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ERS
Providing
Equity Insurance

Syndicate 218

Report and Accounts 2015

Providing
Equity
Insurance

What is Equity Insurance?

For most of us, motor insurance is just a must-have. Yet for some, it is so much more than that; it's a way of taking care of what stands at the heart of their passion or livelihood.

We recognise that for these vehicle owners, standard insurance isn't enough. That's why we work exclusively with brokers to get under the skin of their customers, and to know what their vehicles mean to them. Then we can build products to help meet their needs.

This is a completely different approach to motor cover.

We call it **Equity Insurance**.

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Directors and administration

MANAGING AGENT

Managing agent	ERS Syndicate Management Limited
Directors	Patrick H O'Sullivan (Chairman) Nicholas J Addyman Mark H Bacon Ian D Broadwater Dr Henry O Brunjes Robert P Gullett Ian D Parker Nicholas C T Pawson Katharine A Wade Ryan R Warren (appointed 1 May 2015) Christopher E Watson
Company secretary	James D S Adams (appointed 20 October 2015) Victoria L Cuggy (resigned 1 May 2015)
Managing agent's registered office	52-54 Leadenhall Street London EC3A 2BJ
Managing agent's company number	00426475

SYNDICATE

Active underwriter	Mark H Bacon
Bankers	National Westminster Bank Plc Lloyds Bank Plc Citibank NA Royal Bank of Canada, Dexia
Investment managers	Conning Asset Management Limited SYZ & Co Asset Management (Europe) Limited
Registered auditors	PricewaterhouseCoopers LLP

Annual Report and Accounts

Report of the managing agent

ERS Syndicate Management Limited ("ERS SML" or "the Managing Agent"), the managing agent of Syndicate 218 ("the Syndicate"), presents its report for the year ended 31 December 2015.

This Annual Report has been prepared using the annual basis of accounting as required by regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") where applicable.

Separate underwriting year accounts for the 2013 year of account that has closed at 31 December 2015 are included from page 41.

Strategic Review

Principal activity

The Syndicate is focused on delivering sustainable profit through underwriting niche and specialist motor business, underpinned by a strong brand. The Syndicate offers a broad range of specialist motor insurance products for the UK personal lines and commercial segments, and this provides risk diversity between motor classes and assists in easing the performance impact of the cyclical nature of the UK motor insurance market.

During 2015, the business completed the transformation programme that has been ongoing since change of control in April 2013. The turnaround programme comprised three phases over a five year period. The completed first and second phases related to the transformation of the business, in particular the removal of costs, right sizing and reorganising the business, as well as completion of the IT systems. The third phase which the business is just commencing relates to the performance phase of the business which leverages the systems and processes. This transformation was a critical stage in the turnaround of the business to establish a sustainable profitable platform. The final deliverables to complete the transformation during 2015 were:

- replacement of legacy IT applications, including a claims, policy and broker ledger system;
- exit of former outsourced IT service providers;
- consolidation of office locations from 3 to 2;
- relocation of the head office to London; and
- operational efficiency through a reduction in the number of roles in the South East of England and growth in South Wales.

The Syndicate now has a live single IT platform with no outstanding legacy IT systems, a dedicated operations centre in Swansea and a London head office with specialist motor and Lloyd's skills. This has provided an efficient structure going forward as the Syndicate moves into its final phase of turnaround which is sustained, profitable growth.

The Syndicate benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very strong) rating from Fitch Ratings.

The Syndicate achieved full compliance with Solvency II during 2015 meeting all tests and standards. The final phases of Pillar III, reporting and disclosure, were also implemented during the year with the first live reporting date for Solvency II being 31 March 2016 and quarterly thereafter. The Managing Agent has plans in place for the final stages of its Solvency II project to ensure that it is fully compliant as it moves towards full reporting at 31 December 2016.

Financial performance

The result for the year was a profit of £6.0m (2014: £8.3m). The fall in profit for the year reflects both the challenging investment environment of 2015 and the distractions arising from the scale of transformation activity during 2015. The completion of the transformation phase was critical to enable the performance phase of the turnaround to commence during 2016. The combined operating ratio continued to improve to 99.8% (2014: 101.0%), reflecting another significant milestone, with profits being generated from the core business of insurance for the first time since 2009. The Syndicate also achieved a modest level of growth in premiums during the year of 1.5%. This is the first growth in premiums since change of control and again marks the start of the performance phase of the turnaround.

At the end of 2015, the Managing Agent concluded an agreement to sell the direct to customer Motor Breakdown brands. The decision to sell these brands is consistent with the strategy of being a broker only business and concludes the work to divest all non-intermediated business. Right Choice Insurance Brokers ("RCIB") acquired the brands and ownership of the customers written under these brands with effect from 31 December 2015. Under the sale agreement, the Syndicate will continue to provide underwriting capacity to RCIB for these books of business. Members benefitted from the proceeds of the sale.

The Managing Agent entered into an Aggregate Excess of Loss reinsurance contract from Third Point Reinsurance Company Limited ("TPRe") which was purchased by the Syndicate and is for the benefit of all capital providers. This contract covers losses insured by the Syndicate in underwriting years 2010 to 2014 for a premium of £60m. The contract is recognised as an Aggregate Excess of Loss reinsurance contract, with the Syndicate remaining liable for the liabilities but able to recover from TPRe those claim payments which fall within the limits of the contract. This cover reduces reserve risk as a result of potential recoveries, improving the return on equity of the Syndicate. In addition, the cover provides diversification of investment assets through the premium transferred to TPRe and reduces market risk through the replacement of variable investment returns with a guaranteed investment rate going forwards. A sole beneficiary trust fund with BNY Mellon reduces the credit risk associated with recoveries from TPRe.

Key performance indicators
The Syndicate's key financial indicators during the year were as follows:

£'000	2015*	2014	2013	2012	2011
Gross Written Premium	393,675	387,732	406,253	449,065	545,457
Net Earned Premium	363,548	367,510	408,186	464,114	543,841
Claims Ratio**	68.1%	67.9%	72.0%	75.9%	72.2%
Commission Ratio	16.0%	17.4%	18.1%	19.2%	20.1%
Expense Ratio	15.7%	15.7%	17.6%	13.0%	15.8%
Combined Operating Ratio	99.8%	101.0%	107.7%	108.1%	108.1%

* The 2015 key financial indicators are impacted by the reduced earnings after the impact of TPRe, therefore TPRe has been excluded to aid comparisons.

** Claims handling expenses have been included in the claims ratio in the above table.

Review of the business

Underwriting outlook
During 2015, retail lines of business market rates started to stabilise after the last couple of years of premium deflation. This was partly due to the normal market cycle and partly due to a return of claims inflation following the impact of the 2013 rule changes in small bodily injury claims. Volumes have returned to pre-Legal Aid, Sentencing and Punishment of Offenders Act 2012 ("LASPO") levels as claims management companies and legal services providers have continued to find ways to navigate around the legislation. In addition, 2015 experienced a continued level of insurance claims fraud, estimated by the Association of British Insurers ("ABI") to cost the UK motor insurance industry £2 billion per year, as well as escalating costs of credit hire and repair.

Competition continued to be robust in commercial and fleet product segments with market rating levels being marginally negative.

The expectation is that rate increases for personal lines business will continue until Q2 2016, with rate uplifts also starting to appear in commercial and specialist product lines, recognising poor results seen at an overall market level.

Class of business spotlight
Private Car remains an extremely challenging segment despite the improvements seen in the rating environment. Rate increases of around 8% have been seen during 2015 but much more is required for this segment to evidence that it can deliver sustainable returns. Application fraud and aggressive claim farming are most prevalent in this segment and these factors are having an adverse impact on loss ratio performance. 2016 will see this segment represent a reducing share of the overall Syndicate as the portfolio is repositioned to ensure its future sustainability.

The **Bespoke and Classic Car** class focuses on the underwriting of enthusiast vehicle and of non-standard private car and van business, including risks such as classic car, motorhome, kit cars and other risks of a non-standard nature. Enthusiast vehicles continue to deliver good results, enabling continued well planned growth and brand development in this space. The results in the segment for heavily convicted drivers have been disappointing, prompting substantial changes to rate levels and risk acceptance criteria.

The specialist **Agricultural** class has seen a decline in volumes during 2015, whilst continuing to deliver attractive bottom line performance. Premium rates for the year have remained stable and this has led to another year of solid underwriting performance. The Syndicate continues to be recognised as having extensive segment expertise and a strong market position with a number of key broker partners.

The **Motorcycle** book has faced a number of challenges during 2015 and underwriting performance has been disappointing. As a consequence substantial rate changes were deployed in the first half of 2015 as well as extensive changes to the risk acceptance criteria.

The **Motor Fleet** account was extensively remediated throughout 2012 and 2013 and the benefits of these actions have been seen during 2015. Average rate increases of 3% have been achieved in 2015 together with an improvement in the underlying quality of business. A good balance of business is achieved across a variety of industry segments and distribution partners, with customer volumes increasing in 2015.

Commercial Motor comprises taxi, haulage, bus, coach, showman and minibus business. This book started to show strong improvements in loss ratios as an outcome of the extensive improvement actions that were taken in 2014. The focus during 2015 was on delivering further improvements in the performance of taxi and transportation whilst at the same time seeking to deliver profitable growth in other products.

Motor Breakdown continued to deliver profitable results in 2015 with trading volumes being stable.

Capital
For the 2015 year of account, ERS Corporate Member Limited ("ERS CML") participates at 61.0% due to AXE Insurance PCC Limited acting on behalf of Securis, having been granted limited tenancy for one year shown on the Lloyd's syndicate list as the entity responsible for 6.57% of capacity for both the 2015 and 2016 year of account. The remainder of membership capacity is owned by non-aligned Names.

	Year of Account				
£'000	2015	2014	2013	2012	2011
Syndicate Capacity	349,828	437,522	437,278	436,931	485,976
ERS CML Participation	213,269	291,966	286,994	283,795	311,274
ERS CML Participation %	61.0%	66.7%	65.6%	65.0%	64.1%

Each member may provide capital to meet its Economic Capital Assessment ("ECA") either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's ("FAL")), held within and managed within a syndicate Funds in Syndicate ("FIS") or as the member's share of the members' balances on each syndicate on which it participates. Although, as described above, Lloyd's capital setting processes use a capital requirement set at a syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 218 is not disclosed in these annual accounts.

