

Syndicate

DTW 1991

Report & Financial Statements

For the year ended 31 December 2018

Contents

Administration

Managing Agent

Coverys Managing Agency Limited
6th Floor, One Creechurch Place
London EC3A 5AF

Syndicate

Active Underwriter

D T Wright

Bankers

Barclays Bank plc
1 Churchill Place
London E14 5HP

Investment Managers

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

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Underwriter's report

The 2016 year has closed at a loss of £8.1m which equates to a 6.3% loss on stamp capacity and a gross underwriting loss ratio of 60%. This result includes £6.5m of catastrophe losses from the 2017 hurricanes Irma and Harvey.

It is deeply disappointing for the whole team that, as at quarter 12 for the year of account, on an ultimate basis we are not able to declare a positive result, even considering the active North American hurricane season that has had a significant effect on market results.

There are well publicised challenges for a start-up syndicate that can influence strategy and the resulting actions can conflict with longer term underwriting health. Our strategy included several initiatives that were successfully executed for the 2016 year of account. These included selective growth, expense reduction, improved portfolio composition, team development and more direct distribution. We believe this work has placed the syndicate in an excellent position to deliver on continued improvement in results.

For the 2016 YOA the final GWP was £143m against an SBF income of £153m with the shortfall being driven by underwriting actions and our view of rate adequacy.

In considering the continuing development of business written in 2015 and subsequent, we believe that the emerging underlying experience evidences increasingly the year on year success in improving the composition of the portfolio, with an increasing bias towards stable, core and seasoned accounts. This has been achieved by continuously re-underwriting, reducing and re-basing the more volatile and distressed elements of the account.

Owing to our direct processing platform we have been successful in controlling administrative costs resulting in a reduction in expense ratio from 13% in 2015 to 9% in 2016. Reinsurance costs also reduced from 11% of income to 9%, without risk appetite changes or coverage restrictions.

Distribution and acquisition costs are closely managed by our central underwriting committee approach. We continually assess added value of the distribution partners, and where business is sourced via a London broker, we create efficiencies for all parties through our direct processing model. This enabled us to realise a reduction of 3% in acquisition costs from 31% for 2015 to 28% for 2016. We are aligned to the Lloyd's thematic review of distribution costs and we will continue to modernise our access to business and our operating platform.

In this way, we believe we have delivered on our original aspiration of developing an alternative to the traditional Lloyd's subscription model for delegated authorities, and that through its activities, the syndicate has been able to secure a significant amount of new business for the Lloyd's market. Our team has remained driven to deliver on this and we have not veered off course solely to grow premium income. It is this culture that has allowed us to stay together as a team and to develop new talent. The founding team is now supported by a group of young professionals that are focused on underwriting discipline and developing the model further.

We believe strongly in our exclusive, direct and continuous coverage approach to business, reflected in the value this has brought to both coverholders and MGAs in a difficult and challenging marketplace.

In many sectors of our business we see increasing evidence that 2017 was likely the bottom of the cycle for pricing and the abundance of non-expert competitors. This evidence can be seen in our attritional loss ratios and in the amount of business we continue to turn away. The environment is improving, and this will benefit our 2017 and 2018 years of account.

Plan and stamp growth has been limited owing to the Lloyd's market-wide performance gap initiative, which we have actively supported. However, we remain confident that through continually reviewing and improving the composition of the portfolio, through granular underwriting discipline, and through improved claims efficiencies, we will continue to improve our results and deliver profit to our investors.

I would like to thank our investors and our clients on behalf of the syndicate team for your continued support.

D T Wright
Active Underwriter
15 March 2019

Managing agent's report

Coverys Managing Agency Limited (trading as "Coverys at Lloyd's") presents its report for Syndicate 1991 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 on page 20.

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	

Annual General Meeting

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

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue as the syndicate 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.

R E McCoy
Chief Executive Officer
15 March 2019

Strategic report

The directors of Coverys at Lloyd's present their strategic report for Syndicate 1991 for the year ended 31 December 2018.

Syndicate underwriting year accounts

These financial statements also include underwriting year accounts drawn up on the three year funded basis which have been prepared to show the cumulative loss of the 2016 closed underwriting account as at 31 December 2018 which is being collected in 2019. The underwriting accounts are set out on pages 37 to 54.

Results

The total recognised income for calendar year 2018 is a loss of £14.7m (2017: loss of £9.9m). As stated in previous years, the GAAP income continues to reflect the premium writing profile of the syndicate and the resulting earnings.

Loss experience has been impacted by the US Cat events Hurricanes Florence and Michael and California Wildfires, although estimates for each remain within the syndicate's reinsurance retention.

The 2016 year of account will close with a loss of £8.1m or 6.3% on capacity (2015: £10.1m of 6.9%), which is marginally outside the forecast range. The 2016 year of account has been impacted by the 2017 US Cat activity (most significantly Hurricanes Irma and Harvey), making up c£6m of the loss. The year of account also saw continued impact in the 2018 calendar year from the volatility in Euro exchange rates and from some investment losses.

Premium development is now established on a more consistent pattern albeit that market conditions have continued to constrain growth potential, particularly in the US and UK markets. Action has been taken to cease business with certain Managing General Agents (MGAs) where it has either not met expected performance or viable income levels, and where required, appropriate action on terms and conditions has continued to be taken on certain accounts within the portfolio.

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

YOA basis Financial summary (£m)	2013 YOA (at closure)	2014 YOA (at closure)	2015 YOA (at closure)	2016 YOA (at closure)	2017 YOA (forecast)	2018 YOA (forecast)
Gross premiums written	37.9	66.3	110.3	143.8	169.4	173.9
Net premiums written	32.6	57.3	98.6	130.5	155.4	160.0
Net loss ratio	70%	68%	59%	64%	61%	58%
Net expense ratio	21%	19%	13%	10%	9%	9%

Principal activity and review of the business

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

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

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

	2018 £000	2017 £000
North America Property	33,335	25,022
North America Liability	21,282	17,085
UK and International Property	14,059	19,228
UK and International Liability	53,036	49,797
Specialty Property	636	370
Specialty Liability	24,070	11,755
Miscellaneous Other Lines	2,400	1,697
	148,818	124,954

The number of active coverholders at 31 December stands at 63 (2017: 64).

