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NEON

2018 Annual Report

Neon Underwriting Limited Syndicate 2468

Year ended 31 December 2018

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Directors and administration

Managing Agent
Neon Underwriting Limited

Directors

J E Consolino	(Non Executive Chairman)
S Hayes	(Independent Non Executive)
R E Heppell	(Chief Financial Officer)
D M Lednor	
S E A Long	
O Reeves	
M R D Reith	(Chief Executive Officer)
M J Wade	(Independent Non Executive)
M S D Washington	

Syndicate secretary
L A Dlaboha

Managing Agent's registered number
03584320

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

Active underwriter
Darren Lednor

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

Bankers
Barclays Bank plc
One Churchill Place
London
E14 5HP

Solicitors
Clyde & Co

Consulting actuaries
Willis Towers Watson

Managing agent's report

The directors of Neon Underwriting Limited (the Managing Agent) present their report for Syndicate 2468 (the Syndicate) for the year ended 31 December 2018 (the Financial Year).

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

Principal activity

The principal activity of the Syndicate remains the transaction of general insurance and reinsurance business. There have not been any significant changes to the Syndicate's activities during the year. The stamp capacity of the Syndicate for each of the years of account open in 2018 was as follows:

Year of Account	Capacity £000
2016	235,000
2017	235,000
2018	305,000

The stamp capacity has remained at £305m for the 2019 year of account.

Business review

Neon completed the external reinsurance to close of the 2008 to 2015 years of account as at 31 December 2017 enabling the Syndicate to focus exclusively on the open years of account from 2016 onwards. The 2018 plan included the ambitious target of writing gross written premiums of £385m for the 2018 Year of Account, up from £269m for the 2017 Year of Account and this was successfully executed. Much of the growth was in the Property insurance and reinsurance classes and due mainly to the catastrophe losses in 2018 this has had an adverse effect on the result for the year.

The Syndicate result for the Financial Year is comprised of the movement on all underwriting years that were open during the year and is an underwriting loss of £47,520k (2017: £16,095k). The total recognised loss of £47,536k (2017: £10,539k) additionally includes foreign exchange gains and losses.

Managing agent's report (continued)

Syndicate result – all years of account	*2018*	*2017*
	£000	*£000*
Gross written premiums	405,073	225,676
Net written premiums	296,489	160,809
Net earned premiums	240,313	135,204
Claims ratio	67%	47%
Commission ratio	37%	41%
Expense ratio	15%	24%
Combined ratio	***119%***	***112%***
Underwriting result before Investment return	(47,520)	(16,095)
Investment return	2,065	2,924
Result after Investment Return	(45,455)	(13,171)
Foreign exchange (loss)/gain	(2,081)	2,632
Total Loss for the financial year	(47,536)	(10,539)

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

Gross written premiums increased by £179,397k to £405,073k. Most of the classes of business written in 2017 saw increases in 2018 but the biggest increases were in Reinsurance and Property insurance. Neon successfully recruited experienced teams in these classes during 2016 and 2017 and this has enabled the increased gross written premium. In addition Chord Reinsurance Limited, an MGA that Neon supported in its start-up, provided £26.9m gross written premium to the Syndicate for the first time in 2018, contributing to the growth.

Net earned premium increased by £105,109k reflecting the increase in premiums written.

Net claims incurred increased by £98,825k to £161,797k and the claims ratio from 47% to 67%. The increase in cost is driven partly by the increased size of the premiums written and exposure assumed. Both 2017 and 2018 were also affected by catastrophe losses and reserves have been established in 2018 for Hurricanes Florence and Michael as well as the Californian wildfires ($100.8m gross and $27.4m net). In 2017 the Syndicate concluded an external reinsurance to close of the 2015 and prior years of account and this contributed to a release of reserves and fall in the 2017 claims ratio.

Claims liabilities are analysed by segment in note 16.

Operating expenses have increased overall. Acquisition costs are the main driver of this increase, partly as a result of increased premiums and partly a result of changing the mix of business to include greater use of delegated underwriting arrangements. Administrative expenses increased at a lower rate than premiums, reflecting the comparative investments made in staff and systems in prior years.

The Syndicate produced an investment return of £2,065k in the year (2017: £2,924k), being 1.48% (2017: 0.89%) of the average annual investment portfolio. The investment portfolio was held in cash, bonds and overseas regulatory deposits managed by Lloyd's Treasury.

Managing agent's report (continued)

The underwriting loss of £47,520k (2017: £16,095k) is analysed below by year of account. A segmental analysis, showing the underwriting result by class of business, is presented in note 2 to the accounts.

Underwriting result by year of account	***Total £000***	*2018 £000*	*2017 £000*	*2016 £000*
Gross written premiums	**405,073**	319,134	82,056	3,883
Net written premiums	**296,489**	219,489	73,332	3,668
Net earned premiums	**240,313**	101,263	117,384	21,666
Incurred claims	**(161,797)**	(93,408)	(52,014)	(16,375)
Commission and expenses	**(126,036)**	(84,501)	(37,467)	(4,068)
Underwriting result	**(47,520)**	(76,646)	27,903	1,223

Review of financial position

Financial investments, cash and other assets have reduced to £172,058k from £329,539k. This is a consequence of the third party reinsurance to close of the 2015 and prior years of account.

