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Capita Managing Agency Limited

Report and Financial Statements
Syndicate 1110
for the year ended
31 December 2019

DIRECTORS AND ADMINISTRATION

Managing agent

Capita Managing Agency Limited (CMA) is the managing agent of Syndicate 1110. CMA is a wholly owned subsidiary (indirectly held) of Capita plc and operates within the Group's Specialist Services division.

Directors

Directors who served at CMA during the year or up until the period the Report & Accounts were signed are as follows:

K Coogans - Finance Director (*appointed 31 October 2019*)
K Curtis - Non-Executive Director (*appointed 6 February 2020*)
D E Hope - Non-Executive Director
J Hummerston - Director of Underwriting (*appointed 16 April 2019*)
J B King - Chief Operations Officer (*resigned 31 March 2019*)
P Koslover - Chief Risk Officer
P M Laws - Compliance Director
M Petzold - Director of Underwriting (*resigned 31 March 2019*)
W Scott - Chief Executive Officer *(resigned 14 February 2020)*
P Smith - Managing Director (*appointed 4 February 2020*)
E S Stobart - Chairman, Non-Executive
S Sykes - Chief Executive Officer *(appointed 10 December 2019 subject to PRA approval)*
S M Wilton - Non-Executive Director

Coverys Managing Agency, trading as "Coverys at Lloyds" (CaL) was the managing agent of Syndicate 1110 until the management of it was novated on 25 October 2019 to CMA. Directors who served at CaL during the 2019 calendar year until 25 October were as follows:

E B Bagley - Group Non-Executive Director
M Bell – Finance Director
A G Chopourian - Operations Director
M G Gardiner - Non-Executive Director (*resigned 5 July 2019*)
R E McCoy – Chief Executive Officer
T C Mills – Group Non-Executive Director
P M Sloan – Director of Underwriting
C D Charles - Non-Executive Director
D M Reed - Non-Executive Director (*appointed 31 July 2019*)

Company secretary

Capita Group Secretary Limited

Managing agent's registered office

30 Berners Street
London
England
United Kingdom
W1T 3LR

DIRECTORS AND ADMINISTRATION (continued)

Managing agent's registered number

03935227

Syndicate

Run-Off Manager

J B King *(appointed 25 October 2019)*
M Langridge *(resigned 25 October 2019)*

Bankers

Lloyds Bank plc - London
Citibank NA - London and New York
RBC Investor & Treasury Services - Toronto

Investment Managers

Payden & Rygel Global Limited
Lloyd's Treasury & Investment Managers (LTIM)

Independent Auditors

PKF Littlejohn LLP

Statement of actuarial opinion signing actuary

PricewaterhouseCoopers LLP *(2017 year of account)*
Willis Towers Watson *(2019 year of account)*

MANAGING AGENT'S REPORT

The directors of CMA, the managing agent, present their report for Syndicate 1110 ('the Syndicate') for the year ended 31 December 2019. This report includes the strategic report.

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

On 26 October 2017 PSMAL and its corporate members were sold to the R&Q group and subsequently PSMAL novated the management of the Syndicate to R&Q Managing Agency Limited (RQMA) which was renamed Coverys Managing Agency Limited, trading as Coverys at Lloyd's (CaL) on 1 December 2017.

On 25 October 2019 the management of the Syndicate was novated to CMA.

Strategic report

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

Auditors

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

Disclosure of information to auditors

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

Approved by order of the Board of Directors and signed on its behalf:

Karma Coogans
Director
5 March 2020

Strategic report

The directors of CMA present their strategic report for Syndicate 1110 for the year ended 31 December 2019.

Review of the business

For the 2017 year of account, the Syndicate's stamp capacity was £280 million, but following the decision by the Board of the PSMAL to sell Syndicate 1110, the Syndicate went into run-off on 8 June 2017. Following the decision to sell Syndicate 1110 and as part of the novation to RQMA the following arrangements were entered into:

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

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

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

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

- Syndicate 1110 continues to run-off the portfolio of liabilities for the 2017 year of account.

On 23 December 2019 Syndicate 1110 entered into a loss portfolio transfer (LPT) reinsurance with Syndicate 3334, managed by Hamilton Underwriting Limited (HUL), for certain lines of discontinued business for underwriting years 2016 to 2018 inclusive. The transaction resulted in an increase to Syndicate 1110's gross written premium of £59.7m and an increase to gross and net technical provisions of £60.1m. Syndicate 1110 has no associated outwards reinsurance in relation to the LPT as the contract has been ceded net, already benefiting from the HUL reinsurance programme.

Effective 1 January 2020, Syndicate 1110 has accepted the reinsurance to close of the liabilities of run-off Syndicate 3330, 2017 and prior years of account. The transaction will result in a transfer to Syndicate 1110's gross and net technical provisions of approximately £8.4m and £6.9m respectively.