Key Performance Indicators

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

	2018	2017
Gross premiums written	£148.8m	£125.0m
Loss for the year	(£14.7m)	(£9.9m)
Net combined ratio	111.0%	110.0%

The return on capacity for the closed 2013, 2014, 2015 and 2016 years of account and the forecast for the open years at 31 December 2018 are as follows:

	2013 YOA	2014 YOA	2015 YOA	2016 YOA	2017 YOA	2018 YOA
Capacity (£m)	76.8	150.0	146.2	129.7	126.8	126.8
Result/forecast (£m)	(8.8)	(14.2)	(10.6)	(8.5)	(2.9)	1.7
Return on capacity (%)	(11.5)	(9.5)	(7.2)	(6.5)	(2.3)	1.3

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

Post balance sheet events

There have been no significant post balance sheet events.

Other performance indicators

Staff matters

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

Environmental matters

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

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

R E McCoy
Chief Executive Officer
15 March 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 1991

Opinion

In our opinion, Syndicate 1991's annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2018 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Report and Financial Statements (the "Annual Report"), which comprise: the balance sheet at 31 December 2018, the statement of profit or loss technical account – general business and statement of profit and loss non-technical account and retained earnings for the year then ended, the statement of cash flows, the statement of accounting policies, risk management and the notes to the syndicate annual accounts, which include other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

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

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

Managing agent's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the managing agent's report for the year ended 31 December 2018 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the managing agent for the syndicate annual accounts

As explained more fully in the statement of managing agent's responsibilities set out on page 7, the managing agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the syndicate annual accounts

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

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of this report

This report, including the opinions, has been prepared for and only for 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, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

Philip Watson (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2019

Statement of profit or loss
Technical account – general business

For the year ended 31 December 2018

	Notes	£000	2018 £000	£000	2017 £000
Earned premiums, net of reinsurance					
Gross premiums written	1	148,818		124,955	
Outward reinsurance premiums		(13,761)		(13,472)	
Net premiums written			135,057		111,483
Change in provision for unearned premiums:					
Gross amount		(15,880)		(10,058)	
Reinsurers' share		98		605	
Change in the net provision for unearned premiums			(15,782)		(9,453)
Earned premiums, net of reinsurance			119,275		102,030
Allocated investment return transferred from the non-technical account			(531)		385
Total technical income			118,744		102,415
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		(47,964)		(33,902)	
Reinsurers' share		743		1,160	
Net claims paid		(47,221)		(32,742)	
Change in the provision for claims:					
Gross amount		(35,934)		(30,090)	
Reinsurers' share		2,143		(2,988)	
Change in the net provision for claims		(33,791)		(33,078)	
Claims incurred, net of reinsurance			(81,012)		(65,820)
Net operating expenses	3,4,5		(51,395)		(46,401)
Balance on the technical account for general business			(13,663)		(9,806)

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

Statement of profit or loss
Non-technical account

For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Balance on the general business technical account		(13,663)	(9,806)
Investment income	6	696	279
Investment expenses and charges	6	(63)	(24)
Realised gains and (losses) on investments	6	(216)	85
Unrealised gains and (losses) on investments	6	(948)	45
Allocated investment return transferred to technical account – general business		531	(385)
Non-technical account charges		(1,030)	(73)
Loss for the financial year		(14,693)	(9,879)

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

	2018 £000	2017 £000
Loss for the financial year	(14,693)	(9,879)
Total comprehensive income for the financial year	(14,693)	(9,879)

Statement of retained earnings		
Balance due from members at 1 January	(41,658)	(45,919)
Loss collected from members – 2015 year of account	10,515	13,325
Three year funded adjustment	1,035	976
Total comprehensive income for the financial year	(14,693)	(9,879)
Advance of fees to members' agents on behalf of members	(172)	(161)
Balance due from members at 31 December	(44,973)	(41,658)

There are no discontinued operations.

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

Balance sheet – Assets

As at 31 December 2018

	Notes	£000	2018 £000	£000	2017 £000
Investments					
Shares and other variable yield securities		2,327		1,308	
Debt securities and other fixed income securities		25,496		17,930	
Participation in investment pools		66,708		33,842	
	8		94,531		58,080
Reinsurers' share of technical provisions					
Claims outstanding	2	6,542		4,293	
Provision for unearned premiums	2	3,450		3,300	
			9,992		7,593
Debtors					
Debtors arising out of direct insurance operations	9	13,391		12,821	
Debtors arising out of reinsurance operations	10	2,739		1,903	
Other debtors	11	11,165		6,512	
			27,295		21,236
Other assets					
Cash at bank and in hand		8,987		12,669	
Overseas deposits		6,101		2,487	
			15,088		15,156
Prepayments and accrued income					
Deferred acquisition costs		24,918		25,636	
Other prepayments and accrued income		16,425		5,011	
			41,343		30,647
Total assets			188,249		132,712

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

Balance sheet – Liabilities

As at 31 December 2018

	Notes	£000	2018 £000	£000	2017 £000
Capital and reserves					
Members' balances			(44,973)		(41,658)
Technical provisions					
Claims outstanding	2	145,985		107,368	
Provision for unearned premiums	2	79,434		62,037	
			225,419		169,405
Creditors					
Creditors arising out of reinsurance operations	12	1,526		1,922	
Other creditors	13	4,351		1,260	
			5,877		3,182
Accruals and deferred income			1,924		1,783
Total liabilities			188,247		132,712