Lloyd's are utilising models developed for Solvency II to meet obligations under Individual Capital Assessments ("ICA"), which will provide equivalent protection to policyholders. Syndicate capital is determined through the submission and agreement by Lloyd's of an ultimate Solvency Capital Requirement ("SCR") which is subject to an uplift determined by the Franchise Board to calibrate the capital required by Lloyd's. ERS SML uses its own internal capital model to measure its SCR, based on a rigorous process of risk identification and quantification assessed at a 1 in 200 year loss event, which draws upon the skills of the ERS SML organisation and is reflected in ERS SML's Own Risk and Solvency Assessment ("ORSA"). The model is based on regulatory requirements and has been approved by Lloyd's.

Lloyd's unique capital structure provides excellent financial security to policyholders.

Investment report

The Syndicate's investments including realised and unrealised gains and losses produced an income of £1.7m after expenses in 2015, a rate of return of 0.4%. This was down from £12.0m, equivalent to 3.1%, during 2014.

2015 was a year that confounded both economic and financial market expectations. The year began with high hopes that recovery was gaining traction and that the worst was over.

However, financial markets have been driven by concerns regarding global economic growth, concerns around Greece and China and divergences in policy among the main central banks and the renewed weakness in oil and commodity prices.

Syndicate investment assets totalled £313.4m on 31 December 2015, down from £389.8m at the end of 2014 primarily due to the payment of the reinsurance premium to TPRe of £60m. Investment policy remains to invest predominantly in high-quality short-dated bonds and cash, with a maturity profile that reflects the short tail nature of underwriting commitments. Tactical allocation did not change significantly last year.

In summary, investment prospects for 2016 are challenging, and overall rates of return look set to be meagre. Economic conditions are sufficiently soft that policy stimulus and elevated asset prices may persist. However, there is a risk that economic growth surprises positively, potentially driven by lower energy prices. The prospect of a less supportive monetary policy that would follow is likely to cause volatility in the financial markets.

Year of account forecasts

For the purposes of preparing the year of account forecasts to ultimate, the Syndicate has adopted the internal actuaries' best estimate outcomes as at 31 December 2015, which include implicit estimates of claims settled by Periodic Payment Order ("PPO"). The directors of the Managing Agent have agreed an aggregate risk margin of 5.0% of net claim reserves.

As a percentage of underwriting capacity the 2013 year of account closes with a profit of 2.45%, an improvement on the forecast for this year at the end of 2014. This is the second consecutive underwriting year of account since 2007 to close with a profit.

As a percentage of underwriting capacity, the forecast to ultimate for the 2014 year of account is a loss of 3.62% with a range of estimates from a profit of 1.38% and a loss of 8.62%. This forecast reflects a deterioration on the forecast at year end 2014 which had a loss of 2.29% of capacity.

There is still development to come for the 2014 year of account, with 2016 calendar year initiatives in claims which will improve indemnity spend since not all claims have been reported let alone settled. The level of positive run-off is always difficult to quantify and therefore it is too early to predict the final loss ratio for the 2014 underwriting year.

Transition to FRS 102

This is the first year that the Managing Agent has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the financial year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. In accordance with FRS 102, the Managing Agent has identified its insurance contracts and accounted for them in accordance with FRS 103. The impact of the transition to FRS 102 is set out in note 27 on page 40.

Principal risks and uncertainties

Risk management

Effective risk management supports the achievement of the Managing Agent's strategic objectives through the effective allocation of resources, understanding the risk and control environment and the early identification of emerging risks. The Risk Management Function ("RMF") coordinates the Managing Agent's risk management processes and supports the Board and the Audit, Risk and Compliance Committee ("ARCC") in their responsibilities for risk and capital management.

The Managing Agent's risk management strategy puts structure around the risks to which the Syndicate is exposed and defines the framework to manage those risks in meeting the strategic objectives. The risk management framework facilitates the effective identification, mitigation and management of key risks. The risk management framework operates in conjunction with the economic capital model to ensure the effective allocation of risk based capital.

Risk management governance

The Board retains ultimate responsibility for the governance and assurance oversight of the Syndicate.

The ARCC supports the Board by overseeing the integration and effectiveness of the risk management and internal control framework in supporting the Managing Agent's strategic objectives, informing business plans and enabling the identification, mitigation, assessment and monitoring of key risks in line with risk appetite. The ARCC monitors the maintenance of adequate capital for the risks associated with the Syndicate's business activities.

The RMF forms an integral part of the risk management framework and coordinates the Managing Agent's risk management processes and activities. The executive Risk Management Committee ("RMC") provides oversight of the activities of the RMF.

Solvency II

Compliance with the Solvency II regulation has been a key priority for ERS SML leading up to the regulations effective date of 1 January 2016.

The Managing Agent's internal model is at the core of the risk management framework. The internal model complies with the tests and standards of Solvency II and Lloyd's guidelines, and has been defined as an integrated framework to support the business by managing risk and capital. The internal model has a broad scope including capital modelling, risk identification, mitigation, assessment and monitoring, and is used in the day-to-day operation of the Syndicate.

Risk management culture

The Managing Agent maintains a strong risk management culture, which supported by the risk management framework, protects and advances the interests of both stakeholders and policyholders. The culture is supported by the values of the business, which are further encouraged through the CEO Awards programme that recognises staff who actively display the expected behaviours.

Risk appetite and tolerance

Risk appetite is the level of risk that the Board is willing to take in pursuit of the Syndicate's objectives.

It is managed through:

- board-approved risk appetite statements;
- the capital adequacy and other objectives contained in the business plan;
- policies relating to the key risk areas; and
- ongoing monitoring of the risk profile against the risk appetite statements.

The risk appetites and tolerances are set giving consideration to the Managing Agent's risk capacity, prevailing regulatory and legislative requirements, risks associated with target markets and the fair treatment and protection of customer and stakeholder interests.

The risk profile of the business is monitored against the risk appetite and tolerance on a quarterly basis and reported to the RMC, ARCC and Board.

Risk and control framework

The risk management framework reflects the "three lines of defence" approach, summarised as follows:

- the underwriting teams, claims teams and operational teams form the first line of defence. They have direct responsibility for risk management and control;
- the RMF and other control functions, including the Conduct Risk Function, Compliance Function and the RMC form the second line of defence. They are responsible for coordinating, facilitating and overseeing the risk framework's effectiveness and integrity. The RMF's objective is to optimise return from risk by providing the risk management framework, reviewing and supporting its application, improving decision-making, and by offering an independent perspective; and
- the ARCC, external audit and internal audit form the third line of defence. They challenge the integrity and effectiveness of the framework and provide independent assurance across all of the business functions.

Capital allocation

The Economic Capital Model ("ECM") is used to assess the risk and calculate the appropriate level of risk-based capital to allocate to risks to which the Syndicate is exposed.

The assessment of risk-based capital enables the Managing Agent to make decisions that involve quantitative risk reward trade-offs. The allocation of risk-based capital helps to ensure that the level of risk taken is commensurate with the required returns and is within the approved risk appetite and tolerance.

Key risks

Risks that could affect the Managing Agent's ability to meet its strategic objectives are identified on a continuous basis through the quarterly risk and control assessment process, the emerging risk process and through the analysis of loss events and near misses.

The main risks are regularly reported and discussed at the RMC and the ARCC as well as through the ORSA.

A summary of the main risk categories and risk mitigation techniques is set out below:

Strategic risk

The Managing Agent defines strategic risk as the current and prospective impact on earnings and/or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change.

The Managing Agent mitigates strategic risk in the following ways:

- strategic options are considered in light of ongoing monitoring of macro economic factors impacting the target market;
- strategic options are considered in light of the impact on return volatility and capital requirements; and
- capital levels are planned and monitored on an ongoing basis, with reference to regulatory and economic requirements.

Insurance risk

The Managing Agent defines insurance risk as the risk of fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. The Syndicate's exposure to insurance risk arises from underwriting and pricing, concentration and reserving. While the Syndicate is exposed to concentration of exposures, the geographical concentration of motor risks tends to be not very material.

The Managing Agent mitigates insurance risk in the following ways:

- underwriting risk appetite and tolerance is defined through the business plan;
- historical pricing and claims experience is analysed;
- clear tolerance limits are set on concentration risk and monitored on an ongoing basis;
- performance is monitored and reviewed on an ongoing basis;
- reinsurance is purchased to mitigate insurance risk;
- both an internal and external actuarial review of the claims provisions is undertaken, independent of the underwriting teams;
- reserve adequacy and performance is monitored on an ongoing basis; and
- the Statement of Actuarial Opinion ("SAO") of reserve adequacy, as required by Lloyd's, is provided by an independent external actuarial firm.

Credit risk

The Managing Agent defines credit risk as the risk of default by debtors and transactional counterparties, as well as the loss in value of assets due to the deterioration in credit quality. The Syndicate's exposure to credit risk arises from reinsurance counterparty credit and other recoveries, premium and other counterparty credit and investment counterparty default.

The Managing Agent mitigates credit risk in the following ways:

- clear tolerance limits are set to maximise the amount of reinsurance placed with highly rated and regarded reinsurers and limit concentration of exposure;
- credit ratings of reinsurers are reviewed and assessed prior to placing business with them;
- exposure limits for approved counterparties are reviewed regularly in relation to deposits and investments; and
- solvency strength of brokers and agents are assessed regularly.

Market risk

The Managing Agent defines market risk as the risk of variation in the value of investments due to market movements. Exposure to market risk arises from investment market movement risk.

The Managing Agent mitigates market risk in the following ways:

- investment assets are actively managed by Investment Managers subject to approved guidelines and mandates;
- a diversified portfolio is maintained; and
- performance of Investment Managers is monitored and assessed on a regular basis.

Liquidity risk

The Managing Agent defines liquidity risk as the risk of having insufficient liquid assets to meet liabilities falling due to policyholders and creditors in a timely manner.

The Managing Agent mitigates liquidity risk in the following ways:

- cash flow and liquidity projections are performed on a monthly basis to determine liquidity requirements
- a minimum level of liquid, short-term money market securities are held to meet the Syndicate's ongoing liquidity requirements; and
- stress testing of liquidity needs relative to major risk events.

Operational risk
The Managing Agent defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. Exposure to operational risk arises from internal fraud, external fraud, employment practices, improper business practices, technology and infrastructure failures and business and transaction processing.

The Managing Agent mitigates operational risk in the following ways:

- key processes are monitored actively on an ongoing basis;
- scenario-based reviews are used to identify and quantify potential exposures and identify areas requiring greater management;
- effective segregation of duties, access controls, authorisation and reconciliation procedures are in place; and
- a business continuity plan and disaster recovery plan are tested periodically to ensure that the business is able to respond effectively to incidents and minimises the impact of any major disruption.