Review of underwriting activities for 2019

The table below summarises the capacity, premium volumes and performance of the Syndicate for 2019, with the comparative numbers for 2018. Other than in respect of capacity, the numbers shown are on an annually accounted basis.

Strategic report (continued)

Key performance indicators

	2019	2018
	£m	£m
Gross premiums written	60.2	11.5
Net premiums earned	58.7	16.6
(Loss)/Profit for the year	(0.2)	6.8
Combined ratio	99%	79%

The result for Syndicate 1110 for the year ended 31 December 2019 is a loss of £0.2m (2018: profit of £6.8m) of which a loss of £0.4m is attributable to the 2019 year of account and a profit of £0.2m is attributable to the 2017 & prior years of account. The combined ratio excludes investment income and foreign exchange gains or losses.

Post balance sheet events

Effective 1 January 2020, Syndicate 1110 will accept the RITC of Syndicate 3330 2017 & Prior years of account.

Other performance indicators

Staff matters

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

Environmental matters

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

Approved by order of the Board of Capita Managing Agency Limited and signed on its behalf:

Karma Coogans
Director
5 March 2020

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare Syndicate annual accounts for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the result or loss of the Syndicate for that period.

In preparing those Syndicate annual accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;

2. make judgements and estimates that are reasonable and prudent;

3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and

4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will 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 accounts 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.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor’s report to the members of Syndicate 1110

Opinion

We have audited the financial statements of Syndicate 1110 (the ‘Syndicate’) for the year ended 31 December 2019 which comprise the Statement of Profit or Loss, the Balance Sheet, the Statement of Retained Earnings, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Syndicate’s affairs as at 31 December 2019 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 financial statements section of our report. We are independent of the Syndicate in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

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

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

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

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

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

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

Responsibilities of the managing agent

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

In preparing the financial statements, the managing agent is responsible for assessing the Syndicate’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the managing agent either intend to cease the Syndicate’s operations, or have no realistic alternative but to do so.

Auditor’s responsibilities for the audit of the financial statements

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

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

Use of our report

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

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

15 Westferry Circus
Canary Wharf
London E14 4HD

5 March 2020

Statement of profit or loss
Technical account - General business
Year ended 31 December 2019

			2019		***2018 (restated)***
	Notes	**£000**	**£000**	**£000**	**£000**
Earned premiums, net of reinsurance					
Gross premiums written	1	60,234		11,538	
Outward reinsurance premiums		(258)		(1,531)	
Net written premiums		59,976		10,007	
Change in the provision for unearned premiums					
Gross amount	8	(1,317)		10,612	
Reinsurers' share	8	-		(3,976)	
Net change in the provision for unearned premium		(1,317)		6,636	
Earned premiums net of reinsurance			58,659		16,643
Allocated investment return transferred from the non-technical account			1,233		2,267
Claims incurred, net of reinsurance					
Claims paid					
Gross amount	9	(29,085)		(30,861)	
Reinsurers' share	9	15,136		9,746	
Net claims paid		(13,949)		(21,115)	
Change in the provision for claims					
Gross amount	9	(47,125)		19,740	
Reinsurers' share	9	3,161		(2,255)	
Net change in the provision for claims		(43,964)		17,485	
Claims incurred net of reinsurance			(57,913)		(3,630)
Net operating expenses	3		(1,715)		(9,531)
Balance on the technical account for general business			264		5,749

All items relate to continuing operations.

The accounting policies and notes on pages 16 to 42 form part of these financial statements.

Statement of profit or loss
Non-technical account
Year ended 31 December 2019

	Notes	*2019* *£000*	*2018* *£000*
Balance on the technical account for general business		264	5,749
Investment income	6	1,012	2,644
Unrealised gains/(losses) on investments	6	238	(310)
Investment expenses and charges	6	(17)	(67)
Allocated investment return transferred to technical account – general business		(1,233)	(2,267)
Non-technical account charges		(455)	1,068
(Loss)/profit for the financial year		(191)	6,817

Statement of other comprehensive income for the year ended 31 December 2019

(Loss)/profit for the financial year	(191)	6,817
Total comprehensive income for the financial year	(191)	6,817

Statement of Retained earnings

Balance due to members at 1 January		14,413	7,618
Total comprehensive income for the financial year		(191)	6,817
(Distribution) in the year		(7,619)	(22)
Members' fees		(1,409)	-
Balance due to members at 31 December	15	5,194	14,413

The accounting policies and notes on pages 16 to 42 form part of these financial statements.