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

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

R E McCoy
Chief Executive Officer

M Bell
Finance Director

15 March 2019

Statement of cash flows

For the year ended 31 December 2018

	2018 £000	2017 £000
Cash flow from operating activities		
Loss for the financial year	(14,693)	(9,879)
Adjustments for:		
Increase in gross technical provisions	56,014	38,403
Decrease/(increase) in reinsurers' share of technical provisions	(2,399)	2,377
(Increase) in debtors, prepayments & accrued income	(16,755)	(7,974)
Increase in creditors	2,836	2
Net cash generated from operating activities	25,003	22,929
Cash flows from investing activities		
Purchase of equity & debt instruments	(87,721)	(39,420)
Sale of equity & debt instruments	49,506	–
Changes to market value and currency	(1,928)	–
Net cash generated from investing activities	(40,143)	(39,420)
Cash flows from financing activities		
Members' agents fees	(172)	(161)
Loss received on 2015 (2014) year of account	10,515	13,325
Three year funded adjustment on 2015 (2014) year of account	1,036	976
Net cash from financing activities	11,379	14,140
Net increase/(decrease) in cash & cash equivalents in year	(3,761)	(2,351)
Cash & cash equivalents at beginning of the year	12,669	15,019
Foreign exchange movements in cash and cash equivalents	80	–
Cash & cash equivalents at end of the year	8,988	12,669
Cash & cash equivalents comprise:		
Cash at bank and in hand	8,988	12,669
	8,988	12,669

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

Statement of accounting policies

General information

Syndicate 1991 is a Lloyd's syndicate domiciled in England and Wales. It is managed by Coverys at Lloyd's, a private company limited by shares that is incorporated in England and whose registered office is 6th Floor, One Creechurch Place, London, EC3A 5AF.

The syndicate is a specialist in delegated authority underwriting focusing mainly in North America, the UK and Europe (up to 2019).

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 profit or loss which are measured at fair value.

Going concern basis

These financial statements are prepared on a going concern basis.

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

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

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

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

Basis of accounting

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

Premiums written

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

Unearned premiums

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

Reinsurance premium ceded

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

Technical provisions – claims incurred and reinsurers' share

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

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not reported (IBNR). The amount included in respect of IBNR is recommended by Coverys at Lloyd's in-house reserving team and reviewed by external consulting actuaries. The IBNR is set using a variety of standard actuarial techniques, based on data from the syndicate, supplemented by external data where necessary. The provision for claims also includes amounts in respect of internal and external claims handling costs.

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

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

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

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

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

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

Unexpired risks provision

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

Net operating expenses (including acquisition costs)

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

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

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

Distribution of profits and collection of losses

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

Foreign currencies

The presentational and functional currency of the syndicate is Sterling.

Transactions in US dollars, Euros, Canadian dollars, Australian dollars and New Zealand dollars are translated at the average rates of exchange for the period. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

In accordance with FRS 103 all monetary balance sheet assets and liabilities, including unearned premiums and deferred acquisition costs are translated into the Sterling functional currency at the rates of exchange at the balance sheet date. The profit or loss arising on the retranslation of balances to the closing rate of exchange is dealt with through the statement of comprehensive income – non-technical account.

Financial assets and liabilities

Classification

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

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

Recognition

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

Initial measurement

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

Subsequent measurement

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

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

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

Derecognition of financial assets and liabilities

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

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

Fair value measurement

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

Impairment of financial instruments measured at amortised cost or cost

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

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

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

Offsetting

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

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

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

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

Taxation

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

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

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

Profit commission

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

Pension costs

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

Key accounting judgements and estimation uncertainties

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

Technical provisions

The accounting policy for technical provisions is described on page 15 and the related risks are described on page 21. The net technical provisions after the reinsurers' share is £215,427k (2017: £161,812k). The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either the claim has been notified to the syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. This amounted to £139,443k (2017: £103,075k). As described in the risk management section there is a thorough review process of claims notifications and reserving estimates. IBNR is calculated using a market blended average adapted to reflect experience to date. There is, however, a risk that past performance may not be a good indicator of the future developments. This is mitigated by a mixed spread of different types of business from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions may be mitigated by the element that reinsurers' share, although there are also uncertainties in calculating that.

Premium income

The accounting policy for written and earned premium income is described on page 15 and the related risks are described on page 21. The estimation of written premium includes amounts for additional or return premiums and business that may have been underwritten but not yet notified. The earning of this premium has been calculated on a basis of time apportionment. The directors consider that this represents a reasonable approximation of the overall earning risk profile of the policies written. As described in the risk management section there is detailed evaluation of premium written estimates at the time of writing risks and these are monitored and checked as remaining valid until they are received.

Investment valuations

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

Risk management

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 15, 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 likelihood that claims will arise from 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 key drivers of insurance risk which affect the syndicate are:

- Catastrophic events – the risk that catastrophic events occur which will lead to claims at a level not anticipated by the syndicate.
- Rating levels (pricing) – 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.
- Reserving – the risk that the reserves established by the syndicate at the previous year-end prove to be inadequate.

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 above drivers of the risk.

Catastrophic events

The managing agent has developed underwriting guidelines which express limits including limits on individual risks, as well as per class of business. The syndicate uses modelling tools to monitor the aggregation of exposure and adherence to underwriting limits, to simulate man-made catastrophe losses on aggregate exposures, and the effectiveness of the syndicate's reinsurance programmes. The syndicate also conduct Realistic Disaster Scenarios (RDS), as specified by Lloyd's and developed internally, which provide an estimate of the effect on the syndicate results of an aggregation of claims arising from a number of extreme scenarios.

The largest events during 2018, with loss estimations as at 31 December 2018, were as follows:

Description of event	Gross loss to syndicate £m	Net loss to syndicate £m
Hurricane Florence, USA, 31 August 2018	4.9	4.9
Hurricane Michael, USA, 7 October 2018	3.0	3.0
California Wildfires	2.8	2.8

Business volumes and rating levels

The managing agent produces an annual business plan for the syndicate. The expected syndicate performance will be based on the volume of business written, at the planned loss ratios, expected terms and conditions and other profit and loss items including expenses. Performance against plan is monitored on a regular basis through the Underwriting and Claims Committee, as well as regular review and oversight by the Syndicate Management Committee and Board. If market conditions change materially after the plan is approved by Lloyd's, a revised plan is prepared for authorisation by the Board. In this way, rating levels of both businesses written and reinsurance purchased are subject to constant review.

A key driver to achievement of planned income forecasts is the due diligence performed on individual coverholders and new products and on their respective plans. Where rating levels or business volumes are under pressure, the syndicate will seek to review the business plan and will examine all relevant profit and loss items such as the syndicate's class of business performance, expense ratios, reinsurance arrangements etc.