Conduct risk
The Managing Agent defines conduct risk as the risk that the Syndicate or its agents fail to pay due regard to the interests of customers which leads to an unfair outcome. Exposure to conduct risk arises from employee conduct, product design and performance, broker and other agent conduct and complaint management.

The Managing Agent mitigates conduct risk in the following ways:

- a strong culture is maintained around the values of the business and employee conduct is recognised through the CEO Awards programme;
- key processes are monitored actively to ensure appropriate consideration is given to the customer's perspective;
- products are reviewed on a regular basis with an emphasis on conduct risk, including careful consideration of customer outcomes, product complexity, sales and post-sales service risks;
- a complaints management process aligned with the Lloyd's Code providing customers with access to Lloyd's two stage complaints process; and
- conduct performance is monitored and reviewed on an ongoing basis.

Future Developments
2016 will be the first year of the performance phase of the business turnaround, with focus moving from the transformation of the last few years to management and enhancement of the financial performance of the business to create sustainable profitable growth. The focus will be on:

- continuing to re-shape the portfolio towards specialist and niche business. Specialism is determined through three lenses: the driver, the vehicle and/or the broker;
- continuing to enhance the sophistication of pricing capabilities, allowing business to be selected and priced to meet target loss ratios;
- delivering the claims transformation programme, which will deliver significant financial savings through improved capabilities and processes and at the same time improving the customer proposition;
- developing improved capabilities to combat underwriting and claims fraud and a more robust response to detected fraud; and
- de-concentrating distribution and continuing to drive a change in the distribution mix towards specialist and other aligned brokers.

Other matters
Directors of the Managing Agent, their participation on the Syndicate and interests in other Group Companies
The directors of ERS SML who were in office during the year and up to the date of signing the financial statements were:

Patrick H O'Sullivan (Chairman)*
Nicholas J Addyman*
Mark H Bacon*
Ian D Broadwater
Dr Henry O Brunjes*
Robert P Gullett*
Ian D Parker*
Nicholas C T Pawson*#
Katharine A Wade*
Ryan R Warren
Christopher E Watson

* All directors indicated also have investments in ERS SML's ultimate UK holding company. No investment is greater than 8% of the entire issued Share Capital and therefore none are deemed material.

Nicholas C T Pawson was a Name on Syndicate 218 during 2015.

Nicholas C T Pawson underwrites the following lines on Syndicate 218:

Year of account	£
2016	344,659
2015	335,087
2014	418,859
2013	418,859

Disclosure of information to the auditors
The directors of ERS SML who held office at the date of approval of the Report of the managing agent confirm that, so far as each of them is aware, there is no relevant audit information of which the Syndicate's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Syndicate auditors

The Syndicate's auditors, PricewaterhouseCoopers LLP, are deemed reappointed under the provisions of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Annual general meeting ("AGM")

Notice is hereby given that the Managing Agent does not propose holding a Syndicate AGM this year unless objections to this proposal or the intention to reappoint the auditors are received from Syndicate members by 30 April 2016.

By order of the Board:

Mark H Bacon
Active Underwriter

14 March 2016

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD") requires the managing agent to prepare annual accounts for each financial year. Under that law, the managing agent is required to prepare the syndicate accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"). Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD"), the managing agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing these syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, including FRS 102, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on a going concern basis unless it is inappropriate to presume that the syndicate will continue in business.

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and to enable them to ensure that the syndicate annual accounts 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 business website. Legislation in the UK governing the preparation and dissemination of syndicate annual accounts may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Syndicate 218

Report on the syndicate annual accounts

Our Opinion

In our opinion Syndicate 218's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit and cashflows 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.

What we have audited

The syndicate annual accounts for the year ended 31 December 2015, included within the Syndicate 218 Report and Accounts 2015 (the "Annual Report"), comprise:

- the statement of comprehensive income;
- the balance sheet as at 31 December 2015;
- the cash flow statement;
- the statement of changes in members' balances; and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 ("The Financial Reporting Standard applicable in the UK and Republic of Ireland"), and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- the Managing Agent in respect of the Syndicate has not kept adequate accounting records; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exception to report arising from this responsibility.

Responsibilities for the syndicate annual accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of managing agent's responsibilities set out on page 11, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matthew Nichols
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
London

15 March 2016

Statement of comprehensive income – technical account for general business

	Note	2015 £000	2014 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	**393,675**	387,732
Outward reinsurance premiums		**(78,643)**	(20,380)
Net premiums written		**315,032**	367,352
Change in the provision for unearned premiums:			
Gross amount	18	**(10,591)**	11,824
Reinsurers' share	18	**607**	(11,666)
Change in the net provision for unearned premiums		**(9,984)**	158
Earned premiums, net of reinsurance		**305,048**	367,510
Allocated investment return transferred from the non-technical account	12	**1,715**	11,966
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(271,060)**	(310,656)
Reinsurers' share		**14,375**	26,111
Net claims paid		**(256,685)**	(284,545)
Change in the provision for claims:			
Gross amount	18	**6,855**	38,275
Reinsurers' share	18	**57,298**	13,839
Change in the net provision for claims		**64,153**	52,114
Claims incurred, net of reinsurance		**(192,532)**	(232,431)
Changes in other technical provisions, net of reinsurance		**20,249**	–
Net operating expenses	6, 8	**(131,914)**	(138,635)
Balance on the technical account for general business		**2,566**	8,410

All amounts relate to continuing operations.

The notes on pages 20 to 40 form an integral part of these annual accounts.

Statement of comprehensive income – non-technical account

	Note	2015 £000	2014 £000
Balance on the technical account for general business		**2,566**	8,410
Investment income	12	**4,201**	6,314
Unrealised gains on investments	12	**6,561**	8,313
Investment expenses and charges	12	**(953)**	(942)
Unrealised losses on investments	12	**(8,094)**	(1,719)
Allocated investment return transferred to technical account for general business	12	**(1,715)**	(11,966)
Other income	13	**3,600**	–
Other charges, including value adjustments		**(163)**	(83)
Profit for the financial year		**6,003**	8,327

There are no differences between the profit for the financial year stated above and their historical cost equivalents and the statement of comprehensive income for the financial year.

The notes on pages 20 to 40 form an integral part of these annual accounts.

Balance sheet – assets

	Note	2015 £000	2014 £000
Investments			
Other financial investments	5, 11	**313,409**	389,785
Reinsurers' share of technical provisions			
Provision for unearned premiums	18	**10,916**	10,309
Claims outstanding	5, 18	**220,836**	163,538
Other technical provisions	5, 18	**20,249**	–
		252,001	173,847
Debtors			
Debtors arising out of direct insurance operations	5, 14	**88,784**	69,162
Debtors arising out of reinsurance operations	5	**537**	3,175
Other debtors	15	**33,221**	22,572
		122,542	94,909
Other assets			
Cash at bank and in hand	5	**21,698**	44,885
Overseas deposits	16	**391**	869
		22,089	45,754
Prepayments and accrued income			
Accrued interest and rent		**354**	6
Deferred acquisition costs		**38,334**	37,330
Other prepayments and accrued income	17	**8,111**	7,180
		46,799	44,516
Total assets		**756,840**	748,811

The notes on pages 20 to 40 form an integral part of these annual accounts.

Balance sheet – liabilities

	Note	2015 £000	2014 £000
Members' balances		**(37,285)**	(42,229)
Technical provisions			
Provision for unearned premiums	18	**206,853**	196,262
Claims outstanding	5, 18	**570,850**	577,705
		777,703	773,967
Creditors			
Creditors arising out of direct insurance operations	20	**1,134**	2,249
Creditors arising out of reinsurance operations		**4,185**	7,228
Other creditors including taxation and social security	21	**9,250**	5,854
		14,569	15,331
Accruals and deferred income		**1,853**	1,742
Total liabilities		**756,840**	748,811

The notes on pages 20 to 40 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 14 to 19 were approved by the Board on 14 March 2016 and signed on behalf of the Syndicate's managing agent by:

Katharine A Wade
Finance Director

14 March 2016

Cash flow statement

	Note	2015 £000	2014 £000
Net cash outflow from operating activities	22	**(100,908)**	(63,697)
Cash flow from investing activities			
Purchase of equity and debt instruments		**(107,474)**	(183,810)
Sale of equity and debt instruments		**178,897**	136,827
Investment income received		**6,416**	8,506
Net cash generated from/(used in) investing activities		**77,839**	(38,477)
Cash flow from financing activities			
Transfer (to)/from members in respect of underwriting participations		**(118)**	62,517
Net cash (used in)/generated from financing activities		**(118)**	62,517
Net decrease in cash at bank and in hand		**(23,187)**	(39,657)
Cash and cash equivalents at the beginning of the year		**44,885**	84,542
Cash and cash equivalents at the end of the year		**21,698**	44,885
Cash and cash equivalents consist of:			
Cash at bank and in hand		**21,698**	44,885
Cash and cash equivalents		**21,698**	44,885

The notes on pages 20 to 40 form an integral part of these annual accounts.

Statement of changes in members' balances

	2015 £000	2014 £000
Members' balances brought forward at 1 January	**(42,229)**	(111,915)
Profit for financial year	**6,003**	8,327
(Payment)/receipt of the result (to)/from members' personal reserve funds:		
2012 year of account	**(118)**	–
2011 year of account	**–**	62,517
	(36,344)	(41,071)
Members' agent fees paid in year	**(941)**	(1,158)
Members' balances carried forward at 31 December	**(37,285)**	(42,229)

Members participate in 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.

Notes to the accounts

1. General information

ERS Syndicate Management Limited ("the Managing Agent") is the managing agent of Syndicate 218. The principal activity of the Syndicate is to underwrite a broad range of specialist motor insurance business at Lloyd's and is regarded as a specialist provider of motor solutions in a number of niche areas.

2. Statement of compliance

These annual accounts have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") where applicable.

The Managing Agent transitioned from previously extant UK GAAP to FRS 102 as at 1 January 2014. An explanation of how transition to FRS 102 has affected the reported financial position and financial performance is given in note 27.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these annual accounts are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of presentation

These annual accounts have been prepared on a going concern basis and have been prepared in UK pounds sterling which is the functional currency of the Managing Agent and are presented in thousands of UK pounds sterling.