The members' balance deficit has decreased to £45,538k from £112,745k as detailed in the statement of changes in members' balance on page 16 of the accounts. The Syndicate made a cash call of £130m in January 2018 to fund the payment of losses from the catastrophe events in 2017 and ongoing operating expenses after the settlement of the RITC.

Managing agent's report (continued)

Principal risks and uncertainties
The Managing Agent has in place a risk management framework to ensure that all risks associated with the Syndicate's activities are identified, assessed and managed. The Managing Agent's Board is ultimately responsible for managing the risks to which Neon Underwriting Limited (NUL) is exposed and delegates this responsibility to the Risk Committee (RC). The terms of reference for the RC were last approved by the Managing Agent's Board on 8 August 2018. The Board sets the risk appetite annually. This is monitored throughout the year by the Managing Agent's Board, RC and relevant sub-committees.

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

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

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

Regulatory risk
The Managing Agent is required to comply with the requirements of the PRA, FCA and Lloyd's of London. Lloyd's requirements included those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agent has a Compliance team that monitors regulatory developments and assesses the impact on the Managing agent and Syndicate. The Compliance function reports to the Chief Risk Officer who is a member of the Managing Agent's board and has ultimate oversight of the function.

Premium Risk
The Managing Agent defines premium risk as the risk of uncertainty around all unexpired and planned future underwriting exposure. NUL has to ensure that sufficient premium can be charged for the aggregate exposures taken in order to generate sufficient gross underwriting profits.

The Board manages premium risk by agreeing its appetite for these risks annually through the business plan, which sets out (*inter alia*) targets for volumes, rates, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme. The Board, supported by the Underwriting Management Committee, monitors performance and exposures against the business plan.

Reserve Risk
Reserve risk is the risk that current reserves are insufficient to cover claim liabilities as they fall due. This is influenced by the frequency of claims and severity of claims, and subsequent development of long–term claims. The quarterly reserving exercise is undertaken by the Actuarial Function with input from the underwriters, claims and finance personnel. Reserving output is presented to the Claims and Reserving Committee for review and challenge.

Managing agent's report (continued)

Credit risk

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

Reinsurer default is the agency's most material credit risk. Coverholder, broker and TPA insolvency are considered as a credit risk to the Syndicate, as well as financial institution default.

The Managing Agent mitigates the risk of exposure to these risks through robust selection and monitoring processes, which includes the Reinsurance Committee oversight of reinsurance exposure, and oversight by the Finance Committee.

Market risk

Market risk relates to the Syndicate's exposure to fluctuations in asset values, interest rates or exchange rates.

Loss arising from exchange rate fluctuations, due to mismatches between assets and liabilities is a material market risk. The approach to manage this risk is governed by the Investment Policy and Asset-Liability policies.

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

Liquidity risk

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

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk is prevalent within all of the other risk categories and controls to mitigate these risks are contained within the Syndicate's risk register. Control performance is presented to the Operations Committee, RC and the Managing Agent Board via risk reporting.

Strategic and Group Risk

Strategic risk is defined as the risk of loss arising from changes in the business environment and/or from adverse strategic decisions. The Managing Agent Board are responsible for NUL's strategy and is supported in discharging this duty by the Executive Committee. The Syndicate Business Forecast (SBF) sets out the Syndicate's business plan for the upcoming year and performance is monitored by the Board.

Group risk is the risk that NUL is adversely impacted by a member of the group potentially leading to a financial and/or reputational impact. Group risk could emanate from the decisions/actions of American Financial Group Inc. (AFG), AFG subsidiary or entity within the Neon Group. There is ongoing dialogue with AFG and non-executive representation on the NUL Board. Similarly, there is NUL representation on each Neon Group MGA Board.

Financial instruments and risk management

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

Managing agent's report (continued)

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

The Syndicate continues to transact in the majority of classes of general insurance and reinsurance business that it has transacted in historically. The Syndicate is required to gain approval from Lloyd's for its business plan (SBF) as part of the planning and capital setting process each year. The Lloyd's business planning process for 2019 focussed on performance improvement across the market, reducing overall capacity particularly in the worst performing classes and each syndicate was required to present a SBF with a clear plan for profitability. As a result of this process the Syndicate has had to adjust its growth plan for 2019 and reduce the expense base accordingly.

The catastrophe losses of 2018 are largely subject to the US Situs Trust Fund regime that requires pre-funding gross losses and as a result a cash call of £61m was made in February 2019 to fund the US Situs Trust Funds.

NUL is 100% aligned to the Lloyd's Brexit solution and has successfully implemented its Brexit project allowing it to underwrite all EEA risks via Lloyd's Insurance Company S.A. (Lloyd's Brussels). In preparation for 1 January 2019, NUL:

- split out EEA premium within the 2019 SBF, approved by Lloyd's;
- reconfigured its underwriting system;
- as a major contributor to Lloyd's Market Acceptance Testing and cooperated closely with Lloyd's, Sequel and the LMA; and
- provided training to all classes.