Balance Sheet - Assets
at 31 December 2019

	Notes	*2019* *£000*	*2018 (restated)* *£000*
Investments			
Other financial investments	7	11,968	37,366
Reinsurers' share of technical provisions			
Provision for unearned premiums	8	-	-
Claims outstanding	9	62,223	59,956
		62,223	59,956
Debtors			
Debtors arising out of direct insurance operations	11	5,248	5,584
Debtors arising out of reinsurance operations	11	59,718	-
Other debtors	12	2,788	4,563
		67,754	10,147
Other assets			
Cash at bank and in hand	17	368	1,313
Overseas deposits	13	7,109	9,067
		7,477	10,380
Prepayments and accrued income			
Deferred acquisition costs	14	-	-
Other prepayments and accrued income		104	330
		104	330
Total assets		149,526	118,179

The accounting policies and notes on pages 16 to 42 form part of these financial statements.

Balance Sheet - Liabilities
at 31 December 2019

	Notes	*2019* *£000*	*2018 (restated)* *£000*
Capital and reserves			
Members' balances	15	5,194	14,413
Technical provisions			
Provision for unearned premiums	8	1,317	-
Claims outstanding	9	133,771	93,512
		135,088	93,512
Creditors			
Creditors arising out of reinsurance operations	16	8,724	9,643
Other creditors	16	-	1
		8,724	9,644
Accruals and deferred income		520	610
Total liabilities		149,526	118,179

The accounting policies and notes on pages 16 to 42 form part of these financial statements.

The Syndicate Annual Financial Statements were approved by the Board of Directors of Capita Managing Agency Limited and were signed on its behalf:

Karma Coogans
Director
5 March 2020

Statement of cash flows
Year ended 31 December 2019

	Notes	***2019***	***2018 (restated)***
		£000	***£000***
Cash flow from operating activities			
(Loss)/profit for the financial year		(191)	6,817
Exclude investment return		(1,233)	(2,267)
Increase/(decrease) in technical provisions		44,893	(23,707)
(Increase) in debtors		(65,599)	(703)
(Increase)/decrease in prepayments and accrued income		(226)	2,734
Decrease in other assets		3,745	8,741
(Decrease) in creditors		(920)	(9,611)
(Decrease) in accruals and deferred income		(90)	(283)
Net cash generated from operating activities		(19,621)	(18,279)
Cash flows from investing activities:			
Investment income received		996	2,644
Purchases of debt and equity instruments		-	(7,964)
Sales of debt and equity instruments		26,755	-
Foreign exchange		58	(377)
Net cash generated from investing activities		27,809	(5,697)
Cash flows from financing activities:			
(Distribution) in the year		(7,619)	(22)
Net cash generated from financing activities		(7,619)	(22)
Net increase/(decrease) in cash and cash equivalents		569	(23,998)
Cash and cash equivalents at 1 January		5,208	29,206
Cash and cash equivalents at 31 December	17	5,777	5,208

The accounting policies and notes on pages 16 to 42 form part of these financial statements.

Statement of accounting polices

General information

Syndicate 1110 is a Lloyd's Syndicate domiciled in England and Wales. On 25 October 2019 the management of it was novated from Coverys at Lloyd's (CaL) to Capita Managing Agency Limited (CMA). The Syndicate's 2017 year of account is supported 90.9% by capacity from R&Q Capital No.6 Limited and 9.1% from R&Q Capital No.7 Limited. Following the novation of its management from CaL to CMA, the 2019 year of account is supported 100% by capacity from R&Q Capital No.1 Limited and has, on the 23 December 2019, accepted a loss portfolio transfer (LPT) reinsurance from Hamilton Underwriting Limited (HUL) Syndicate 3334 of Directors & Officers, Financial Institutions and Professional Indemnity business, 2016 to 2018 years of account inclusive. Effective 1 January 2020, Syndicate 1110 will also accept the RITC of Syndicate 3330 2017 & Prior years of account.

Compliance with accounting standards

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

Basis of preparation

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

Going concern basis

The Syndicate ceased underwriting on 2017 year of account beyond 8 June 2017. Following the novation to CMA on the 25 October 2019, the Syndicate has accepted LPT reinsurance from HUL. Furthermore, effective from 1 January 2020 the Syndicate will accept the RITC of S3330. It is intended that the Syndicate becomes a vehicle for underwriting run-off business. The managing agent has, with the agreement of the members, left the 2017 year of account open until resolution is found between CMA, ProSight and the R&Q corporate members regarding significant balances due to and from the Syndicate. The intention is to close the 2017 underwriting year of account at the earliest opportunity upon resolution. Following which, this year of account will close by way of RITC into the 2019 year of account. As the Syndicate has written new business and is to accept the RITC of Syndicate 3330 2017 & prior years of account, effective 1 January 2020, the going concern basis has been used for the preparation of the financial statements. A provision has been made for unallocated loss adjusted expenses (ULAE) of £4,235k (2017 year of account) and £542k (2019 year of account), which is included within the technical provisions. The managing agent considers that the ULAE reserve is sufficient to allow the Syndicate to run-off the 2017 year and meet its liabilities as they fall due. The ULAE provision will be assessed annually.