Basis of accounting

(i) Gross premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for unclosed premiums, representing amounts due to the Syndicate but not yet notified.

(ii) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of gross and reinsurers' share of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

(iii) Reinsurance premium ceded

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

(iv) Claims provisions and related recoveries

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 incurred from previous years. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with a provision for related claims handling costs. The provision also includes an estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent year, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of future claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The Managing Agent considers 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 future 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 annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

(v) Discounted claims provision
Due to the long delay between the inception date of the policy and the final settlement of the claim for PPOs, the outstanding claims provisions for PPOs are discounted to take account of the expected investment income receivable between inception and settlement on the assets held to cover the provisions.

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

The provision for unexpired risks is calculated by reference to classes of business that are managed together, after taking into account the relevant investment return.

(vii) Deferred acquisition costs
The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. All other costs are expensed when they are incurred.

In respect of insurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts. Deferred acquisition costs are amortised over the life of the policy in line with the recognition of premiums.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged through the profit and loss account.

(viii) Foreign currencies
Items included in the annual accounts are measured using the currency of the primary economic environment in which the Syndicate operates.

Transactions denominated in foreign currencies are translated into UK pounds sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the year.

(ix) Operating expenses
Where expenses are incurred by or on behalf of the Managing Agent for the administration of the managed Syndicate, these expenses are apportioned using various methods depending on the type of expense. Expenses that are incurred jointly are apportioned between ERS SML and the Syndicate on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

The Managing Agent regularly reviews the basis of allocation of such expenses to ensure they remain appropriate and equitable to the Syndicate and each year of account.

(x) Financial instruments
Financial instruments are recognised in the balance sheet at such time as the Syndicate becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Syndicate's obligations specified in the contract expire, are discharged or cancelled.

Purchases and sales of financial assets are recognised on the trade date, which is the date the Syndicate commits to purchase or sell the assets.

Financial assets
The Syndicate has classified these assets into the following categories: financial assets at fair value through profit or loss and loans and receivables.

Financial investments
Financial investment assets are designated at fair value through profit or loss on initial recognition.

The Syndicate has designated financial investments at fair value through profit or loss where it is the Syndicate's strategy to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are on a fair value basis. Note 5 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Investments carried at fair value through profit or loss are initially recognised at fair value with any associated transaction costs being expensed through the technical account. The fair value of quoted investments is their quoted bid price at the balance sheet date. If the market for an investment is not active, the valuation is based upon the net asset values of underlying holdings, which are independently sourced. The fair value of listed equity and debt securities is determined by reference to their quoted bid price at the balance sheet date.

Fair values for unlisted debt securities are estimated at the present value of their future cash flows, discounted at the market rate of interest at the reporting date.

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

Derivative financial instruments
Derivative financial instruments can be used to hedge the Syndicate's exposure to foreign exchange risk and the interest rate risk arising from investing activities. The Investment Managers, for investing activities, use futures and option derivatives. Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised in the non-technical account. A transfer is made from the non-technical account to the technical account for general business.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

Loans and receivables
Loans and receivables are recognised at fair value plus incremental direct transaction costs less any provision for impairments.

(xi) Investment return
Investment return comprises interest and realised and unrealised gains and losses on assets held at fair value through profit or loss.

Fair value realised gains and losses are calculated as the difference between net sales proceeds and fair value at acquisition.

Fair value unrealised gains and losses are calculated as the difference between the current fair value at the balance sheet date and the fair value at acquisition or at previous remeasurement date, adjusted for previously recognised unrealised gains and losses of those financial assets disposed of in the accounting period.

The returns on pooled investments arising in each calendar year are apportioned to years of account open during the calendar year in proportion to average funds available for investment on each year of account.

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

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

No provision has been made for any United States Federal income tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Other debtors'. No provision has been made for any overseas tax payable by members on underwriting results.

(xiii) Pension costs
ERS Administration Services Limited ("ERS ASL") operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and are included within net operating expenses.

(xiv) Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

(xv) Profit commission
Profit commission is charged by the Managing Agent at a rate of 20% of profit subject to the operation of a two-year deficit clause.

4. Judgements and key sources of estimation uncertainty

In the application of the accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

The following judgements, estimations and assumptions have had the most significant effect on amounts recognised in the financial statements.

(i) Valuation of general insurance contract liabilities
The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicate's most critical accounting estimate. The carrying amount of the liability is disclosed in note 18. For general insurance contracts estimates are made for the expected ultimate cost of claims notified as at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

The estimation of these claims is based on historical experience projected forward. The Syndicate's estimate of claims and expenses is mainly achieved through the application of a number of commonly accepted actuarial projection methodologies based on the following:

4. Judgements and key sources of estimation uncertainty (continued)

- the development of previously paid claims, where payments to date are extrapolated for each prior year;
- estimates based upon a projection of claims numbers and average cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected loss ratios.

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Syndicate will ultimately pay for an insurance claim, the most significant of which relates to bodily injury. Estimation of the ultimate cost of bodily injury claims is a hugely complex process and cannot be done using conventional actuarial techniques. The cost of bodily injury claims especially for the more serious injuries often involves a legal process where compensation awards are made by the courts. The outcomes in these cases are hard to predict as case law is still evolving. The process is complicated further by the rise of PPO settlements by order of the court or requested by the claimant. These settlements have an annuity-type structure whereby they are typically paid annually over the claimant's life.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from the Syndicate's reinsurance arrangements including excess of loss and quota share contracts, having due regard for collectability.

Claims provisions are subject to regular review, both within the Syndicate and externally. Management discuss and challenge the actuarial best estimate and booked claims provisions at the quarterly Reserving Committee and at the ARCC, whose membership includes non-executive directors with significant insurance experience and actuarial specialism. External actuaries are also engaged to calculate an independent best estimate of the ultimate cost of claims as at each 31 December and present an SAO against which the Syndicate's best estimate is assessed.

(ii) Premium recognition

Gross written premium includes an estimation for unclosed premiums, this being premiums in respect of risks underwritten and incepted prior to the balance sheet date for which closing information has not been confirmed and/or which were not processed through the accounting system until a subsequent accounting period. Unclosed premium is calculated for each underwriting year of account and is the difference between the ultimate premium expected by the Active Underwriter less booked premiums at the balance sheet date. The carrying value amount of the accrual is £17.2m (2014: £11.9m).

(iii) Premium earning pattern

The Syndicate recognises written premium on an earned basis, this being the portion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne by the Syndicate during the accounting period. Earned premium is calculated using the 24ths method that assumes that contracts incepting in a given month will be spread evenly through that month. The carrying value amount of the unearned premium is disclosed in note 18.

5. Management of insurance and financial risk

The Syndicate issues insurance contracts that transfer insurance risk and undertakes investment and reinsurance activities that expose the Syndicate to financial and credit risk. The Syndicate has in place a comprehensive risk management and control framework which looks to minimise the impact of insurance, financial and other risks on the Syndicate's financial results; this is disclosed in the Report of the managing agent.

Insurance risk management and control

The Syndicate accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss.

The Syndicate aims to manage insurance risk:

- to achieve acceptable profits and return on equity by ensuring that insurance risks are carefully selected in accordance with risk appetite, underwritten in accordance with risk strategy and priced to reflect the underlying risk;
- to minimise reserve risk volatility through robust reserving and modelling approaches; and
- to mitigate insurance risk through the use of appropriate reinsurance arrangements.

The Syndicate is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Syndicate manages these risks through its underwriting strategy, reinsurance arrangements, proactive claims handling and the claims reserving process.

(i) Underwriting strategy

The Syndicate is a specialist insurer that only writes motor business, with a small legacy underwriting exposure to household and personal accident business. The Syndicate reduces its concentration risk by writing business in a number of different motor classes including private car, fleet, motorcycle, commercial, agriculture, caravan and motor breakdown. The Syndicate's underwriting strategy is to write for profit rather than volume.

The Syndicate's underwriting strategy is set out in the annual business plan that sets out the classes of business in which business is to be written. The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and only those risks which meet the approved underwriting criteria are accepted. The underwriting strategy is focused on a sophisticated data driven approach to pricing and underwriting. Adherence to the business plan and the pricing of products are reviewed on a regular basis.

All policies are annual contracts, giving the opportunity to reprice based on latest account experience and external conditions as well as individual risk performance. Unlike many classes, motor pricing is very closely linked to the individual risk.

Experience has showed that the underwriting of a large number of uncorrelated individual risks reduces the variability of the expected outcome. The Syndicate's underwriting strategy seeks to accept a large population of individual risks within each business class to limit the variability of expected outcome.

(ii) Reinsurance arrangements

Motor business is exposed to the risk of large bodily injury claims, where the claim amount can be significant due to the cost of care required for the claimant. The Syndicate purchases Excess of Loss reinsurance contracts to reduce the impact of individual large losses and the accumulation of claims that arise from the same event.

The Syndicate reinsures a portion of the risks it underwrites in order to control its exposure to losses and to protect capital resources.

Although the Syndicate has reinsurance arrangements in place to reduce its gross insurance risk, these arrangements do not relieve it of its ultimate liability to policyholders and as such the Syndicate is exposed to credit risk to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Syndicate's exposure to this credit risk is discussed in the financial risk management and control note.

(iii) Claims management

Liabilities arising from motor insurance contracts cover both property and liability benefits. The overriding objective of claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids, such as weather validation and fraud databases, and the use of claims specialists.

5. Management of insurance and financial risk (continued)

Insurance risk management and control (continued)

(iv) Claims reserving

Reserving risk is the risk that insufficient funds have been set aside to settle claims as they fall due. To ensure that its claims reserving process is adequate the Managing Agent undertakes regular internal actuarial reviews and commissions external actuarial reviews on at least a full year basis. These reviews estimate the future claims liabilities in order to consider the adequacy of the provisions.