Lloyd's is planning a Part VII transfer of 1993 -2018 EEA market liabilities to Lloyd's Brussels and NUL will be a part of any arrangement approved by the Court.

NUL continues to closely monitor Brexit developments and is mindful of the potential implications of a 'hard Brexit'. Regarding market uncertainty, NUL believes it is reasonably well insulated from these given its relatively low appetite for investment risk, but continues to monitor the impact on currency movement, UK interest rates and capital markets. Work is also ongoing within Underwriting and Claims to consider the possible increase in claims activity for certain classes.

Research and development

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

Directors

The current directors of the Managing Agent are shown on page 2. Changes to directors since 1 January 2018 are as follows:

Name	Date of resignation
A McKay	13 March 2019
I P Martin	31 January 2019
G M Riddell	31 March 2018

Name	Date of appointment
R E Heppell	31 January 2018

Managing agent's report (continued)

A McKay resigned as company secretary on 25 January 2018. L Dlaboha was appointed as company secretary on 25 January 2018. The Board has approved the appointment of T Butt as a Director and CEO, subject to regulatory approval.

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

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

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

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

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

M S D Washington

Managing Director

20 March 2019

Statement of managing agent's responsibilities

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

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

In preparing the Syndicate annual accounts, the Managing Agent is required to:

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

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

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

Independent auditors' report

Opinion

We have audited the syndicate annual accounts of syndicate 2468 ('the syndicate') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 17, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Independent auditors' report (continued)

Other information

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

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

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

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

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

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

Independent auditors' report (continued)

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 10, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Use of our report

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

Stuart Wilson (Senior statutory auditor)

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

London

20 March 2019

Income Statement
Technical account – General business
For the year ended 31 December 2018

	Notes	*2018*	*2017*
		£000	*£000*
Gross premiums written	2	405,073	225,676
Outward reinsurance premiums		(108,584)	(64,867)
Net written premiums		296,489	160,809
Change in provision for unearned premiums			
- Gross amount		(70,465)	(25,929)
- Reinsurers' share		14,289	324
Change in the net provision for unearned premiums		(56,176)	(25,605)
Earned premiums, net of reinsurance		240,313	135,204
Allocated investment return transferred from the non-technical account	6	2,065	2,924
Claims paid			
- Gross amount		(105,093)	(147,928)
- Reinsurers' share		35,717	33,471
		(69,376)	(114,457)
Change in claims outstanding			
- Gross amount		(140,647)	16,626
- Reinsurers' share		48,226	34,859
Change in the net provision for claims		(92,421)	51,485
Claims incurred, net of reinsurance		(161,797)	(62,972)
Net operating expenses	3	(126,036)	(88,327)
Balance on technical account - general business		(45,455)	(13,171)

Income Statement
Non-technical account – General business
For the year ended 31 December 2018

	Notes	2018	2017
		£000	£000
Balance on technical account - general business		(45,455)	(13,171)
Investment income	6	2,241	4,450
Unrealised gains on investments		42	272
Investment expenses and charges		(45)	(155)
Unrealised losses on investments		(173)	(1,643)
Allocated investment return transferred to the general business technical account		(2,065)	(2,924)
Exchange gains and losses		(2,081)	2,632
Loss for the financial year		(47,536)	(10,539)

Other than items reported in the income statement the Syndicate has no other comprehensive income in any of the periods for which the financial statements are presented.

In accordance with FRS 102.3.19 the Syndicate only presents an income statement and does not present a statement of comprehensive income.

All the amounts disclosed on pages 14 & 15 are in respect of continuing business.

The notes on pages 20 to 46 form an integral part of these financial statements.

Statement of changes in members' balances
For the year ended 31 December 2018

	2018	*2017*
	£000	*£000*
Members' balance at 1 January	(112,745)	(195,039)
Loss for the financial year	(47,536)	(10,539)
2014 & prior year of account results	-	92,833
2015 & prior year of account results	(13,257)	-
2017 year of account open year cash call	130,000	-
Members' balance at 31 December	(43,538)	(112,745)

During the financial year the 2015 underwriting year closed and the final amount settled to members was £13,257k. A cash call of £130,000k was made on the 2017 open year of account to fund settlement of catastrophe losses incurred.

Statement of financial position
As at 31 December 2018

	Notes	2018	2017
		£000	£000
ASSETS			
Investments			
Financial investments	7	123,577	216,771
Reinsurers' share of technical provisions			
Provision for unearned premiums	10, 17	39,054	25,511
Claims outstanding	10	121,686	137,256
		160,740	162,767
Debtors			
Debtors arising out of direct insurance operations	8	131,656	84,675
Debtors arising out of reinsurance operations	8	19,832	15,719
Other debtors	9	25,262	20,427
		176,750	120,821
Cash and other assets			
Cash at bank and in hand	11	31,097	45,295
Other assets	12	17,383	67,473
		48,480	112,768
Prepayments and accrued income			
Deferred acquisition costs	10	57,158	36,108
Other prepayments and accrued income		4,048	2,028
		61,206	38,136
Total assets		570,753	651,263

The notes on pages 20 to 46 form an integral part of these financial statements.