Statement of accounting polices (continued)

Basis of accounting

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

Premiums written

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

Reinsurance premium ceded

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

Technical provisions – claims incurred and reinsurers' share

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

The provision for reserves includes an estimate of the cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods. This reserve also includes an allowance for any expected deficiency or redundancy in notified outstanding claims which is implicitly included in actuarial projection techniques. The provision for reserves also includes a provision for related claims handling costs and bad debts.

The statistical methods referred to above generally involve projecting aggregated historical data to form a view of the likely ultimate claims to be experienced for more recent underwriting years. These methods can incorporate judgemental allowances for example for changes in business mix or changes in market conditions.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business.

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

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

Statement of accounting polices (continued)

Reinsurance to close

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.

Loss funds – change in accounting policy

Following novation, the decision was taken to remove loss funds from the paid claims and include the funds within IBNR. The loss funds are similar in substance to claims floats - which would not appear under paid claims but remain on the balance sheet as a basic financial instrument. This change in accounting treatment is considered to more accurately reflect the nature of the balance and align with other syndicates under management. By adopting this approach, the managing agent considers to better align the GAAP and solvency II reporting requirements and prevent distortion in payment patterns, given the run-off nature of the Syndicate's portfolio and the quantum of loss funds compared to signed claims. The impact of this change is shown in note 9.

Net operating expenses

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

Distribution of profits and collection of losses

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

Foreign currencies

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

In accordance with FRS 102 all monetary balance sheet assets and liabilities are translated into the Sterling functional currency at the rates of exchange at the balance sheet date. The profit or loss arising on the retranslation of balances to the closing rate of exchange is dealt with through the profit or loss account – non technical account.

Statement of accounting polices (continued)

Financial assets and liabilities classification

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

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

Recognition

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

Initial measurement

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

Subsequent measurement

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

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.

Statement of accounting polices (continued)

De-recognition of financial assets and liabilities

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

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

Fair value measurement

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

Impairment of financial instruments measured at amortised cost or cost

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

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

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

Offsetting

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

Statement of accounting polices (continued)

Investment return

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

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

Taxation

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

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

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

Pension costs

No pension costs are directly borne by the Syndicate.

Key accounting judgements and estimation uncertainties

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

Investment valuations

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

Statement of accounting polices (continued)

Technical provisions

The accounting policy for technical provisions is described on page 16 and the related risks are described within the risk section below. The net technical provisions after the reinsurers' share is £71.6m (2018: £33.5m).

The most uncertain element within these technical provisions is the amount for gross claims outstanding which covers amounts where either the claim has been notified to the Syndicate or where there has not yet been a notification or although notified there has been insufficient information to date to be certain regarding its ultimate costs. This amounted to £133.8m (2018: £93.5m). As described in the risk note there is a thorough review process of claims notifications and reserving estimates, including detailed actuarial evaluation of past claims development. There is however a risk that past performance may not be a good indicator of the future developments.

This is however mitigated by a mixed spread of different types of business from a number of geographical areas across several years that should reduce the risk of a common trend of adverse development occurring. The uncertainty within technical provisions is mitigated by the element of reinsurers' share, although there are uncertainties in calculating that.

Risk management

Capita 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.

CMA'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 Syndicate novated management to CMA on 25 October 2019. The Run-Off Committee currently measures performance against the syndicate business forecast. Once a fully integrated risk dashboard is operational, performance will also be monitored against this.

Critical to the risk management of the Syndicate is ensuring sufficient capital is in place to meet the solvency needs of the Syndicate. The capital for the 2020 calendar year was based upon output submitted to Lloyd's from the previous managing agent's Capital Model. Capital for the recently completed LPT was initially advised by Lloyd's and will be incorporated into the Internal Model for the 2021 calendar year submission.

Risk management (continued)

Investment risk

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

The Syndicate's investment policy is established by the Board following recommendations by the Investment Committee. In order to mitigate market risk, the committee assesses reports from external fund managers to monitor the economic situation and to seek to anticipate any future interest rate movements and to take appropriate action to mitigate their effect on the value of Syndicate assets.

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.

Gross Reserving risk

There are a number of drivers of gross reserving risk.

Reserves are established for earned premium income, as all premium is now earned, which includes an allowance for ULAE and bad debt. The risk is that emerging experience is worse than expected leading to reserve strengthening.