The syndicate's governance framework encompassing the Product Oversight Group, Underwriting and Claims Committee, Syndicate Management Committee and ultimately the Board provide the requisite oversight.

The effect of rating levels being lower than planned is, all other things being equal, to reduce income levels in respect of the risks underwritten, and hence increase both the claims ratio and the expenses ratio. If profitability were maintained but just volume reduced, the impact upon results might be fairly modest but if price ratings reductions are not reflective of exposure reduction there is likely to be a more significant impact upon the results.

	2018 £000	2017 £000
Gross premiums earned	132,938	114,897
Result for the period (excl. investment return)	(13,132)	(10,264)
1% reduction in volume pro-rata result for the period (excl. investment return)	(131)	(103)
1% rating price reduction in profit per £1 of earned premium	(1,329)	(1,149)

Reserving risk

There are a number of drivers of reserving risk.

Reserves are established for earned premium income, and unearned premium. The reserves in relation to the former are claims reserves. In relation to the latter, there is an unearned premium reserve, and there may also be an additional unexpired risk provision. In addition, a reserve for Unallocated Loss Adjustment Expenses (ULAE) will also be established and an allowance made for bad 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. Once both sets of actuaries have completed their view of reserves, the results of the external actuary's projections are then compared to those proposed by the Coverys at Lloyd's actuarial function.

The Chief Actuary will then make a reserve recommendation to the Board including (if necessary) any loadings required. The level of booked reserves requires formal approval by the Board and is subject to an external audit and further actuarial opinion. 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 £000	2017 £000
Gross outstanding claims provision	145,985	107,368
Net outstanding claims provision	139,443	103,075
Net unearned premium provision	75,984	58,736
1% movement in net outstanding claims	(1,394)	(1,031)

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

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. There is also a small exposure to liquidity risk although risk reduces over time as the syndicate assets increase.

The syndicate's investment policy is established by the Board following recommendations by the Coverys at Lloyd's Investment Committee. In order to mitigate market risk, the Board, through delegation to the Finance Committee, monitors the economic situation to seek to anticipate any future interest rate movements and to take appropriate action to mitigate its effect on the value of syndicate assets. At this time of writing this report, the Finance/Investment Committee 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 reviews cash flow projections and maintains cash levels consistent with the needs of the syndicate. The syndicate maximises the inflow of funds from reinsurance recoveries and outstanding premiums and controls costs through the reporting of the expense budget.

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

	Less than 1 year £000	1 to 3 years £000	3 to 5 years £000	More than 5 years £000	Total £000
As at 31 December 2018					
Claims outstanding	29,397	44,169	20,615	15,250	109,431
Creditors	4,564	–	–	–	4,564
Total credit risk	33,961	44,169	20,615	15,250	113,995
As at 31 December 2017					
Claims outstanding	20,571	30,908	14,426	10,672	76,577
Creditors	1,756	–	–	–	1,756
Total credit risk	22,327	30,908	14,426	10,672	78,333

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

Expected cashflows	Less than 1 year £000	1 to 3 years £000	3 to 5 years £000	More than 5 years £000	Total £000
2018 net claims liabilities	42,722	68,713	15,461	12,547	139,443
2017 net claims liabilities	31,580	50,792	11,429	9,274	103,075

Currency risk

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

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

A 10% fall in the in the value of all overseas net assets would lead to a £2.0m loss (2017: £0.8m) with US Dollar net assets being the largest element of that at £1.4m for 2018 (2017: £0.6m). The syndicate monitors these currency balances and aims to ensure excessive balances beyond accumulated profits do not accrue beyond those necessary to meet overseas trust fund requirements. The syndicate has not taken out any transactions to hedge these balances.

The following table, all expressed in Sterling, shows that the total net assets held by the syndicate designated in US Dollars at the year-end represented 32% which is up from 14% at the previous year-end.

	£ £000	US$ £000	Can$ £000	Euro £000	Other £000	Total £000
As at 31 December 2018						
Financial investments	35,945	25,662	2,160	30,295	468	94,530
Overseas deposits	–	271	317	–	5,513	6,101
Reinsurers' share of technical provisions	4,958	1,883	7	3,016	129	9,993
Insurance & reinsurance debtors	8,447	4,432	122	1,976	1,152	16,129
Cash at bank	1,493	1,589	604	3,711	1,591	8,988
Other assets including deferred acquisition costs	26,526	18,008	1,087	4,731	2,156	52,508
Total assets	77,369	51,845	4,297	43,729	11,009	188,249
Technical provisions	90,147	64,303	2,783	57,439	10,747	225,419
Insurance & reinsurance creditors	953	573	–	–	–	1,526
Other creditors	11,469	1,431	(98)	(6,181)	(346)	6,275
Total liabilities	102,569	66,307	2,685	51,258	10,401	233,220
Surplus/(deficiency) of assets	(25,200)	(14,462)	1,612	(7,529)	608	(44,971)

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

Interest rate risk

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

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

	2018 £000	2017 £000
Impact of a 50 basis point increase in interest rates on result	(127)	(90)
Impact of a 50 basis points decrease in interest rates on result	127	90
Impact of a 50 basis points increase in interest rates on net assets	(127)	(90)
Impact of a 50 basis point decrease in interest rates on net assets	127	90

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

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

There are a number of ways in which the syndicate considers and monitors reinsurance counterparty financial strength such as deterministically, monitored by the reinsurance team, and stochastically, monitored by the capital team. The Coverys at Lloyd's internal model takes into account the financial ratings of each participating reinsurer, and calculates the effect of reinsurer default on the syndicate's ability to make reinsurance recoveries.

Brokers and intermediaries

Claims funds held by third party administrators are held in segregated bank accounts and are not subject to credit risk.

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.