Statement of financial position (continued)
As at 31 December 2018

	Notes	2018	2017
		£000	£000
MEMBERS' BALANCE AND LIABILITIES			
Members' balances	17	(43,538)	(112,745)
Prior year adjustment			
LIABILITIES			
Technical provisions			
Provision for unearned premiums	10	204,352	134,736
Claims outstanding	10	337,016	590,161
		541,368	724,897
Creditors			
Creditors arising out of direct insurance operations	8	1,942	4,299
Creditors arising out of reinsurance operations	8	54,836	25,775
Other creditors	9	7,928	8,930
		64,706	39,004
Accruals and deferred income		8,217	107
Total liabilities		614,291	764,008
Total members' balances and liabilities		570,753	651,263

The notes on pages 20 to 46 form an integral part of these accounts.

The financial statements have been approved by the Board of Directors on 20 March 2019 and were signed on its behalf by:

R E Heppell
Chief Financial Officer

Statement of cash flows
For the year ended 31 December 2018

	Notes	2018	2017
		£000	£000
Loss on ordinary activities	17	(47,536)	(10,539)
Movement in general insurance unearned premiums and outstanding claims		(183,530)	(11,709)
Movement in reinsurers' share of unearned premiums and outstanding claims	17	2,027	(28,022)
Investment return		(2,065)	(2,924)
Movement in other assets/liabilities		(40,460)	(97,352)
Net cash inflow from operating activities		(271,564)	(150,546)
Investing activities			
Purchases of debt and equity instruments		(56,126)	(306,151)
Sale of debt and equity instruments		248,570	331,067
Purchase of derivatives		-	(2,026)
Sale of derivatives		539	-
Investment income received		2,325	1,846
Foreign exchange		385	11,682
Net cash outflow from investing activities		195,693	36,418
Financing activities			
Open year cash calls made/not paid		130,000	92,833
Other		(13,257)	-
Net cash outflow from financing activities		116,743	92,833
Increase/(decrease) in cash and cash equivalents		40,872	(21,295)
Cash and cash equivalents at 1 January		99,758	122,012
Exchange differences on opening cash		1,187	(959)
Cash and cash equivalents at 31 December	11	141,817	99,758

Notes to the financial statements
For the year ended 31 December 2018

1. Accounting Policies

1.1. Statement of compliance

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

1.2. Basis of preparation

The financial statements for the year ended 31 December 2018 were approved for issue by the Board of Directors on 20 March 2019.

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

1.3. Critical accounting judgements and key sources of estimation uncertainty

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

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

Insurance contract technical provisions

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

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

1.3. Judgements and key sources of estimation uncertainty continued

Estimates of future premiums

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

Changes in accounting estimates during the year

There were no changes in accounting estimates during the year.

1.4. Significant accounting policies

Premiums and unearned premiums

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

Reinsurance premiums ceded

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

Notes to the financial statements
For the year ended 31 December 2018

1.4. Significant accounting policies continued

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

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

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

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

Unexpired risk provision
Provision has been made where the future cost of claims and expenses arising on contracts concluded before the end of the financial year is expected to exceed the provision for unearned premium, net of deferred acquisition costs. The need for such provision is assessed on a class by class basis. No provision for unexpired risks was required at 31 December 2018 (2017: £nil).

1.4. Significant accounting policies continued

Reinsurance recoveries

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

Financial investments

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

Derivative financial instruments

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

Offsetting of financial instruments

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

Investment return

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

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

1.4. Significant accounting policies continued

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

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

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

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

2. Segmental analysis

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

2018	Gross written premiums *£000*	Gross premium earned *£000*	Gross claims incurred *£000*	Gross operating expenses *£000*	Reinsurance balance *£000*	Total *£000*
Direct insurance:						
Accident and health	14,251	11,801	(10,763)	(5,294)	(327)	(4,583)
Motor	5,426	3,984	(578)	(1,365)	(102)	1,939
Marine aviation and transport	34,383	27,948	(15,544)	(11,755)	(781)	(132)
Fire and other damage to property	100,240	72,918	(38,248)	(31,875)	(8,273)	(5,478)
Third party liability	85,411	82,142	(50,654)	(29,677)	(6,186)	(4,375)
Credit and suretyship	24,853	22,436	(16,523)	(8,288)	(5,364)	(7,739)
	264,564	221,229	(132,310)	(88,254)	(21,033)	(20,368)
Reinsurance acceptances	140,509	113,379	(113,430)	(37,782)	10,681	(27,152)
	405,073	334,608	(245,740)	(126,036)	(10,352)	(47,520)

2017	Gross written premiums *£000*	Gross premium earned *£000*	Gross claims incurred *£000*	Gross operating expenses *£000*	Reinsurance balance *£000*	Total *£000*
Direct insurance:						
Accident and health	8,507	7,717	(4,550)	(3,329)	2,662	2,500
Motor	2,088	1,026	(4,423)	(817)	621	(3,593)
Marine aviation and transport	18,609	16,318	(11,323)	(7,282)	(4,791)	(7,078)
Fire and other damage to property	33,258	27,772	(28,435)	(13,016)	(890)	(14,570)
Third party liability	70,000	61,172	4,533	(27,402)	(9,361)	28,942
Credit and suretyship	29,009	28,497	1,526	(11,353)	(5,156)	13,514
	161,471	142,502	(42,672)	(63,199)	(16,915)	19,716
Reinsurance acceptances	64,205	57,245	(88,630)	(25,128)	20,702	(35,811)
	225,676	199,747	(131,302)	(88,327)	3,787	(16,095)

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

Gross operating expenses are the same as net operating expenses shown in the income statement as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2018.