Sources of uncertainty in the estimation of future claim payments

Claims on motor insurance contracts are payable on a claims-occurrence basis. The Syndicate is liable for all insured events that occur during the term of the contract, even if the loss is reported after the end of the contract term. Policyholders will tend to report a claim relatively soon after a road traffic accident, but it may take longer to discover claims from third parties. An element of the claims provision therefore relates to IBNR. The compensation paid on these contracts is the monetary awards granted for property damage and bodily injury suffered by third parties involved in road traffic accidents with our policyholders, as well as any property damage suffered by our policyholders. Bodily injury awards are typically settled over a longer period of time. Such bodily injury awards cover the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident. They are settled either as a lump-sum payment, which is calculated as the present value of the lost earnings and rehabilitation expenses of the claimant, or as a structured settlement, typically under a PPO awarded by the courts. A PPO settlement will include a lump-sum paid on settlement plus a recurring annual payment, indexed in line with inflation, to cover the costs of care until the end of the claimant's life.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of an expected subrogation value and other recoveries. All reasonable steps are taken to ensure that appropriate information regarding claims exposures is available. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, where information about the claim event is available. In estimating the liability of the cost of reported claims not yet paid, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods is considered. Large claims are assessed on a case-by-case basis and projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio. Particular consideration has been given to the operational and systems changes that have occurred recently within the business, which would distort the information of how claims have developed and settled across different periods of time.

Where possible, multiple techniques are used to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business and the extent of the development of each year. Again, consideration has been given to the operational and systems changes that have occurred recently within the business, which have distorted the results of some of the methods used. Being able to explain the differences in the methods develops and evidences the understanding of the underlying claims processes.

The calculation of provisions are performed internally on a best estimate basis, meaning that the provisions are intended to represent the probability-weighted average of all possible payments. Independent calculations are performed by an external signing actuary, who also provides the Lloyd's SAO. Including the management risk margin, our best estimate of net reserves is 2.6% higher than the SAO.

The following key sources of uncertainty have been identified:

- average premium written has been materially higher since September 2015 following underwriting and rating actions taken during the year. These may affect both the mix and experience of business written during the second half of underwriting year 2015 and accident year 2016;
- changes in systems and operational processes have resulted in some backlogs in operational tasks impacting the speed of settlement of property damage claims and a number of case estimates not being updated on time. There has been concerted effort made during the past year to reduce the backlogs, which has led to a catch up in the proportion of claims that have been settled. As a result, greater weight has been given to the paid claims development data when calculating provisions because this is not as materially distorted; and
- uncertainty of the future inflation of PPO claims liabilities, the mortality assumptions of claimants and the future investment returns on the assets considered to be backing the liabilities affect the present value of the future payments.

5. Management of insurance and financial risk (continued)

Process used to decide on assumptions

In principle, the methodology is consistent with the approach in previous reviews. In particular, more weight has been given to paid claims than to incurred claims because of the distortions caused by changes in the systems and operational claims processes.

Projections are undertaken for all classes in aggregate, both gross and net of reinsurance, but carried out separately by different type of claim and claim size band. The aim is the classification of claims into homogeneous groups based on their development and settlement characteristics.

PPO claims are also analysed separately. Projections of PPO claims are performed on an underwriting year basis. The propensity for PPO claims to occur are assumed to be in line with market benchmarks published by the Institute and Faculty of Actuaries. For claims that have been reported, the costs for each claim are projected based on impaired mortality assumptions. Future projected payments are discounted assuming a 0% per annum real discount rate, with the inflation assumption based on publicly available information and the investment assumption based on the current yields to maturity of assets held in the investment portfolio.

The Syndicate uses several statistical methods to incorporate the assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to paid and incurred claims. The basic technique involves analysis of historical claims development factors and the selection of estimate development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident or underwriting year that is not fully developed to produce an estimated ultimate claims cost. Chain-ladder techniques are most appropriate for those accident years and claim groups that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class or group of claims.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on the claims experience. The former is based on a measure of exposure, such as vehicle count, and the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used for more recent accident periods where the development of claims is less mature.

The Syndicate has not applied these methods mechanically. The final selections are not necessarily the results of a single method, and in some cases are selected using a weighted average from different methods.

Development of claims provision

Claims development information is disclosed in order to illustrate the uncertainty in the estimation of future claims payments inherent in the Syndicate. The tables below reflect the cumulative incurred claims including IBNR for each successive underwriting year at each balance sheet date. The Syndicate seeks to maintain appropriate reserves in order to protect against future claims experience and development. The tables below show the development of claims over a 5 year period and provide a measure of the Syndicate's ability to adequately estimate the ultimate level of claims.

While the information in the tables below provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances. The directors believe that the estimate of total claims outstanding as of the end of 2015 is adequate.

5. Management of insurance and financial risk (continued)

Analysis of claims development – gross of reinsurance

Underwriting year	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
Estimate of ultimate gross claims costs*:						
At end of reporting year	(208,222)	(153,501)	(143,566)	(131,703)	(133,540)	
One year later	(406,977)	(297,674)	(283,826)	(277,730)		
Two years later	(393,155)	(285,714)	(281,283)			
Three years later	(392,082)	(278,870)				
Four years later	(390,225)					
Current estimate of cumulative claims	(390,225)	(278,870)	(281,283)	(277,730)	(133,540)	
Cumulative payments to date	337,615	220,739	192,749	149,474	39,914	
Liability recognised in the balance sheet	(52,610)	(58,131)	(88,534)	(128,256)	(93,626)	**(421,157)**
Provision in respect of prior years						**(149,693)**
Total provision included in the balance sheet						**(570,850)**

Analysis of claims development – net of reinsurance

Underwriting year	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	Total £000
Estimate of ultimate net claims costs*:						
At end of reporting year	(194,957)	(150,161)	(135,703)	(126,461)	(125,486)	
One year later	(383,615)	(289,365)	(263,609)	(250,567)		
Two years later	(372,498)	(281,247)	(248,155)			
Three years later	(369,195)	(257,870)				
Four years later	(356,339)					
Current estimate of cumulative claims	(356,339)	(257,870)	(248,155)	(250,567)	(125,486)	
Cumulative payments to date	329,328	220,771	183,759	149,422	39,882	
Liability recognised in the balance sheet	(27,011)	(37,099)	(64,396)	(101,145)	(85,604)	**(315,255)**
Provision in respect of prior years						**(34,759)**
Total net provision included in the balance sheet						**(350,014)**

* the initial estimate of gross and net provision at the end of the reporting year is on an earned basis.

The Managing Agent has taken advantage of the exemption in FRS 103 paragraph 6.3 to not disclose information about claims development that occurred before the beginning of the earliest period for which the Managing Agent presents full comparative information that complies with FRS 103.

5. Management of insurance and financial risk (continued)

Analysis of claims development – net of reinsurance (continued)

The Managing Agent buys Excess of Loss cover for the Syndicate's motor policies to reduce its exposure to underwriting losses. The cover purchased limits the loss arising from any one event to £2.5 million in respect of policies incepted during 2014 and 2015. Previously the Syndicate had purchased Excess of Loss cover on an accident year basis, where the limit was £3.5 million for 2012 and 2013 reducing to £2.5 million for 2011 and £1 million for 2010. All purchases of reinsurance are approved, in advance, by the Board.

The Syndicate has in place an Aggregate Excess of Loss reinsurance contract for the 2014 to 2010 underwriting years of account with TPRe.

Sensitivity analysis

The Managing Agent makes estimates and assumptions concerning the future which have significant impact on the determination of the ultimate liability arising from claims made under insurance contracts accepted. The sources of estimation uncertainty are discussed in more detail on page 25. If actual experience is significantly different from that which has been estimated then this will impact the profit and net assets of the Syndicate.

The assumptions that have the greatest effect on the measurement of the Syndicate's insurance contract provisions are the expected loss ratios. The expected loss ratio is the ratio of expected claims to premiums. A 1% reduction in the loss ratio for the current underwriting year would result in a £1.8m (2014: £1.8m) decrease to the insurance contract provisions, based on current underwriting year earned premiums, and a corresponding increase in profit and net assets of the Syndicate. A 1% reduction in the loss ratios for each of the last two underwriting years would result in a £5.4m (2014: £5.7m) decrease to the insurance contract provisions, based on current and prior underwriting year earned premiums, and a corresponding increase in profit and net assets of the Syndicate.

Financial risk management and control

The Managing Agent sets risk appetite annually as part of the Syndicate's business planning and capital setting process. The Risk Management Committee ("RMC") meets regularly to monitor performance against risk appetite using a series of key risk indicators. Details of the principal risks and uncertainties facing the Syndicate are given in the Report of the managing agent on page 4.

Credit risk

Credit risk is the risk of counterparties failing 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.
- Investments – Whereby issuer default results in the Syndicate losing all or part of the value of a financial instrument.

The Syndicate's core business is to accept significant insurance risk and the appetite for other risks is low. This protects the Syndicate's capital from erosion so that it can meet its insurance liabilities.

The Syndicate structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or group of counterparties, and to geographical and industry segments. Such risks are subject to regular review.

Investments are primarily allowed only in liquid securities and with counterparties that have a credit rating equal to investment grade or better. Given their high credit ratings, the directors do not expect any counterparty to fail to meet its obligations.

Reinsurance exposures are monitored regularly. The Syndicate assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations.

Exposure to brokers and insurance intermediaries is managed via a stringent credit policy. The Syndicate's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at 31 December 2015 was £88.8m (2014: £69.2m), all of which was not rated. The Syndicate also reduces its exposure to credit risk related to intermediaries by diversification through the use of a significant number of brokers.

5. Management of insurance and financial risk (continued)

Financial risk management and control (continued)

Credit risk (continued)

The following tables summarise the Syndicate's significant credit risk for financial assets that are neither past due nor impaired:

2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments	**92,118**	**53,898**	**73,340**	**62,863**	**31,190**	**313,409**
Insurance receivables	**–**	**–**	**–**	**–**	**70,008**	**70,008**
Reinsurance assets	**–**	**88,012**	**152,754**	**1,581**	**1,647**	**243,994**
Cash at bank and in hand	**–**	**–**	**–**	**21,698**	**–**	**21,698**
Total	**92,118**	**141,910**	**226,094**	**86,142**	**102,845**	**649,109**

2014	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments	130,741	88,122	88,031	52,292	30,599	389,785
Insurance receivables	–	–	–	–	57,394	57,394
Reinsurance assets	–	74,979	88,738	–	4,348	168,065
Cash at bank and in hand	–	–	–	44,885	–	44,885
Total	130,741	163,101	176,769	97,177	92,341	660,129

There are no financial assets rated below BBB.

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

During 2015, a £60m reinsurance premium was paid from financial investments to TPRe, of which £58.5m is included within Reinsurance assets. The credit risk associated with TPRe, which is included above as A rated based on the legal counterparty to the agreement, is improved by a sole beneficiary trust fund provided by BNY Mellon which improves the credit rating to AAA.

The Syndicate has insurance receivables and reinsurance assets that are past due at the balance sheet date. The tables below provide information regarding the maximum credit risk exposure to these assets, together with the extent to which they are due, past due and impaired.