This risk is mitigated by CMA's actuarial function using recognised actuarial reserving approaches, coupled with close liaison with the claims personnel to identify potential downside risks before they become apparent in the data. These results are then subject to formal annual external peer review, the result of which is a Statement of Actuarial Opinion over the held reserves being at least as high as a mean best estimate and is provided annually to Lloyd's.

The governance process is through the Technical Provisions Committee, reporting to the Audit and Risk Committee which then makes a reserve recommendation to the Board. The level of booked reserves requires formal approval by the Board and is subject to an external audit.

Risk management (continued)

Reinsurance credit risk

The 2017 and prior years have third party reinsurers and whole account protections with New York Marine and General Insurance Company (NYMAGIC). The exposure to NYMAGIC is significant at £58.7m (2018: £58.0m). However, this risk is largely mitigated by forecast recoveries being collateralised. Reinsurance aged debt and risk of default are monitored by R&Q who report to CMA through the Run-Off Management Committee.

Liquidity risk

To mitigate liquidity risk the investment committee regularly reviews cash flow projections and maintains cash levels consistent with the needs of the Syndicate. The Syndicate maximises the inflow of funds from reinsurance recoveries and controls costs through the reporting of actuals against budget.

The following table illustrates the maturity profile of the Syndicate's financial liabilities.

As at 31 December 2019	**Within one year**	**Between one and three years**	**Between three and five years**	**Over five years**	**Total**
	£000	***£000***	***£000***	***£000***	***£000***
Outstanding claims liabilities	41,309	46,527	27,215	18,720	133,771
Creditors	8,724	-	-	-	8,724
As at 31 December 2018 ***(restated)***					
Outstanding claims liabilities	25,342	35,160	17,861	15,149	93,512
Creditors	3,761	5,883	-	-	9,644

Currency risk

The main exposure to foreign currency risk arises from insurance business originating overseas. The Syndicate seeks to mitigate the risk by looking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency where possible.

The Syndicate is exposed to changes in the unmatched value of assets and liabilities due to movements in foreign exchange rates. The Syndicate has five settlement currencies: UK sterling; Canadian dollars; Euros; Australian dollars; and US dollars. Transactions also take place in other currencies, although these are immediately converted to UK sterling. A 10% fall in the in the value of all overseas net assets would lead to a £0.5k loss (2018: £1.4m loss) with US dollar net assets being the largest element of that at £0.4k loss (2018: £1.2m loss).

The Syndicate has not taken out any transactions to hedge these balances.

Risk management (continued)

At 31 December 2019	Sterling £000	US Dollar £000	Euro £000	CAD £000	Total £000
Total assets	113,734	30,713	197	4,882	149,526
Total liabilities	(106,971)	(30,318)	(4,104)	(2,939)	(144,332)
Net assets	6,763	395	(3,907)	1,943	5,194
At 31 December 2018 ***(restated)***					
Total assets	55,753	50,748	2,324	9,354	118,179
Total liabilities	(55,500)	(38,337)	(4,900)	(5,029)	(103,766)
Net assets	253	12,411	(2,576)	4,325	14,413

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 Investment Committee, 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.

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

	2019 ***£000***	***2018*** ***£000***
Impact of a 50 basis point increase in interest rates on result	(97)	(213)
Impact of a 50 basis point decrease in interest rates on result	97	213
Impact of a 50 basis point increase in interest rates on net assets	(97)	(213)
Impact of a 50 basis point decrease in interest rates on net assets	97	213

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.

Risk management (continued)

Financial instruments risk

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

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

At 31 December 2019	***AAA***	***AA***	***A***	***Other/ non-rated***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***
Variable yield securities and unit trusts	3,273	757	1,020	359	5,409
Debt securities and other fixed income securities (including derivative contracts)	-	4,515	1,910	134	6,559
Participation in investment pools	-	-	-	-	-
Reinsurers share of outstanding claims	62,104	119	-	-	62,223
Cash at bank and in hand	-	-	368	-	368
Overseas deposits	4,350	934	577	1,248	7,109
Total	69,727	6,325	3,875	1,741	81,668
Amounts attributable to largest single counterparty	58,671	-	-	-	58,671

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

Risk management (continued)

Operational risk

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

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

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

Regulatory risk

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

Risk management (continued)

Solvency risk

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

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

Brexit – Lloyd's Brussels

Following the UK's decision in the Referendum of 23 June 2016 to leave the European Union, Lloyd's has given much thought to and has developed a solution allowing Syndicates to continue to trade beyond the transition period ending 31 December 2020. Lloyd's Brussels (Lloyd's Insurance Company S.A) is Lloyd's first Europe wide operation, established to bring the scale, expertise and capacity of the world's specialist insurance market closer to its customers in Europe through a locally staffed and regulated insurer.

Lloyd's Brussels is governed by a Brussels based executive committee and operates via 19 branches located throughout Europe, including in the UK. The insurance company was constructed specifically to ensure that Lloyd's Syndicates, intermediaries and policy holders can continue to access the market's underwriting expertise and financial security across Continental Europe.