2. Segmental analysis continued – Geographical analysis

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

	2018	2017
	£000	£000
United Kingdom	49,270	58,213
Other EU countries	37,073	29,142
Australia	25,986	21,215
North America	211,754	76,957
Other territories	80,990	40,149
	405,073	225,676

3. Net operating expenses

	2018	2017
	£000	£000
Acquisition costs	108,977	60,194
Change in deferred acquisition costs	(19,180)	(4,270)
Administrative expenses	36,239	32,403
Net operating expenses	126,036	88,327

Total written commissions for direct insurance business for the year amounted to £60,945k (2017:£37,625k)

Members' standard personal expenses amounting to £4,886k (2017: £2,910k) are included in administrative expenses, these include Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission.

Net operating expenses include fees payable to the Syndicate's auditor for:	2018	2017
	£000	£000
Audit of the Syndicate annual return	310	345
Audit related assurance services	4	-
Tax compliance	2	12
	316	357

4. Staff costs

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

	2018 £000	2017 £000
Wages and salaries	23,725	21,814
Social security costs	2,360	2,709
Other pension costs	1,402	1,347
	27,487	25,870
Restructure provision	2,620	1,126
	30,107	26,996

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

	2018	2017
Administration and finance	121	116
Underwriting	74	59
Claims	6	5
	201	180

5. Directors' emoluments

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

	2018 £000	2017 £000
Aggregate remuneration in respect of qualifying services	5,432	6,076
Aggregate contributions to defined contribution scheme	114	221
	5,546	6,297

There were no payments to directors for loss of office (2017: £630k, which was provided for at the previous year end). Excluding these payments the remuneration figure is £5,546k (2017: £5,446k).

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

	2018 £000	2017 £000
Aggregate remuneration in respect of qualifying services	679	771

6. Investment return

	2018 £000	2017 £000
Income from financial investments at fair value through profit or loss	2,280	5,668
Net (losses) on realisation of investments at fair value through profit or loss	(39)	(1,218)
Total investment income	2,241	4,450
Net unrealised (losses) on investments at fair value through profit or loss	(131)	(1,371)
Investment expenses and charges	(45)	(155)
Total investment return	2,065	2,924

	2018 £000	2017 £000
Average amount of funds available for investment during the year:		
Sterling	8,378	44,564
United States dollars	120,593	90,690
Canadian dollars	22,212	260,761
Euro	12,860	13,743
Australian dollars	21,968	89,715
Combined in sterling	139,821	329,152
Gross calendar year investment yield:		
Sterling	-3.64%	2.23%
United States dollars	1.67%	0.59%
Canadian dollars	5.68%	0.57%
Euro	0.03%	0.00%
Australian dollars	1.10%	1.59%
Combined in sterling	1.48%	0.89%

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

7. Financial investments

At 31 December 2018	*Valuation* *£000*	*Cost* *£000*
Financial assets at fair value through profit or loss		
Shares and other variable yield securities and units in unit trusts	110,720	110,720
Debt securities and other fixed income securities	12,857	12,823
Total financial assets at fair value through profit or loss	123,577	123,543

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

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

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

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

31 December 2018	*Level 1* *£000*	*Level 2* *£000*	*Level 3* *£000*	*Total* *£000*
Shares and other variable yield securities and units in unit trusts	45,063	65,657	-	110,720
Debt securities and other fixed income securities	6,715	6,142	-	12,857
	51,778	71,799	-	123,577
Loans and deposits with credit institutions	4,034	13,349	-	17,383
	55,812	85,148	-	140,960

7. Financial investments (continued)

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

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

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

Of the debtors arising out of direct insurance operations, £159k (2017: £189k) are due after more than one year. Of debtors arising out of reinsurance operations £12k (2017: £nil) are due after more than one year.

Of the creditors arising out of direct insurance operations £26k (2017: £21k) were due after more than one year. Of creditors arising out of reinsurance operations £9k (2017: £nil) were due after more than one year.

9. Other debtors and creditors

	2018	2017
Other debtors	*£000*	*£000*
Overseas taxation	970	950
VAT	744	2,110
Investments and cash in transit	7,737	4,711
Claims Loss Funds	5,808	1,631
Consortium Fees	1,349	531
Other debtors	34	683
Inter-company balances	8,620	9,811
	25,262	20,427

All balances are due within one year.