2015	Neither due nor impaired £000	Past due Up to 3 months £000	Past due 3 to 6 months £000	Past due 6 months to 1 year £000	Greater than 1 year £000	Past due and impaired £000	Total £000
Insurance receivables	**70,008**	**14,124**	**3,486**	**1,830**	**891**	**(1,555)**	**88,784**
Reinsurance assets	**243,994**	**–**	**23**	**15**	**161**	**(2,571)**	**241,622**
Total	**314,002**	**14,124**	**3,509**	**1,845**	**1,052**	**(4,126)**	**330,406**

2014	Neither due nor impaired £000	Past due Up to 3 months £000	Past due 3 to 6 months £000	Past due 6 months to 1 year £000	Greater than 1 year £000	Past due and impaired £000	Total £000
Insurance receivables	57,394	7,667	3,094	1,088	2,297	(2,378)	69,162
Reinsurance assets	168,065	–	889	–	183	(2,424)	166,713
Total	225,459	7,667	3,983	1,088	2,480	(4,802)	235,875

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

5. Management of insurance and financial risk (continued)

Financial risk management and control (continued)

Credit risk (continued)

The Managing Agent has established guidelines for the Syndicate's Investment Managers regarding the type, duration and quality of investments acceptable to the Managing Agent. The performance of the Investment Managers is regularly reviewed to confirm adherence to these guidelines.

Market risk

Market risk arises where the value of assets and liabilities change as a result of movements in foreign exchange rates, interest rates, inflation rates and market prices.

The Managing Agent employs Investment Managers to actively manage the market risk associated with financial investments. Detailed guidelines for the Investment Managers are in place and the ERS SML Board and its Investment Committee regularly monitor investment performance and the associated risks. Financial investments represent a significant proportion of the Syndicate's assets and the Board sets and monitors the value at risk.

Foreign exchange risk

The Syndicate is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The Syndicate deals in four currencies, UK pounds sterling, Canadian dollars, Euros and US dollars. Transactions in all other currencies are converted to UK pounds sterling on initial recognition.

Although over 99.5% of the insurance premiums relate to UK residents, the Syndicate has exposure to foreign currency claims liabilities. The foreign exchange rate exposure is closely monitored.

The following table summarises the carrying value of total assets and total liabilities, excluding Members' Agent fees, categorised by currency:

2015	**US $ £000**	**CAD $ £000**	**EUR £000**	**Sub-Total £000**	**UK £ £000**	**Total £000**
Total assets	**281**	**1,421**	**982**	**2,684**	**754,156**	**756,840**
Total liabilities	**(9)**	**(720)**	**(5)**	**(734)**	**(756,106)**	**(756,840)**
Total	**272**	**701**	**977**	**1,950**	**(1,950)**	**–**

2014	US $ £000	CAD $ £000	EUR £000	Sub-Total £000	UK £ £000	Total £000
Total assets	269	1,298	2,348	3,915	744,896	748,811
Total liabilities	(38)	(338)	(639)	(1,015)	(747,796)	(748,811)
Total	231	960	1,709	2,900	(2,900)	–

The Investment Managers invest part of the sterling premium trust fund in overseas investments which are fully hedged back to UK pounds sterling using derivatives.

Price risk

Equities and other variable yield securities and the hedge fund that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

Investments are made in growth assets depending on the Syndicate's appetite for risk. These investments are well diversified with high quality, liquid securities. The Managing Agent has established guidelines with its Investment Managers that set out maximum investment limits, diversification requirements across industries and concentration limits in any one industry or company. Listed investments are recognised on the balance sheet at quoted bid price. If a current price from an active market or from a recent transaction of an identical asset is not available, then a fair valuation technique using observable and unobservable market data is used. This includes using discounted cash flow models and other valuation techniques that are commonly used by Investment Managers and custodians.

5. Management of insurance and financial risk (continued)

Interest rate risk

The majority of the Syndicate's investments comprise fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the Syndicate's fixed interest investments would tend to rise and vice versa.

Fixed income assets are predominantly invested in high quality corporate, government, supranational and residential mortgage backed securities. The investments typically have relatively short durations and terms to maturity.

Sensitivity analysis to market risk

The table below shows the results of sensitivity testing on the Syndicate's profit and net assets. The sensitivity analysis indicates the effect of changes in market risk factors on the Syndicate's financial assets and liabilities:

	2015 impact on profit and net assets £000	2014 impact on profit and net assets £000
Interest rate risk		
50 basis points increase in yield curve	**(3,655)**	(3,687)
50 basis points decrease in yield curve	**3,860**	3,957
Price risk		
5% increase in stock market prices	**112**	181
5% decrease in stock market prices	**(159)**	(239)

No sensitivity analysis has been presented for currency risk as the Syndicate currently has no foreign currency risk. Any foreign currency exposure is hedged using currency derivatives.

Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Syndicate is exposed to daily cash calls on its available cash resources, mostly for the settlement of claims. The Syndicate's approach is to maintain a large proportion of liquid assets that can be translated to cash at short notice without any significant capital loss. These funds are monitored by management on a weekly basis. The directors do not consider that there is a material risk of loss arising from liquidity risk.

The table below analyses the maturity of the Syndicate's financial liabilities and outstanding claims. All liabilities are presented on a contractual cash flow basis except for the insurance liabilities, which are presented with their expected cash flows.

Financial liabilities and outstanding claims	**No stated maturity £000**	**0-1 year £000**	**1-3 years £000**	**3-5 years £000**	**> 5 years £000**	**Total £000**
At 31 December 2015						
Financial liabilities – creditors	1,421	13,148	0	0	0	14,569
Gross claims outstanding	0	164,455	172,082	77,888	156,425	570,850
Financial liabilities and claims outstanding	**1,421**	**177,603**	**172,082**	**77,888**	**156,425**	**585,419**

Financial liabilities and outstanding claims	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	> 5 years £000	Total £000
At 31 December 2014						
Financial liabilities – creditors	2,279	13,052	0	0	0	15,331
Gross claims outstanding	0	184,138	185,812	75,081	132,674	577,705
Financial liabilities and claims outstanding	2,279	197,190	185,812	75,081	132,674	593,036

5. Management of insurance and financial risk (continued)

Fair value hierarchy

The Syndicate has classified its financial instruments using the fair value hierarchy in accordance with FRS 102 section 11.27.

The fair value hierarchy classifies financial instruments into Classification A to Classification C based on the significance of the inputs used in measuring their fair value with Classification A being the most reliable. The classifications within the fair value hierarchy are defined as follows:

- Classification A – Quoted price for an identical asset in an active market.
- Classification B – The price of a recent transaction for an identical asset.
- Classification C – Valuation technique using observable and unobservable market data.

2015	**Classification A £000**	**Classification B £000**	**Classification C £000**	**Total £000**
Shares and other variable yield securities	**31,776**	**–**	**92,507**	**124,283**
Debt securities and other fixed income securities	**540**	**–**	**188,586**	**189,126**
Total	**32,316**	**–**	**281,093**	**313,409**

2014	Classification A £000	Classification B £000	Classification C £000	Total £000
Shares and other variable yield securities	30,219	–	94,909	125,128
Debt securities and other fixed income securities	610	–	264,047	264,657
Total	30,829	–	358,956	389,785

Included within Classification A are securities that are measured based on quoted market prices or trades occurring on 31 December and includes some government securities and shares and other variable yield securities that are listed on recognised exchanges where there is an active market.

Classification C includes financial assets which are priced using valuation techniques incorporating observable and unobservable market data and includes the majority of the corporate bonds portfolio, holdings in asset backed securities and a small number of hedge fund investments. These financial assets are valued using observable market prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors.

6. Segmental analysis

2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Direct insurance:							
Accident and health	**13**	**13**	**165**	**7**	**214**	**399**	**220**
Motor (third party liability)	**–**	**–**	**1**	**–**	**–**	**1**	**10**
Motor (other classes)	**368,813**	**358,395**	**(245,252)**	**(124,310)**	**11,078**	**(89)**	**501,624**
Fire and other damage to property	**5,220**	**5,176**	**(2,573)**	**(2,196)**	**1,532**	**1,939**	**6,427**
Other	**19,607**	**19,478**	**(11,459)**	**(5,542)**	**(20)**	**2,457**	**10,366**
	393,653	**383,062**	**(259,118)**	**(132,041)**	**12,804**	**4,707**	**518,647**
Reinsurance accepted	**22**	**22**	**(5,087)**	**127**	**1,082**	**(3,856)**	**7,055**
Total	**393,675**	**383,084**	**(264,205)**	**(131,914)**	**13,886**	**851**	**525,702**

2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000	Net technical provisions £000
Direct insurance:							
Accident and health	84	1,741	(587)	(550)	(6)	598	831
Motor (third party liability)	–	–	1	–	–	1	11
Motor (other classes)	366,601	365,085	(255,650)	(126,041)	9,171	(7,435)	576,340
Fire and other damage to property	2,707	14,383	(5,508)	(6,111)	(2,418)	346	10,161
Other	18,333	18,340	(9,351)	(6,034)	(253)	2,702	9,671
	387,725	399,549	(271,095)	(138,736)	6,494	(3,788)	597,014
Reinsurance accepted	7	7	(1,286)	101	1,410	232	3,106
Total	387,732	399,556	(272,381)	(138,635)	7,904	(3,556)	600,120

Gross operating expenses are the same as net operating expenses shown in the profit and loss account as no commission in respect of outwards reinsurance was received and offset in arriving at the net operating expenses.

All premiums were concluded in the UK and their geographical destination was the UK.

7. Movement in prior year's provision for claims outstanding

The release during 2015 on outstanding claims net of claims paid as at 31 December 2014 was £14,497,316 with a further release of risk margin and unallocated loss adjustment expense provision ("ULAE") of £11,655,032 due to claims being settled resulting in a total improvement of £26,152,348. The release during 2014 on outstanding claims net of claims paid as at 31 December 2013 was £6,808,120 with a further release of risk margin and ULAE of £12,651,456 due to claims being settled resulting in a total improvement of £19,459,576.

8. Net operating expenses

	2015 £000	2014 £000
Acquisition costs	**117,944**	118,581
Change in deferred acquisition costs	**(814)**	5,624
Administrative expenses	**8,084**	7,985
Lloyd's personal expenses and other charges	**6,700**	6,445
Total	**131,914**	138,635

Acquisition costs include commissions costs of £58,857,197 (2014: £58,186,147) on insurance premiums paid to brokers and costs of operating the business recharged to the Syndicate of £58,322,001 (2014: £59,354,327).