	AAA £000	AA £000	A £000	BBB £000	Total £000
As at 31 December 2018					
Variable yield securities and unit trusts	–	2,161	166	–	2,327
Debt securities	–	10,598	12,303	2,595	25,496
Participation in investment pools	–	66,708	–	–	66,708
Overseas deposits as investments	4,117	1,214	471	299	6,101
Reinsurers' share of claims outstanding	–	–	6,542	–	6,542
Cash at bank and in hand	–	604	8,383	–	8,987
Total credit risk	4,117	81,285	27,865	2,894	116,161
As at 31 December 2017					
Variable yield securities and unit trusts	–	1,283	–	25	1,308
Debt securities	–	4,491	11,377	2,062	17,930
Participation in investment pools	38,842	–	–	–	38,842
Overseas deposits as investments	2,114	373	–	–	2,487
Reinsurers' share of claims outstanding	–	1,238	3,055	–	4,293
Cash at bank and in hand	–	542	10,028	2,099	12,669
Total credit risk	40,956	7,927	24,460	4,186	77,529

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

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. 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 staff and external parties.

In relation to the former, the managing agent maintains a Business Continuity Plan (BCP) which sets out the anticipated risks, assessments of 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, as per the above. 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 Fund may, at Lloyd's discretion, be applied to make good any deficits for the benefit of policyholders.

Notes to the annual accounts

At 31 December 2018

1 Analysis of underwriting results

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

	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
2018						
Direct insurance:						
Fire and other damage to property	48,031	44,581	(30,688)	(16,588)	(7,434)	(10,129)
Third party liability	97,890	84,635	(52,299)	(33,807)	(3,775)	(5,246)
Accident & Health	2,897	3,723	(910)	(1,001)	431	2,243
	148,818	132,939	(83,897)	(51,396)	(10,778)	(13,132)
2017						
Direct insurance:						
Fire and other damage to property	44,620	41,827	(25,488)	(16,775)	(9,012)	(9,448)
Third party liability	76,910	70,289	(36,979)	(28,481)	(5,506)	(677)
Accident & Health	3,425	2,781	(1,525)	(1,145)	(177)	(66)
	124,955	114,897	(63,992))	(46,401)	(14,695)	(10,191)

Total commissions for direct insurance written in the year amounted to £38,933k (2017: £39,307k).

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

	2018 £000	2017 £000
United Kingdom	63,882	54,216
Other EU countries	21,770	18,131
Rest of the world	63,166	52,608
	148,818	124,955

2 Technical provisions

Gross technical provisions

	2018 £000	2017 £000
Claims outstanding	145,985	107,368
Provision for unearned premiums	79,434	62,037
	225,419	169,405
Reinsurers' share of technical provisions		
Claims outstanding	6,542	4,293
Provision for unearned premiums	3,450	3,300
	9,992	7,593
Net technical provisions		
Claims outstanding	139,443	103,075
Provision for unearned premiums	75,984	58,737
	215,427	161,812

Reconciliation of movements in year

2018	At 31 Dec 17 £000	Movement in technical account £000	Exchange movement £000	At 31 Dec 18 £000
Gross provision for claims	(107,368)	(35,934)	(2,682)	(145,984)
Reinsurers' share of provision	4,293	2,143	107	6,543
Unearned premium	(62,037)	(15,880)	(1,517)	(79,434)
Reinsurers' share of unearned premium	3,300	98	51	3,449
Deferred acquisition costs	25,636	(1,132)	413	24,917

2017	At 31 Dec 16 £000	Movement in technical account £000	Exchange movement £000	At 31 Dec 17 £000
Gross provision for claims	(77,553)	(30,090)	275	(107,368)
Reinsurers' share of provision	7,204	(2,988)	77	4,293
Unearned premium	(53,449)	(10,058)	1,470	(62,037)
Reinsurers' share of unearned premium	2,766	605	(71)	3,300
Deferred acquisition costs	21,066	5,318	(748)	25,636

Claims development triangulations

Gross claims development as at 31 December 2018

Pure underwriting year Estimate of gross claims incurred	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total
After one year	885	438	380	4,958	1,124	4,722	
After two years	13,612	23,073	27,993	39,226	38,870		
After three years	26,391	46,108	60,761	77,816			
After four years	26,948	42,715	60,127				
After five years	25,912	44,725					
After six years	28,621	16,410	17,235	8,583	16		
Less gross claims paid	19,689	23,898	28,586	29,685	7,023	16	
Gross reserves	8,932	20,828	31,541	48,131	31,847	4,706	145,985

Net claims development as at 31 December 2018

Pure underwriting year Estimate of gross claims incurred	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total
After one year	885	438	336	4,932	1,094	4,669	
After two years	12,901	20,390	27,355	38,079	37,905		
After three years	24,448	41,032	59,090	75,196			
After four years	25,338	41,147	59,535				
After five years	24,806	42,818					
After six years	26,284						
Less net claims paid	18,585	23,201	28,455	29,685	7,023	16	
Net reserves	7,699	19,617	31,080	45,511	30,882	4,653	139,442

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

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

	2018 £000	2017 £000
Fire and other damage to property	10,241	22,442
Third party liability	65,178	30,172
Accident & Health	555	1,187
	75,974	53,801

3 Net operating expenses

	2018 £000	2017 £000
Brokerage and commissions	18,894	17,355
Other acquisition costs including certain syndicate expenses deemed to relate to procuring business	24,431	25,849
Acquisition costs	43,325	43,204
Change in deferred acquisition costs	(266)	(5,318)
Administration expenses	6,987	7,104
Members' standard personal expenses	1,349	1,411
	51,395	46,401

Administrative expenses include:		
Auditor's remuneration		
Audit of the syndicate annual accounts	113	79
Other services pursuant to regulations and Lloyd's byelaws	92	25

4 Employees

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

Wages and salaries	6,843	6,555
Social security costs	907	762
Other pension costs	495	443
	8,245	7,759

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

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

	2018	2017
Administration and finance	20	26
Underwriting	36	30
Claims	5	4
	61	60

5 Directors' and Active Underwriter's emoluments

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

	2018 £000	2017 £000
Emoluments	340	633

Active Underwriter's emoluments

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

Emoluments	477	425

6 Investment Return

Income from investments	696	279
Gains on the realisation of investments	18	108
Losses on the realisation of investments	(234)	(23)
Investment income	480	364
Investment expenses and charges	(63)	(24)
Unrealised gains on investments	77	170
Unrealised losses on investments	(1,025)	(125)
Allocated investment return transferred to the technical account	(531)	385

This can also be presented as follows:

Interest and similar income		
Interest from financial instruments designated at fair value	696	279
Other interest & similar income	95	278
	791	557