Lloyd's Brussels benefits from the market's financial strength through the Central Fund and has the same financial ratings as Lloyd's, AM Best (A "excellent"), Standard & Poor's (A+ "strong") and Fitch (AA- "very strong"). Lloyd's Brussels is authorised and regulated by the National Bank of Belgium and capitalised according to European Insurance and Occupational Pensions Authority's (EIOPA) Solvency II rules. EIOPA is a European Union financial regulatory institution.

For underwriting matters concerning Lloyd's Brussels we have and shall continue to comply with the guidance provided under the London Market Group's Market Reform Contract as well as the Lloyd's Brexit team.

Notes to the annual financial statements
at 31 December 2019

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

2019	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses*	*Re-insurance balance*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Direct insurance:						
Fire and other damage to property	410	410	318	(642)	(329)	(243)
Marine, aviation and transport	(1)	(1)	(26)	(2)	27	(2)
Third party liability	(244)	(244)	(17,458)	(382)	18,078	(6)
Pecuniary loss	-	-	-	-	-	-
Other	234	234	(188)	(506)	195	(265)
	399	399	(17,354)	(1,532)	17,971	(516)
Reinsurance acceptances:						
Casualty	59,835	58,518	(58,856)	(183)	68	(453)
	60,234	58,917	(76,210)	(1,715)	18,039	(969)

2018	*Gross premiums written*	*Gross premiums earned*	*Gross claims incurred*	*Gross operating expenses*	*Re-insurance balance*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Direct insurance:						
Fire and other damage to property	1,299	5,208	6,907	(744)	2,894	14,265
Marine, aviation and transport	6,481	7,441	(644)	(4,046)	(1,769)	982
Third party liability	1,408	5,288	(19,162)	(806)	(75)	(14,755)
Pecuniary loss	1,552	3,087	428	(888)	(278)	2,349
Other	578	735	1,252	(2,921)	(191)	(1,125)
	11,318	21,759	(11,219)	(9,405)	581	1,716
Reinsurance acceptances:						
Casualty	220	391	98	(126)	1,403	1,766
	11,538	22,150	(11,121)	(9,531)	1,984	3,482

All premiums were concluded in the United Kingdom.

Notes to the annual financial statements (continued)
at 31 December 2019

2. Particulars of business written

Gross operating expenses are the same as net operating expenses shown in the statement of profit or loss technical account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses. Net assets are not managed by reference to the classes on page 30. An allocation of net assets and net liabilities is shown on page 26.

	2019 Gross premiums written £000	*2019 Profit/(loss) £000*	*2018 Gross premiums written £000*	*2018 Profit/(loss) £000*
Direct	399	141	11,318	3,998
Reinsurance	59,835	123	220	1,751
	60,234	264	11,538	5,749

Geographical analysis by destination	**2019** *Gross premiums written £000*	**2018** *Gross premiums written £000*
UK	59,915	4,414
EU	315	7,038
USA	(41)	(915)
Other	45	1,001
	60,234	11,538

3. Net operating expenses

	2019 £000	*2018 £000*
Acquisition costs	482	4,337
Change in deferred acquisition costs (note 14)	-	2,927
Administrative expenses	1,233	2,267
	1,715	9,531

Members' standard personal expenses amounting to £150k (2018: £15k) are included in administrative expenses. Members' standard personal expenses include Lloyd’s subscriptions, New Central Fund contributions and managing agent's fees.

Notes to the annual financial statements (continued)
at 31 December 2019

3. Net operating expenses (continued)

Administrative expenses include:

	2019 *£000*	*2018* *£000*
Auditor's remuneration:		
Audit of the Syndicate's financial statements	67	65
Other services pursuant to regulations and Lloyd's byelaws	17	16
Standard personal expenses	150	15

A further amount of £22k is chargeable in relation to the additional audit work required for the LPT, being £17.5k for the audit of the financial statements and £4.5k for other services. Total commissions for direct insurance accounted for in the year amounted to £0.4m (2018: £7.1m).

4. Employees

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

	2019 *£000*	*2018* *£000*
Wages and salaries	1,898	2,360
Social security costs	264	313
Other pension costs	137	170
	2,299	2,843

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

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

	2019	*2018*
Underwriting	1	1
Underwriting support	2	3
Claims	2	2
Administration and finance	11	10
	16	16

Notes to the annual financial statements (continued)

at 31 December 2019

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

The following amounts in respect of emoluments paid to the run-off manager were charged to the Syndicate during the year. The run-off manager was M Langridge until 25 October 2019, who was then succeeded by JB King from this date.