9. Other debtors and creditors (continued)

	2018 £000	2017 £000
Other creditors		
Cash in transit	2,457	613
Profit commission due to coverholders	5,471	6,858
Interest due	-	644
Other creditors	-	815
	7,928	8,930

Profit commission payable includes £2,986k (2017: £5,307k) payable after one year. All other balances are due within one year.

10. Technical provisions

2018	Gross	Reinsurers' share	Net
Outstanding claims	*£000*	*£000*	*£000*
At 1 January 2018	590,161	(137,256)	452,905
Claims incurred in current underwriting year	165,219	(71,811)	93,408
Claims incurred in prior underwriting years	80,521	(12,131)	68,390
Claims paid during the year	(105,093)	35,717	(69,376)
RITC of 2015 & prior	(405,073)	69,663	(335,410)
Foreign exchange	11,281	(5,868)	5,413
At 31 December 2018	337,016	(121,686)	215,330

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

10. Technical provisions (continued)

2018	Gross	Reinsurers' share	Net
Unearned premium	*£000*	*£000*	*£000*
At 1 January 2018	134,736	(25,511)	109,225
Premiums written in the year	405,073	(108,584)	296,489
Premiums earned in the year	(334,609)	94,294	(240,315)
RITC of 2015YOA & Prior	(8,258)	2,439	(5,819)
Foreign exchange	7,410	(1,692)	5,718
At 31 December 2018	204,352	(39,054)	165,298

2017	Gross	Reinsurers' share (Restated)	Net (Restated)
Unearned premium	*£000*	*£000*	*£000*
At 1 January 2017	114,701	(26,880)	87,821
Premiums written in the year	225,676	(64,867)	160,809
Premiums earned in the year	(199,747)	64,543	(135,204)
Foreign exchange	(5,894)	1,693	(4,201)
At 31 December 2017	134,736	(25,511)	109,225

	2018	*2017*
Deferred acquisition costs	*£000*	*£000*
At 1 January	36,108	33,225
Change in deferred acquisition costs	19,180	4,270
Foreign exchange	1,870	(1,387)
At 31 December	57,158	36,108

11. Cash and cash equivalents

	2018	*2017*
	£000	*£000*
Cash at bank and in hand	31,097	45,295
Cash equivalents held in collective investment schemes	110,720	54,463
	141,817	99,758

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

12. Other assets

Other assets of £17,383k (2017: £67,473k) comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

13. Related parties

Managing Agency fees of £2,287,500 (2017: 1,762,500) were charged to the Syndicate by the Managing Agent. These fees are calculated as 0.75% of the Syndicate's approved stamp capacity of each underwriting year. There is no amount outstanding due to the Managing Agent at the balance sheet date.

SCOR Underwriting Limited is a corporate underwriting member for the 2002 to 2015 years of account. SCOR Group P&C France (a SCOR group company) has a 7.5% line on a historical political risk (trade credit) reinsurance. The premiums paid to that reinsurer during the year amounted to £253,549 (2017: £297,698). Of this amount the outstanding premium payable is £3,426 (2017: £90,317). At 31 December 2018 there is no receivable amount outstanding (2017: £132,912).

Great American Insurance Co. (GAIC) is a wholly owned subsidiary of American Financial Group Inc. (AFG) and participates as a reinsurer of the Syndicate. The premiums paid to that reinsurer in 2018 amounted to £2,263,264 (2017: £2,446,289) which represents 2% of outward reinsurance spend of the Syndicate. Of this amount the outstanding premium payable is £1,076,759 (2017: £1,490,749). Reinsurance recoveries received from GAIC amounted to £789,815 (2017: £7,813). At 31 December 2018 there is a receivable amount outstanding of £212,246 (2017: £84,161). The Syndicate also has inwards reinsurance agreements with GAIC which amounted to premiums of £50,429 (2017: £257,919). No amounts remain due at the balance sheet date.

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

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

	31 December 2018	31 December 2017
	£000	£000
Neon Management Services Limited	9,255	7,514
Neon Bermuda	-	2,615
Tarian Underwriting Limited	(331)	(318)
	8,924	9,811

The Syndicate writes Cyber business through Tarian Underwriting Limited (TUL), a managing general agency, which has a common director with the Managing Agent. NHL had a special share in TUL giving it 51% voting control. Neon through NHL, has an 11.5% indirect interest in TUL. The amount of business written through TUL in 2018 was £9,935k (2017: £10,538k). Since the year end the special share has been redeemed.

At 31.12.17 Beat Services Limited was owed £318k and this amount was reduced to nil during 2018. Beat Services Limited is no longer a related party at 31.12.18

13. Related parties (continued)

On 29 December 2017, certain senior management and staff of Neon Management Services Limited purchased on an arm's length basis 76.65% of membership interests in Neon Employee Ownership LLC (NEO), domiciled in Delaware, USA from Helium Holdings Limited, a wholly owned subsidiary of American Financial Group Inc. NEO indirectly owns via intermediate holding companies, 30% of the operations of Neon including Syndicate 2468 and the managing agent.

There are no other transactions or arrangements to disclose.

14. Funds at Lloyd's

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

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

15. Off-balance sheet items

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

16. Risk management

a) Governance framework

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

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

16. Risk Management (continued)

There is a clear organisational structure with delegated authorities and responsibilities, underpinned by defined terms of reference for each Committee and Syndicate Risk policy.