7 Investment Expenses and Charges

Investment management expenses, including interest	63	24
Realised losses on investments	234	23
Unrealised losses on investments	1,025	125
	1,322	172

8 Other financial investments

	Market value		Cost	
	2018 £000	2017 £000	2018 £000	2017 £000
Listed securities				
Shares and other variable yield securities	2,327	1,308	2,327	1,308
Debt securities and other fixed income securities	25,496	17,930	25,535	18,043
Participation in investment pools	66,708	38,842	67,321	38,615
	94,531	58,080	95,183	57,966

Fair value hierarchy

In accordance with FRS 102 paragraph 11.27 the above financial instruments have been classified into three levels to estimate their fair values, with Level 1 being the most reliable. The syndicate has adopted the following definitions of the fair value hierarchy disclosures of the amendment to FRS102 paragraph 34.22 in accordance with the March 2016 amendments:

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

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

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

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

9 Debtors arising out of direct insurance operations

	2018 £000	2017 £000
Intermediaries	13,391	12,821

10 Debtors arising out of reinsurance operations

Due from ceding insurers	2,739	1,903

All debtors are due within one year.

11 Other debtors

	2018 £000	2017 £000
Amounts held by third party administrators – claims funds	10,812	6,440
USFIT	144	1
VAT receivable	129	58
Other debtors	80	13
	11,165	6,512

12 Creditors arising out of reinsurance operations

Due within one year	1,526	1,922

13 Other creditors

Taxation	4,351	1,260

14 Year of account development

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

	Calendar years							
Year of account	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	Total £000	U/w account £000
2013	(6,647)	(1,749)	(664)				(9,060)	(8,844)
2014		(11,281)	(4,301)	1,645			(13,937)	(14,183)
2015			(13,170)	(1,352)	3,353		(11,169)	(10,136)
2016				(16,403)	708	4,280	(11,415)	(8,143)
2017					(13,940)	(2,126)	(16,066)	(2,939)
2018						(16,847)	(16,847)	1,675
Calendar year GAAP result	(6,647)	(13,030)	(18,135)	(16,110)	(9,879)	(14,693)		

15 Regulatory capital requirements

Funds at Lloyd's

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

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

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

Capital framework at Lloyd's

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

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

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

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it 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 is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

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

16 Derivatives

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

17 Off-balance sheet items

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

18 Related parties

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

(ii) During the year, the syndicate paid £9,270k (2017: £8,847k) to Coverys MA Services Limited in relation to management fees and a further £951k (2017: £950k) in managing agency fees to Coverys at Lloyd's. These amounts have been charged at cost.

(iii) CMAS, the principal administration company and a subsidiary of Coverys at Lloyd's, provided a number of services to Syndicate 1991 including IT and Human Resources and Internal audit.

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

(v) R E McCoy, M Bell, P M Sloan and A G Chopourian are directors of DTW 1991 Underwriting Limited , a Lloyd's approved service company coverholder which conducts business on behalf of the syndicate. During the year DTW 1991 Underwriting Limited provided £90,283k of premium income to the syndicate (2017: £72,741k). DTW 1991 Underwriting Limited's costs are recharged to the syndicate and treated as acquisition costs. This amounted to £43k in 2018 (2017: £58k).

(vi) With effect from 1 May 2018, Syndicate 1991 appointed DTW Claims Management LLC (DCM), a US domiciled Claims Administrator to handle claims exclusively for Syndicate 1991's US policyholders. D T Wright (Active Underwriter) and S H Mitchell (Deputy Active Underwriter) are shareholders of DCM. They do not receive any financial benefit from the arrangement.

COVERYS

Coverys Managing Agency Limited

Syndicate

DTW 1991

Underwriting year accounts

For the year ended 31 December 2018

Managing agent's report

Coverys at Lloyd's presents its report together with the syndicate underwriting year accounts for the 2016 year of account of Syndicate 1991 for the three years ended 31 December 2018.

Review of the 2016 year of account

Activities

Syndicate 1991 is a specialist in delegated authority underwriting, and was approved by Lloyd's for the 2013 year of account. The capacity for 2016 was £129.8m. Pure underwriting year premiums written excluding commissions were £144.4m, representing 111% of capacity.

Results

The loss for the 2016 year of account was £8.1m equivalent to 6.3% of capacity. An explanation of the result is included in the Underwriter's report on page 3 and in the Strategic report on page 5.

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office as the syndicate auditor.

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

R E McCoy
Chief Executive Officer
15 March 2019

Statement of managing agent's responsibilities

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

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

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

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

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

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

Independent auditor's report

to the Members of Syndicate 1991 2016 closed year of account

Opinion

In our opinion, Syndicate 1991's underwriting year accounts for the 2016 year of account for the 3 years ended 31 December 2018 (the "syndicate 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 result for the 2016 closed year of account;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", as modified by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

We have audited the syndicate underwriting year accounts included within the Report & Financial Statements (the "Annual Report"), which comprise: balance sheet 2016 year of account at 31 December 2018, profit and loss account – 2016 year of account, and the notes to the syndicate underwriting year accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate underwriting year accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate underwriting year accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting.

We have nothing to report in respect of the above matters.

2016 closed year of account

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the syndicate's business and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the syndicate underwriting year accounts and our auditor's report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate underwriting year accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate 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 syndicate underwriting year accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate 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 based on these responsibilities.

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

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

Managing agent's report

In our opinion, based on the work undertaken in the course of the audit, the information given in the managing agent's report for the year ended 31 December 2018 is consistent with the syndicate underwriting year accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

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

Responsibilities for the syndicate underwriting year accounts and the audit

Responsibilities of the managing agent for the syndicate underwriting year accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 39, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2016 closed year of account. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

2016 closed year of account

In preparing the syndicate underwriting year accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the syndicate is unable to continue to realise its assets and discharge its liabilities in the ordinary course of business.