	2019	*2018*
	£000	*£000*
Run-off manager's emoluments	25	17
	25	17

No emoluments of the directors of CMA were directly charged to the Syndicate and consequently no meaningful disclosure can be made.

6. Investment return

(a) Investment return

	2019	*2018*
	£000	*£000*
Income from financial investments	905	1,477
Realised gains on investments	107	1,167
Investment income	1,012	2,644
Realised losses on investments	(16)	-
Investment expenses	(1)	(67)
Investment expenses and charges	(17)	(67)
Unrealised gains on investments	242	-
Unrealised losses on investments	(4)	(310)
Net unrealised gains and losses on Investments	238	(310)
Allocated investment return transferred to the technical account from the non-technical account.	*1,233*	*2,267*

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

	2019	*2018*
	£000	*£000*
U.S. dollars	15,044	24,004
Sterling (including Australian and Euro TF)	11,992	27,409
Canadian dollars	6,352	9,738
Combined in sterling	33,388	61,151

Net calendar year investment yield	*2019*	*2018*
U.S. dollars	4.0%	7.9%
Sterling (including Australian and Euro TF)	3.9%	1.2%
Canadian dollars	2.5%	1.6%
Combined in sterling	3.7%	3.9%

Notes to the annual financial statements (continued)
at 31 December 2019

7. Other financial investments

	2019	*2019*	*2018*	*2018*
	Cost	*Market value*	*Cost*	*Market value*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts (note 19)	5,392	5,409	3,895	3,895
Debt securities and other fixed income securities	6,373	6,559	24,988	25,098
Participation in investment pools	-	-	8,397	8,373
Other investments	-	-	-	-
	11,765	11,968	37,280	37,366

Breakdown of investments by currency

	US dollar	*Canadian dollar*	*Other*	*Total*
	US$000	*Can$000*	*£000*	*£000*
Year ended 31 December 2019				
Shares and other variable yield securities and units in unit trusts	2,109	6,555	-	5,409
Debt securities and other fixed income securities	8,658	-	-	6,559
Participation in investment pools	-	-	-	-
Other investments	-	-	-	-
	10,767	6,555	-	11,968
Year ended 31 December 2018				
Shares and other variable yield securities and units in unit trusts	723	5,786	-	3,895
Debt securities and other fixed income securities	25,895	8,192	-	25,098
Participation in investment pools	-	-	8,373	8,373
Other investments	-	-	-	-
	26,618	13,978	8,373	37,366

Notes to the annual financial statements (continued)
at 31 December 2019

7. Other financial investments (continued)

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

	Level 1	*Level 2*	*Level 3*	*Total*
	£000	*£000*	*£000*	*£000*
Year ended 31 December 2019				
Shares and other variable yield securities and units in unit trusts	160	5,249	-	5,409
Debt securities and other fixed income securities	6,559	-	-	6,559
Participation in investment pools	-	-	-	-
Other investments	-	-	-	-
Total	6,719	5,249	-	11,968
Year ended 31 December 2018				
Shares and other variable yield securities and units in unit trusts	203	3,692	-	3,895
Debt securities and other fixed income securities		25,098	-	25,098
Participation in investment pools	-	8,373	-	8,373
Other investments	-	-	-	-
Total	203	37,163	-	37,366

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

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

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

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

Notes to the annual financial statements (continued)
at 31 December 2019

8. Provision for unearned premiums

2019	***Gross*** **£000**	***Reinsurers' share*** **£000**	***Net*** **£000**
At 1 January 2019	-	-	-
Premiums written in the year	60,234	(258)	59,976
Premiums earned in the year	(58,917)	258	(58,659)
Foreign exchange	-	-	-
At 31 December 2019	1,317	-	1,317
2018			
At 1 January 2018	10,584	(3,953)	6,631
Premiums written in the year	11,538	(1,531)	10,007
Premiums earned in the year	(22,150)	5,507	(16,643)
Foreign exchange	28	(23)	5
At 31 December 2018	-	-	-

Notes to the annual financial statements (continued)
at 31 December 2019

9. Claims outstanding

2019	*Gross* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2019	93,512	(59,956)	33,556
Claims incurred in the year	70,626	(18,297)	52,329
Claims paid during the year	(29,085)	15,136	(13,949)
Foreign exchange	(1,282)	894	(388)
At 31 December 2019	133,771	(62,223)	71,548

2018	*Gross (restated)* £000	*Reinsurers' share* £000	*Net* £000
At 1 January 2018	111,035	(60,403)	50,632
Claims incurred in the year	11,121	(7,491)	3,630
Claims paid during the year	(30,861)	9,746	(21,115)
Foreign exchange	2,217	(1,808)	409
At 31 December 2018	93,512	(59,956)	33,556

Gross paid claims previously reported at year ended 31 December 2018 amounted to £36.4m due to the inclusion of loss funds. There has been no change in the claims incurred figure as a result of this restatement, as the reduction in paid claims is offset by an increase in allowance for claims outstanding. As a result, the gross and net balance for claims outstanding as at 31 December 2018 is £5.6m greater than previously stated and a corresponding restatement of the debtors arising from direct insurance operations is disclosed in Note 11.