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss (99.5% confidence over a one-year time frame), reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one-year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate are subject to review and approval by Lloyd's. A syndicate may be comprised of one or more underwriting members of Lloyd's. Over and above the SCR, Lloyd's applies an uplift to the capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the SCR 'to ultimate'.

Provision of capital by members of Syndicate 2468

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

16. Risk Management (continued)

At 31 December 2018, the Syndicate's agreed ECA was £328.0m (2017: £330.3m), representing 107.5% of the agreed underwriting capacity for the 2019 year of account. The Syndicate also benefits from mutualised capital within the Lloyd's Central Funds, for which an annual levy of 0.35% of Syndicate gross premium is payable.

Participation for each underwriting year that was open during 2018, and for the 2019 underwriting year, is as follows:

Members' participations (% of Syndicate stamp capacity)	*2019* *£000*	*2018* *£000*	*2017* *£000*	*2016* *£000*
Lavenham Underwriting Limited	35%	35%	35%	35%
Sampford Underwriting Limited	36%	36%	36%	36%
GAI Indemnity Limited	29%	29%	29%	29%
Total	100%	100%	100%	100%

Members' premium limits	*2019* *£000*	*2018* *£000*	*2017* *£000*	*2016* *£000*
Lavenham Underwriting Limited	106,750	106,750	82,250	82,250
Sampford Underwriting Limited	109,800	109,800	84,600	84,600
GAI Indemnity Limited	88,450	88,450	68,150	68,150
Syndicate stamp capacity	305,000	305,000	235,000	235,000

All of the corporate members providing capital to support the 2019 year of account are subsidiaries wholly owned by the Managing Agent's ultimate parent, American Financial Group, Inc.

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is Insurance Risk. NUL breaks this down into Premium Risk and Reserve Risk.

Premium Risk

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

16. Risk Management (continued)

Reserve Risk

The risk that current reserves are insufficient to cover claim liabilities as they fall due. This is influenced by the frequency of claims and severity of claims, and subsequent development of long–term claims.

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

Sensitivity analysis

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

	Accident & Health	Motor	Marine, aviation & transport	Fire and other damage to property	Third party liability	Credit & suretyship	Reinsurance acceptances	Total
Converted £'000								
As at 31 December 2018								
5% increase in NIC	(502)	(106)	(1,644)	(1,591)	(3,837)	(1,225)	(1,862)	(10,767)
5% decrease in NIC	502	106	1,644	1,591	3,837	1,225	1,862	10,767
Converted £'000								
As at 31 December 2017								
5% increase in NIC	(601)	(154)	(2,066)	(1,150)	(16,153)	(1,333)	(1,189)	(22,645)
5% decrease in NIC	601	154	2,066	1,150	16,153	1,333	1,189	22,645

16. Risk Management (continued)

Claims concentration

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

	31 December 2018			31 December 2017		
	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000
Accident and health	11,154	(1,120)	10,034	19,067	(7,048)	12,019
Motor	2,121	(1)	2,120	3,667	(594)	3,073
Marine aviation and transport	37,887	(5,013)	32,874	50,278	(8,949)	41,329
Fire and other damage to property	60,647	(28,828)	31,819	47,919	(24,545)	23,374
Third-party liability	84,383	(7,634)	76,749	372,603	(49,921)	322,682
Credit and suretyship	31,618	(7,118)	24,500	38,857	(12,199)	26,658
	227,810	(49,714)	178,096	532,391	(103,256)	429,135
Reinsurance acceptances	109,206	(71,972)	37,234	57,770	(34,000)	23,770
Total	337,016	(121,686)	215,330	590,161	(137,256)	452,905

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

	31 December 2018			31 December 2017		
	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000	Gross Liabilities £000	Re-insurance of liabilities £000	Net Liabilities £000
United Kingdom	16,407	(7,525)	8,882	74,685	(18,177)	56,508
Other EU countries	16,891	(5,401)	11,490	88,845	(7,551)	81,294
Australia	6,030	(2,871)	3,159	60,704	(4,498)	56,206
North America	200,863	(86,360)	114,503	141,083	(43,106)	97,977
Other territories	96,825	(19,529)	77,296	224,844	(63,924)	160,920
Total	337,016	(121,686)	215,330	590,161	(137,256)	452,905

Claims development table

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

16. Risk Management (continued)

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

Gross outstanding claims provision at 31 December 2018

Underwriting Year	*2016* *£000*	*2017* *£000*	*2018* *£000*	*Total* *£000*
Estimate of cumulative claims incurred				
At end of underwriting year	43,403	154,623	170,258	
12 months later	75,436	219,006		
24 months later	93,806			
Current estimate of cumulative claims incurred	93,806	219,006	170,258	
Cumulative claims incurred				
At end of underwriting year	2,976	21,083	12,413	
12 months later	18,384	99,907		
24 months later	33,734			
Current estimate of cumulative claims incurred	33,734	99,907	12,413	
Total gross outstanding claims provision per the statement of financial position	60,072	119,099	157,845	337,016