During the year, the Syndicate obtained the following services from the Syndicate's auditor and its associated costs are detailed below:

	2015 £000	2014 £000
Auditors' remuneration:		
Fees payable to the auditor for the audit of the Syndicate's annual accounts and Lloyd's returns	**516**	516
Fees payable to the auditor for other services pursuant to legislation	**362**	352
Total	**878**	868

9. Staff numbers and costs

All Syndicate staff are employed by ERS ASL. The following amounts were charged to the Syndicate in respect of salary costs:

	2015 £000	2014 £000
Wages and salaries	**25,395**	25,300
Social security costs	**2,509**	2,342
Other pension costs	**1,365**	1,351
Other	**4,810**	4,595
Total	**34,079**	33,588

The average number of staff employed by ERS ASL but working for the Syndicate during the year was as follows:

	2015 £000	2014 £000
Underwriting	**220**	213
Claims	**321**	290
Administration	**104**	114
Total	**645**	617

10. Emoluments of the directors of ERS Syndicate Management Limited

Net operating expenses include the following amounts charged to the Syndicate in respect of the directors of ERS SML:

	2015 £000	2014 £000
Aggregate emoluments	**1,300**	1,081
Pension contributions	**184**	153
Emoluments	**1,484**	1,234

No director has a contract notice period greater than one year.

The Active Underwriter for 2015 received the following remuneration charged as an expense to the Syndicate:

	2015 £000	2014 £000
Aggregate emoluments	**259**	250
Pension contributions	**37**	35
Emoluments – Active Underwriter	**296**	285

The emoluments of the highest paid director for 2015 were as follows:

	2015 £000	2014 £000
Aggregate emoluments	**316**	292
Pension contributions	**46**	42
Emoluments – Highest paid director	**362**	334

Key management compensation

Key management includes directors and members of senior management. The compensation paid or payable to key management for employee services is shown in the table below:

	2015 £000	2014 £000
Salaries and other short term benefits	**2,536**	2,001
Pension contributions	**263**	225
Total	**2,799**	2,226

11. Other financial investments

All financial instruments are designated at fair value through profit or loss on initial recognition.

	2015		2014	
	Fair value £000	**Cost £000**	Fair value £000	Cost £000
Designated at fair value through profit or loss				
Shares and other variable yield securities	**124,283**	**125,183**	125,128	125,964
Debt securities and other fixed income securities	**189,126**	**191,319**	264,657	264,142
Total	**313,409**	**316,502**	389,785	390,106

12. Investment return

	2015 £000	2014 £000
Investment income		
Income from financial assets at fair value through profit and loss	**574**	154
Net gains on realisation of investments	**3,627**	6,160
	4,201	6,314
Investment expenses and charges		
Other investment management expenses	**(953)**	(942)
	3,248	5,372
Net unrealised (losses)/gains on investments	**(1,533)**	6,594
Total investment return	**1,715**	11,966
Investment return is analysed between:		
Allocated investment return transferred to the general business technical account	**1,715**	11,966
Total investment return	**1,715**	11,966

13. Other Income

	2015 £000	2014 £000
Sale of Motor Breakdown brands	**3,600**	–
Total	**3,600**	–

14. Debtors arising out of direct insurance operations

	2015 £000	2014 £000
Due within one year:		
Policyholders	**76**	3,366
Intermediaries	**88,708**	65,796
Total	**88,784**	69,162

15. Other debtors

	2015 £000	2014 £000
Amounts due from related companies	**27,606**	20,416
Other	**5,615**	2,156
Total	**33,221**	22,572

Amounts include £2,800,000 due after one year (2014: Nil).

16. Overseas deposits

Overseas deposits comprise amounts lodged as a condition of conducting underwriting business in certain countries.

17. Other prepayments and accrued income

	2015 £000	2014 £000
Prepaid administrative expenses	**4,722**	3,513
Prepaid Lloyd's personal expenses and other charges	**3,389**	3,667
Total	**8,111**	7,180

18. Technical provisions

	2015 Gross provisions £000	2015 Reinsurance assets £000	2015 Net provisions £000	2014 Gross provisions £000	2014 Reinsurance assets £000	2014 Net provisions £000
Claims outstanding						
Balance at 1 January	**577,705**	**(163,538)**	**414,167**	616,010	(149,675)	466,335
Change in claims outstanding	**(6,855)**	**(57,298)**	**(64,153)**	(38,275)	(13,839)	(52,114)
Change in other technical provisions	**–**	**(20,249)**	**(20,249)**	–	–	–
Quota share adjustment	**–**	**–**	**–**	–	(31)	(31)
Effect of movements in exchange rates	**–**	**–**	**–**	(30)	7	(23)
Balance at 31 December	**570,850**	**(241,085)**	**329,765**	577,705	(163,538)	414,167
Claims notified	**503,957**	**(149,386)**	**354,571**	499,674	(118,023)	381,651
Claims incurred but not reported	**66,893**	**(71,450)**	**(4,557)**	78,031	(45,515)	32,516
Other technical provisions	–	**(20,249)**	**(20,249)**	–	–	–
Balance at 31 December	**570,850**	**(241,085)**	**329,765**	577,705	(163,538)	414,167
Unearned Premium						
Balance at 1 January	**196,262**	**(10,309)**	**185,953**	208,086	(21,975)	186,111
Change in unearned premiums	**10,591**	**(607)**	**9,984**	(11,824)	11,666	(158)
Balance at 31 December	**206,853**	**(10,916)**	**195,937**	196,262	(10,309)	185,953

Other technical provisions relate to the TPRe reinsurance recoverables.

19. Discounted Claims

The claims relating to PPOs have been discounted as follows:

Class of business	Discount rates 2015	Discount rates 2014	Mean term of liabilities 2015	Mean term of liabilities 2014
Motor	**3.0%**	3.5%	**7.6 years**	7.8 years

The period that will elapse before claims are settled is determined using impaired mortality tables.

The claims provisions before discounting are as follows:

	2015 £000	2014 £000
Total claims provisions before discounting	**670,207**	669,521
Reinsurers' share of total claims provisions before discounting	**(319,628)**	(240,599)
Net claims provisions before discounting	**350,579**	428,922

20. Creditors arising out of direct insurance operations

	2015 £000	2014 £000
Due within one year:		
Intermediaries	**1,134**	2,249
Total	**1,134**	2,249

21. Other creditors including taxation and social security

	2015 £000	2014 £000
Due within one year:		
Amounts due to tax authorities	**8,783**	5,784
Other	**467**	70
Total	**9,250**	5,854

22. Reconciliation of operating profit to net cash outflow from operating activities

	2015 £000	2014 £000
Profit for the financial year	**6,003**	8,327
Increase/(decrease) in net technical provisions	**3,735**	(50,128)
(Increase) in reinsurers' share of technical provisions	**(78,154)**	(2,197)
(Increase)/decrease in debtors	**(29,915)**	10,307
Decrease in creditors	**(651)**	(16,538)
Increase/(decrease) in other assets/liabilities	**556**	(204)
Investment return	**(1,541)**	(12,106)
Other movements	**(941)**	(1,158)
Net cash outflow from operating activities	**(100,908)**	(63,697)

23. Capital management

The Syndicate's objectives, policies and processes for managing capital are disclosed in the Report of the managing agent.

24. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on Prudential Regulation Authority ("PRA") requirements and resources criteria. From 2013, these resources have been calculated by Lloyd's under the rules of the Solvency II regime.

The resource calculation 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 control of the managing agents, no amount has been shown in these annual accounts for such capital resources. However, managing agents are able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

25. Syndicate structure

The Managing Agent of the Syndicate is ERS SML whose immediate parent undertaking is ERS Insurance Group Limited ("ERS IGL").

The ultimate UK parent undertaking of the largest and smallest group of companies for which group accounts are drawn up is ERS DGB Limited ("ERS DGB"). Copies of ERS DGB's financial statements can be obtained from the Company Secretary at 52-54 Leadenhall Street, London, EC3A 2BJ.

26. Related parties

Nicholas C T Pawson

Nicholas C T Pawson, a director of ERS SML, is a Name on Syndicate 218. His participation is as follows:

Year of account	£
2016	344,659
2015	335,087
2014	418,859
2013	418,859

Syndicate service companies

The following companies place the majority or all of their business with the Syndicate:

ERS (A&H) Limited ("ERS A&H")

ERS A&H is wholly owned by ERS IGL and is an Appointed Representative of ERS SML, and is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and PRA. No director of the Managing Agent has received any benefit for acting as a director of ERS A&H.

The estimated premium income arising from business placed through ERS A&H is set out below:

Calendar year	£000
2015	10
2014	65
2013	2,054

The estimated premium income arising from business placed through ERS A&H included within the 2013 closed year of account is £2,629,834.

No balance is outstanding at the year end.

The company ceased to write new business with effect from 1 January 2014.

ERS Syndicate Services Limited ("ERS SSL")

ERS SSL acts as a service company for the Syndicate.

The Managing Agent does not receive any direct income from ERS SSL, which became an Appointed Representative of ERS SML on 14 January 2005, and is authorised by the PRA and regulated by the FCA and PRA. No director of the Managing Agent has received any benefit for acting as a director of ERS SSL.

ERS SSL recharged certain expenses by way of commissions to the Syndicate during the year as follows:

Calendar year	£000
2015	60,308
2014	61,487
2013	56,900

From 1 January 2015, ERS SSL charged the Syndicate £16,737,205 of claims handling costs. Prior to 1 January 2014, claims handling costs were recharged to the Syndicate via ERS Claims Limited.

ERS SSL recharged expenses in respect of the 2013 closed year of account the amount of £65,106,466.

At the year end £27,527,083 was owed to the Syndicate, of which £2,952,708 related to the 2013 closed year of account.

ERS DGB Limited ("ERS DGB")

There were no recharges to the Syndicate from ERS DGB during 2015.

No balance is outstanding at the year end.

ERS Corporate Member Limited ("ERS CML")

ERS DGB conducts its underwriting business at Lloyd's via ERS CML, which is a fully owned subsidiary of the ERS DGB Group.

26. Related parties (continued)

ERS CML provides dedicated corporate capacity for the Syndicate as follows:

Year of account	£000
2016	219,361
2015	213,269
2014	291,966
2013	286,994

A decision was taken by the Managing Agent to reduce the Syndicate capacity for the 2015 year of account by 20% from £437.6m to £350.1m. AXE Insurance PCC Limited, acting on behalf of Securis provided £23.0m of membership capacity (6.57%) in the form of a quota share of ERS CML reducing the ERS CML capital requirement.