Auditors' responsibilities for the audit of the syndicate underwriting year accounts

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

A further description of our responsibilities for the audit of the syndicate underwriting year accounts is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and Part C of the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005), we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Philip Watson (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2019

Profit and loss account – 2016 year of account Technical account – general business

Closed at 31 December 2018

	Note	£000	£000
Syndicate allocated capacity			129,740
Earned premiums net of reinsurance:			
Gross premiums written			143,844
Outward reinsurance premiums			(13,376)
			130,468
Reinsurance to close premiums received net of reinsurance	4		76,851
Allocated investment return transferred from the non-technical account			(592)
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(49,794)	
Reinsurers' share		743	
		(49,051)	
Reinsurance to close premiums payable net of reinsurance	5	(111,877)	
			(160,928)
Net operating expenses	6		(52,859)
Balance on the technical account – general business	7		(7,060)

The accounting policies and notes on pages 45 to 54 form part of these financial statements.

Profit and loss account – 2016 year of account Non-technical account

Closed at 31 December 2018

	Note	£000
Balance on the technical account – general business		(7,060)
Investment income		503
Investment expenses and charges		(63)
Realised gains on investments		(156)
Unrealised gains on investments		(877)
Allocated investment return transferred to general business technical account	8	592
Other charges		(1,082)
Loss for the 2016 closed year of account		(8,143)

The above loss was after a £1,082k exchange loss, included within the non-technical account other charges.

There was no other comprehensive income.

	£000
Amounts due to members	
Loss for the 2016 closed year of account	(8,143)
Members' agents' fees advances	(311)
Amounts due (from) members at 31 December 2018	(8,454)

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 accounting policies and notes on pages 45 to 54 form part of these financial statements.

Balance sheet
2016 year of account

Closed at 31 December 2018

	Note	£000	£000
Assets			
Investments	9		84,752
Debtors	10		14,612
Reinsurance recoveries anticipated on gross reinsurance to close premiums – reinsurers' share	5		6,491
Other assets			
Cash at bank and in hand		6,399	
Overseas deposits		5,208	
			11,607
Prepayments and accrued income			
Deferred acquisition costs	5	3,778	
Prepayments and other accrued income		(1,087)	
			2,691
Total assets			120,153
Liabilities			
Amount due (from) members			(8,454)
Reinsurance to close premium payable – gross amount	5		126,066
Creditors	11		5,898
Accruals and deferred Income			(3,357)
Total liabilities			120,153

The accounting policies and notes on pages 45 to 54 form part of these financial statements

The syndicate underwriting year accounts were approved by the Board of Coverys at Lloyd's on 15 March 2019 and were signed on its behalf by:

R E McCoy
Chief Executive Officer

M Bell
Finance Director

15 March 2019

Notes to the syndicate underwriting accounts 2016 year of account

Closed at 31 December 2018

1 Statement of accounting policies

General information and principal activities

Syndicate 1991 is a Lloyd's syndicate domiciled in England and Wales. It is managed by Coverys 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 is supported by capacity from formerly connected and third party members.

Basis of preparation and compliance with accounting standards

These syndicate underwriting year accounts have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts", The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Syndicate Accounting Byelaw (No.8 of 2005), as far as is necessary to present a true and fair view.

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

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

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These syndicate underwriting year accounts relate to the 2016 year of account which has been closed by reinsurance to close into the 2017 year of account of Syndicate 1991 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 cash flow statement reflect the transactions for that year of account during the 36 months period until closure.

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

Significant accounting policies:

Underwriting transactions

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

(a) Gross premiums are allocated to years of account into which the arrangement with the coverholder incepts. Commissions or brokerage charged to the syndicate are allocated to the same year of account as the relevant policy. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

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

(c) Gross claims paid include internal and external adjustment and settlement expenses. Salvages and reinsurance recoveries are allocated to the year of account to which the related claim was charged.

(d) All underwriting transactions are recognised on the basis of transactions processed up to and including the balance sheet date plus accruals in respect of anticipated additional or return premiums, reinsurance premiums and reinsurance recoveries in respect of paid claims.

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

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

Financial assets and financial liabilities

(a) Classification

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

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

(b) Recognition

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

(c) Initial measurement

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

(d) Subsequent measurement

Investments in shares and other debt instruments are measured at fair value through profit or loss. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

(e) Derecognition of financial assets and liabilities

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

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

(f) Fair value measurement

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

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

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

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

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

(h) *Offsetting*

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

Investment return

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

Syndicate operating expenses

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

Taxation

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

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

Basis of currency translation

The syndicate has Sterling as its functional and presentation currency.

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

Although transactions are translated as described above, the monetary assets and liabilities, including any unearned premiums or deferred acquisition costs, within the balance sheet in the currencies stated above are translated at the rates of exchange ruling on 31 December 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.

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 on page 45 and the related risks relating to the underlying net technical provisions that it transfers are described on page 22 within the syndicate annual accounts. The reinsurance to close after the reinsurers' share is £115.8m. The most uncertain element within these technical provisions is the amount for claims outstanding which covers amounts where either a claim event has occurred but the syndicate has not yet been notified or where although notified there has been insufficient information to date to be certain regarding its ultimate cost. This provision for Incurred but Not Reported (IBNR) after potential related reinsurance recoveries amount to £30.2m.

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 of Syndicate 1991. 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 accounts on pages 10 to 35 and in particular within page 20 on risk management.

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

3 Analysis of underwriting result

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

2016 year of account	Gross written premiums £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Fire and other damage to property	48,147	48,147	(32,296)	(17,740)	(6,398)	(8,287)
Third party liability	92,837	92,837	(47,035)	(32,844)	(3,674)	9,284
Accident & Health	3,402	3,402	(2,194)	(1,096)	331	443
	144,386	144,386	(81,525)	(51,680)	(9,741)	1,440

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

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

	£000
United Kingdom	57,059
Other EU countries	24,670
Rest of the world	62,657
	144,386

4 Reinsurance to close premiums received

	Unearned premium £000	Reported £000	IBNR £000	ULAE £000	Total £000
Gross reinsurance to close premiums received	5,924	51,381	24,127	1,069	82,501
Reinsurance recoveries anticipated	(379)	(2,126)	(999)	–	(3,504)
	5,545	49,255	23,128	1,069	78,997
Deferred acquisition costs					(2,146)
					76,851

5 Reinsurance to close premiums paid

	Unearned premium £000	Reported claims £000	IBNR £000	ULAE £000	Total £000
Gross reinsurance to close premiums paid	16,635	75,974	32,092	1,366	126,067
Reinsurers' share	(967)	(3,643)	(1,881)	–	(6,491)
	15,668	72,331	30,211	1,366	119,576
Deferred acquisition costs					(3,778)
Net reinsurance to close premium paid – balance sheet					115,798
Unearned net premiums and deferred acquisition costs					(11,889)
Foreign exchange losses					7,968
Reinsurance to close premium – profit and loss account					111,877

This amount represents a provision for the reinsurance to close the 2016 year of account into the 2017 year of account of Syndicate 1991 as at 31 December 2018 which was approved by the Board of Coverys at Lloyd's on 14 February 2019.