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16. Risk Management (continued)

Net outstanding claims provision at 31 December 2018

Underwriting Year	*2016* *£000*	*2017* *£000*	*2018* *£000*	*Total* *£000*
Estimate of cumulative claims incurred				
At end of underwriting year	11,831	84,872	94,702	
12 months later	75,530	153,312		
24 months later	106,412			
Current estimate of cumulative claims incurred	106,412	153,312	94,702	
Cumulative claims incurred				
At end of underwriting year	2,976	14,933	10,251	
12 months later	21,964	74,140		
24 months later	54,705			
Current estimate of cumulative claims incurred	54,705	74,140	10,251	
Total net outstanding claims provision per the statement of financial position	51,707	79,172	84,451	215,330

16. Risk Management (continued)

d) Financial risk management

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

Credit risk

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

31 December 2018	*Neither past due nor impaired*	*Impaired*	*Past due*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	110,720	-	-	110,720
Other financial investments				
- Debt securities	12,857	-	-	12,857
Overseas deposits	17,383	-	-	17,383
Reinsurers' share of claims outstanding	121,686	-	-	121,686
Debtors arising out of direct insurance operations	118,518	-	13,138	131,656
Debtors arising out of reinsurance operations	19,832	-	-	19,832
Other debtors	25,262	-	-	25,262
Cash at bank and in hand	31,097	-	-	31,097
	457,355	-	13,138	470,493

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

16. Risk Management (continued)

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2018 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated. This excludes any amounts that are impaired or past due.

31 December 2018	*AAA*	*AA*	*A*	*BBB*	*Less than BBB*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities	-	-	-	-	-	110,720	110,720
Other financial investments							
- Debt securities	7,853	705	3,709	590	-	-	12,857
Overseas deposits	8,978	2,282	1,344	709	512	3,558	17,383
Reinsurers' share of claims outstanding	-	17,365	53,432	-	-	50,889	121,686
Debtors arising out of reinsurance operations	-	722	12,611	-	-	6,499	19,832
Cash at bank and in hand	-	-	31,097	-	-	-	31,097
	16,831	21,074	102,193	1,299	512	171,666	313,575

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

16. Risk Management (continued)

Liquidity risk

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

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

31 December 2018	*Carrying amount £000*	*Up to one year £000*	*1-3 years £000*	*3-5 years £000*	*5-10 years £000*	*Over 10 years £000*
Outstanding claim liabilities	337,016	63,763	197,892	53,871	16,950	4,540
Creditors arising out of direct insurance	1,942	1,917	25	-	-	-
Creditors arising out of reinsurance	54,836	54,827	9	-	-	-
Other creditors	7,928	4,941	2,987	-	-	-

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

16. Risk Management (continued)

Market risk

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

(i) Currency risk

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

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

Converted £'000	UK £	US $	EUR €	CAD $	AUD $	Total
As at 31 December 2018						
Total assets	72,393	400,964	44,841	22,022	30,533	570,753
Total liabilities	(86,166)	(428,260)	(59,516)	(14,069)	(26,280)	(614,291)
Net assets	(13,773)	(27,296)	(14,675)	7,953	4,252	(43,538)

Converted £'000	UK £	US $	EUR €	CAD $	AUD $	Total
As at 31 December 2017						
Total assets	76,797	301,033	48,771	137,449	87,213	651,263
Total liabilities	(161,874)	(320,276)	(138,567)	(62,063)	(81,228)	(764,008)
Net assets	(85,077)	(19,243)	(89,796)	75,386	5,985	(112,745)

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

Converted £'000						
As at 31 December 2018	UK £	US $	EUR €	CAD $	AUD $	Total
5% appreciation	-	(1,365)	(734)	398	213	(1,488)
5% depreciation	-	1,365	734	(398)	(213)	1,488

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

16. Risk Management (continued)

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

(ii) Interest rate risk

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

Changes in variables	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2018		
+50 basis points	(704)	(704)
-50 basis points	704	704
31 December 2017		
+50 basis points	(1,411)	(1,411)
-50 basis points	1,411	1,411

(iii) Equity price risk

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

Changes in stock market prices	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2018		
+50 basis points	554	554
-50 basis points	(554)	(554)
31 December 2017		
+50 basis points	272	272
-50 basis points	(272)	(272)

17. Prior Year Adjustment

NUL has implemented new underwriting data systems in 2018. As part of the final testing of these systems, an error in the calculation of reinsurance earnings was discovered. Comparative prior year numbers have been restated accordingly as summarised in the table below.

	2017 *£000*	*Prior Year Adjustment* *£000*	*2017 Restated* *£000*
Members funds brought forward at 1.1.17	(194,393)	(646)	(195,039)
Loss for the financial year	(1,665)	(8,874)	(10,539)
2015 & prior year of account result	92,833		92,833
Members funds carried forward at 31.12.17	(103,225)	(9,520)	(112,745)

Reinsurers' share of unearned premiums for the year ended 31 December 2017 decreased from £9,198k to £324k. Movement in reinsurers' share of unearned premium for the year ended 31 December 2017 increased by £8,874k.