Within the calendar year net technical result, a deficit of (£0.5m) on direct business (2018: £1.7m surplus) and (£0.5m) on reinsurance accepted business (2018: £1.8m surplus) relates to the reassessment of net claims incurred for previous accident years.

Notes to the annual financial statements (continued)
at 31 December 2019

10. Significant reinsurance arrangements

Prior to the novation to CMA on the 25 October 2019 the Syndicate had ceased to accept any new business, other than business that was already committed. Following this decision the following arrangements were entered into during 2017 that relate wholly to the 2017 YOA and are still in force:

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

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

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

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

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

11. Debtors

	2019	*2018 (restated)*
	£000	*£000*
Debtors due within one year		
Due from intermediaries		
Amounts arising out of direct insurance operations	5,248	5,584
Amounts arising out of reinsurance operations	15,824	-
	21,072	5,584
Debtors due after one year		
Due from intermediaries		
Amounts arising out of direct insurance operations	-	-
Amounts arising out of reinsurance operations	43,894	-
Amounts falling due within one year	64,966	-

Debtors due within one year and arising from direct insurance operations represent loss funds. The restatement for the year ended 31 December 2018 relates to the change in accounting treatment for these loss funds.

Notes to the annual financial statements (continued)

at 31 December 2019

12. Other debtors

	2019	*2018*
	£000	*£000*
Inter-Syndicate loan	2,500	3,500
Short term	288	32
Long Term	-	1,031
	2,788	4,563

13. Overseas deposits

	2019	*2018*
	£000	*£000*
Amounts advanced in other countries as a condition of carrying on business there, in particular Australia	7,109	9,067

14. Deferred acquisition costs

	2019	*2018*
	£000	*£000*
At 1 January	-	2,922
Change in deferred acquisition costs (note 3)	-	(2,927)
Foreign exchange	-	5
At 31 December	-	-

15. Reconciliation of members' balances

	2019	*2018*
	£000	*£000*
Members' balances at 1 January	14,413	7,618
Closed year result	(7,619)	(22)
(Loss)/profit for the financial year	(191)	6,817
Members' fees	(1,409)	-
Cash calls paid by members	-	-
Members' balances carried forward at 31 December	5,194	14,413

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

Notes to the annual financial statements (continued)

at 31 December 2019

16. Creditors

	2019	*2018*
	£000	*£000*
Creditors due within one year		
Amounts arising out of:		
Reinsurance operations	8,724	9,643
Other creditors including taxation	-	1
Amounts falling due within one year	8,724	9,644

17. Cash and cash equivalents

	2019	*2018*
	£000	*£000*
Cash at bank and in hand	368	1,313
Short-term deposits with financial institutions (note 8)	5,409	3,895
	5,777	5,208

18. 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.

Notes to the annual financial statements (continued)

at 31 December 2019

18. Regulatory capital requirements (continued)

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly, the capital requirement in respect of Syndicate 1110 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may comprise 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 2019 was 35% of the member's SCR 'to ultimate'.

Notes to the annual financial statements (continued)

at 31 December 2019

18. Regulatory capital requirements (continued)

Provision of capital by members'

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

There are no funds in Syndicate held for this Syndicate, accordingly all of the assets less liabilities of the Syndicate, as represented by the member's balances reported on the balance sheet represent resources available to meet members' and Lloyd's capital requirements. Every member is required to hold capital at Lloyd's which is held in trust and known as FAL. These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

19. Related parties

(i) During the year R&Q MA Services Limited, was paid £0.6m (2018: £0.8m) by the Syndicate for services provided. This amount has been charged on an arms-length basis.

(ii) During the year Coverys MA Services Limited (CMAS), was paid £1.5m (2018: £2.2m) by the Syndicate for services provided. This amount has been charged on an arms-length basis.

(iii) During the year Capita Insurance Services recharged £0.245m in respect of time and materials costs (2018: £Nil). This amount has been charged on an arms-length basis.

(iv) The Syndicate continues to loan funds to Syndicate 3330. The maximum amount of this loan was £5.0m. The balance remaining unpaid as at 31 December 2019 was £2.5m (2018: £3.5m). Interest has been charged on commercial terms.

21. Derivatives

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

22. Off-balance sheet items

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

23. Post Balance Sheet Events

Effective 1 January 2020, Syndicate 1110 will accept the RITC of Syndicate 3330 2017 & Prior years of account.