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

6 Net operating expenses

	£000
Brokerage and commissions	15,633
Other acquisition costs	29,240
Acquisition costs	44,873
Administrative expenses	7,986
	52,859

Included within administrative costs above are the following:	
Auditors' remuneration – audit	97
Standard personal expenses (excluding members' agents' fees)	1,814

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

	2015 & prior year of account £000	2016 year of account £000	Total £000
Technical account balance before allocated investment return and net operating expenses	1,335	45,056	46,391
Brokerage, commission & other acquisition costs on gross premium	(3,020)	(41,854)	(44,874)
Balance after brokerage and commissions	(1,685)	3,202	1,517

Reconciliation of Reinsurance to Close received

	Gross £000	Reinsurers' share £000	Total £000
Reinsurance to close received at 1 January 2018	80,355	(3,504)	76,851
Claims paid in relation to 2015 & prior years of account	(20,243)	(743)	(20,986)
Change in provision for 2015 & prior years of account claims	4,104	1,016	5,120
Premiums received	(4)	550	546
Change in provision for premiums	(5,890)	(173)	(6,063)
Change in provision for acquisition costs	2,137	2,137	(2,088)
Effect of movement in exchange rates	846	(53)	793
Reinsurance to close payable for 2015 & prior years of account at 31 December 2018	61,305	(2,907)	58,398
Provision for claims in relation to 2016 year	60,984	(3,584)	57,400
Reinsurance to close payable for 2016 and prior at 31 December 2018	122,289	(6,491)	115,798

8 Investment return

	£000
Income from investments	503
Gain on realisation of investments	12
Investment income	515
Investment management expenses, including interest	(63)
Losses on realisation of investments	(168)
Investment expenses and charges	(231)
Unrealised gains on investments	54
Unrealised losses on investments	(930)
Net unrealised gains on investments	(876)
Allocated investment return transferred to the technical account	(592)

This can also be presented as follows:

Interest and similar income	
Interest from financial instruments designated at fair value	503
Other income from investments designated at fair value	
Realised gains and losses	(156)
Unrealised gains and losses	(877)
Investment expenses	(63)
	(592)

9 Investments

	Market Value £000	Cost £000
Financial assets at fair value through profit or loss:		
Shares and other variable yield securities	1,077	1,077
Debt securities and other fixed income securities	17,105	17,131
Participation in investment pools	66,570	67,182
	84,752	85,390

Fair value hierarchy

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

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

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

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

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

10 Debtors

	£000
Amounts held by third party administrators – claims funds	14,271
Members agency fees	311
Other debtors	30
	14,612

All amounts are due within one year.

11 Creditors

	£000
Taxation	3,180
Creditors arising out of reinsurance operations	1,378
Creditors arising out of direct insurance operations	1,334
Other creditors	6
	5,898

All amounts are payable within one year.

12 Borrowings and mortgages or charges

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

13 Related parties

Members' expenses, being agent's fees and profit commission payable to the managing agent, and subscriptions and central guarantee fund contributions paid to Lloyd's, are charged on an underwriting year of account, rather than calendar year basis. For the 2016 year of account Coverys at Lloyd's has charged an agent's fee of 0.75% of capacity. Within the 2016 underwriting year accounts, fees of £1.0m have been reflected within net operating expenses. At 31 December 2018 there were no unpaid fees.

The managing agent incurs a large proportion of the expenses incurred in operating the syndicate and recharges them to the syndicate on a basis that reflects the syndicate's usage of resources. The recharges are included within amounts disclosed as net operating expenses, acquisition costs and claims incurred. Included within the recharges are amounts relating to the remuneration of directors of Coverys at Lloyd's. The total amount recharged by the managing agent to the syndicate to the 2016 underwriting account was £7.5m excluding agent fees. At 31 December 2018 there were no unpaid fees.

Summary of results of closed years

Years of Account	2013	2014	2015	2016
Syndicate allocated capacity	£76.8m	£150.0m	£146.2m	£129.8m
Number of underwriting members	559	642	666	617
Net premium	£19.1m	£36.9m	£67.1m	£89.3m
Results for a £10,000 share	**£**	**£**	**£**	**£**
Gross premiums	4,933	4,419	4,535	11,129
Net premiums	4,246	3,822	6,747	10,056
RITC from an earlier account	–	1,072	3,187	5,923
Net claims	(900)	(914)	(2,034)	(3,781)
RITC paid	(2,095)	(2,801)	(5,302)	(8,623)
Profit/(loss) on exchange	19	(60)	(182)	(83)
Syndicate operating expenses	(2,335)	(1,937)	(3,021)	(3,969)
Balance on technical account	(1,065)	(817)	(604)	(477)
Investment return	1	4	27	(46)
Profit/(loss) for the closed year	(1,064)	(813)	(577)	(523)
Profit commission	–	–	–	–
Other personal expenses	(66)	(131)	(125)	(105)
Profit/(loss) after all expenses	(1,130)	(944)	(702)	(628)
Percentage of illustrative share:				
Gross premium %	49.3%	44.2%	45.3%	111.3%
Net premium %	42.5%	38.2%	67.5%	100.6%
Balance on technical account %	(10.6%)	(8.2%)	(6.0%)	(4.8%)

Notes

1 As the syndicate commenced in 2013, there are only four years of account summarised.

2 Personal expenses are those that would apply for an illustrative member underwriting a £10,000 share.

3 Net claims include internal claims settlement expenses.

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