The Syndicate capacity increased by £10.0m to £360.1m for the 2016 year of account, of which AXE Insurance PCC Limited provided £23.7m of membership capacity (6.57%).

The company's share of the profit for the year payable by the Syndicate is £4,806,800. The company's share of the 2013 closed year of account profit is £7,018,915.

ERS Syndicate Management Limited ("ERS SML")

Total fees payable to ERS SML in respect of services provided to the Syndicate amounted to £3,936,235. The fees in respect of the 2013 closed year of account amounted to £4,372,785.

At the year end £75,560 was owed to the Syndicate, of which £69,376 related to the 2013 closed year of account.

Syndicate brokers

Following the ballot of members of the Syndicate in January 2001, Lloyd's confirmed that it will not regard the retention of profits by ERS DGB Group owned brokers as a breach of the fiduciary duties of the Managing Agent. Therefore, as from 1 January 2001, all such brokers operate on an arm's length basis.

ERS Administration Services Limited ("ERS ASL")

All expenses not paid directly by the Syndicate nor ERS SSL are paid for by ERS ASL. In accordance with the Managing Agent's current syndicate expense policy, which complies with the Lloyd's Code of Practice, directly attributable expenses are recharged to the Syndicate, while other costs are allocated on an equitable basis. No profits arise from these accounting treatments.

ERS ASL recharged the Syndicate £467,581 during 2015, which remains outstanding at the year end, and does not relate to the 2013 closed year of account.

ERS Claims Limited ("ERS CL")

From 1 January 2014 ERS CL ceased to charge the Syndicate for claims handling costs. Previous to this ERS CL handled claims on behalf of ERS SSL. The following amounts were recharged to ERS SSL in respect of claims handling costs:

Calendar year	£000
2015	–
2014	–
2013	12,570

ERS SSL was recharged £3,848,859 in respect of the 2013 closed year of account.

No balance is outstanding at the year end.

ERS Properties Limited ("ERS PL")

ERS PL is a subsidiary of ERS IGL. It acquired, for its own benefit and at its own risk, the freehold of a property under development in Brentwood on 31 March 1989. On 13 November 2015, ERS PL accepted an offer from a third party of £6.3m for the sale of its freehold property, Library House, its former head office that became vacant following the relocation to London. The rental is on an arm's length basis at a level set by an independent chartered surveyor. The rental charged to the Syndicate ceased from 1 January 2016.

The following rental was charged to ERS SSL on behalf of the Syndicate:

Calendar year	£000
2015	458
2014	460
2013	602

Rental in respect of the 2013 closed year of account is £668,966. No balance is outstanding at the year end.

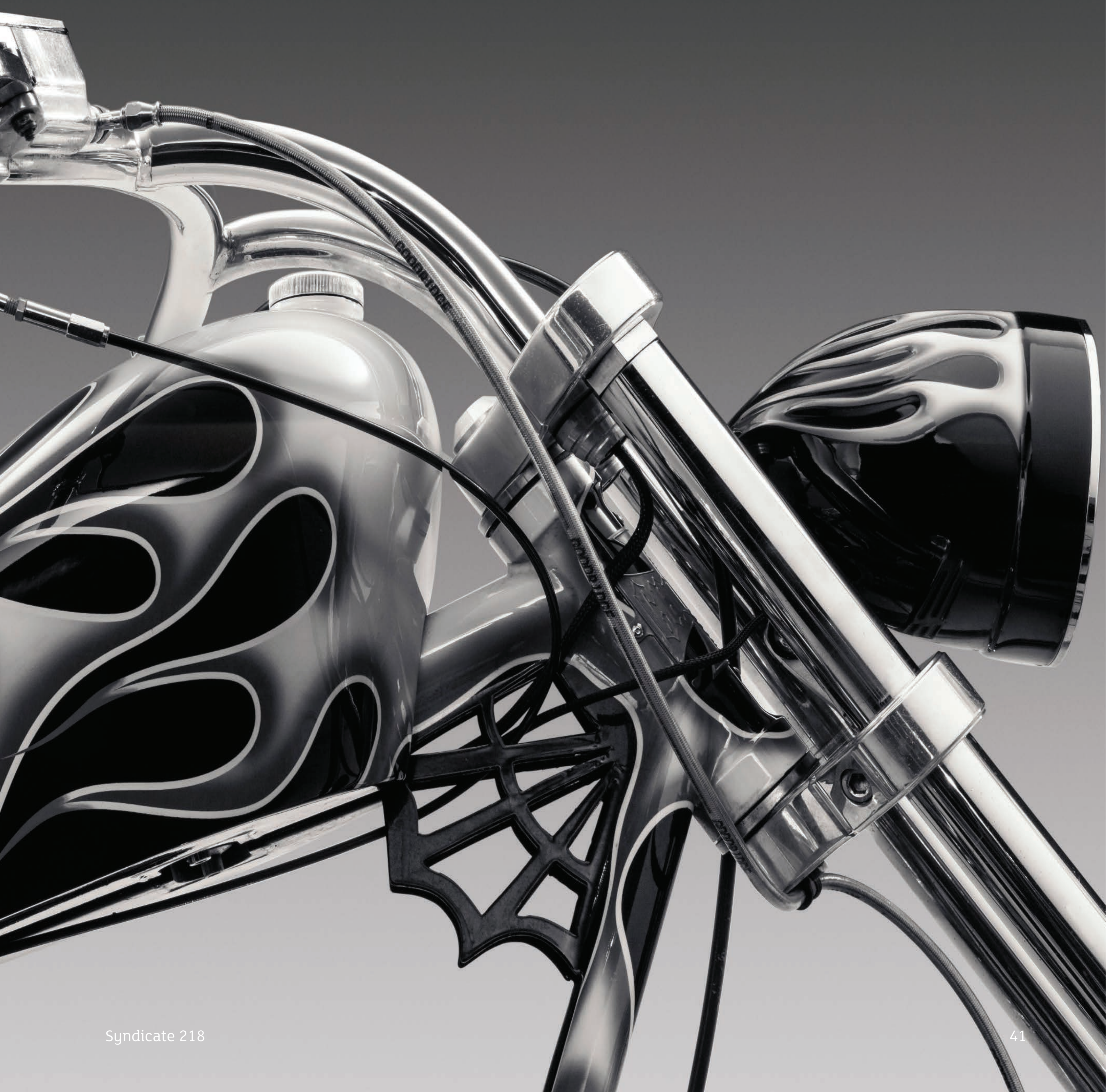
27. Transition to FRS 102

This is the first year that the Managing Agent has presented its results under FRS 102. The last financial statements prepared under previous UK GAAP were for the financial year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. On transition to FRS 102 the Managing Agent has made no changes to its accounting policies. There was no impact on the Syndicate's profit or net assets for the financial year or preceding year on transitions to FRS 102.

Statement of cash flows

The cash flow statement reflects the presentation requirements of FRS 102, which is different to that prepared under FRS 1. In addition the cash flow statement reconciles to cash and cash equivalents whereas under previous UK GAAP the cash flow statement reconciled to cash. Cash and cash equivalents are defined in FRS 102 as "cash on hand and demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value" whereas cash is defined in FRS 1 as "cash in hand and deposits repayable on demand with any qualifying institution, less overdrafts from any qualifying institutions repayable on demand". The FRS 1 definition is more restrictive.

Underwriting Accounts for the 2013 closed year of account



Report of the managing agent

ERS Syndicate Management Limited ("ERS SML" or "the Managing Agent"), the managing agent of Syndicate 218 ("the Syndicate") presents its report for the 2013 closed underwriting year of account as at 31 December 2015.

This report is prepared in accordance with Lloyd's regulations and the Syndicate Accounting Byelaw.

Review of the 2013 closed year of account

The 2013 account has closed with a profit of £10,694,368 after personal expenses representing a profit on underwriting capacity of 2.5%. The profit attributable to business reinsured into the 2013 year of account was £16,793,373 representing a profit on underwriting capacity of 3.8%. The pure 2013 underwriting year (excluding the 2012 and prior years which reinsured into 2013) has generated a loss of £6,099,005 (1.4% of underwriting capacity) which is a deterioration on the original Syndicate Business Forecast expected profit of 3.6% of underwriting capacity. However this business forecast was prepared prior to change of control which approved a revised plan to reduce gross written premium by £38.8m and a transformation program which increased expenses.

Review of the business

During the period, the Managing Agent focused on delivering an extensive programme of business remediation and enhancing core capabilities. The primary objective of these actions was to drive a material improvement in the financial performance of the Syndicate following the losses reported in the 2008 to 2011 years of account and return the Syndicate back to profitability.

During 2015, the business completed the transformation programme that has been ongoing since change of control in April 2013. This transformation was a critical stage in the turnaround of the business to establish a sustainable profitable platform. The final deliverables to complete the transformation during 2015 were:

- replacement of legacy IT applications, including a claims, policy and broker ledger system;
- exit of former outsourced IT service providers;
- consolidation of office locations from 3 to 2;
- relocation of the head office to London; and
- operational efficiency through a reduction in the number of roles in the South East of England and growth in South Wales.

Disclosure of information to the auditors

The directors of ERS SML who held office at the date of approval of the Report of the managing agent confirm that, so far as they are aware, there is no relevant audit information of which the Syndicate's auditors are unaware, and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Syndicate auditors

The Syndicate's auditors, PricewaterhouseCoopers LLP, are deemed reappointed under the provisions of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

By order of the Board:

Mark H Bacon
Active Underwriter

14 March 2016

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the managing agent's report and the syndicate underwriting year accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("IAD") requires the managing agent to prepare syndicate underwriting year accounts at 31 December, in respect of any underwriting year which is being closed by reinsurance to close, which gives a true and fair view of the results of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ("FRS 102"), as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No.8 of 2005).

In preparing these syndicate underwriting year accounts, the managing agent is required to:

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

The managing agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the Regulations. 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 business website. Legislation in the United Kingdom governing the preparation and dissemination of the syndicate underwriting year accounts may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Syndicate 218 – 2013 closed year of account

Report on the syndicate underwriting year accounts

Our Opinion

In our opinion, Syndicate 218's syndicate underwriting year accounts for the 2013 year of account for the three years ended 31 December 2015 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's profit for the 2013 closed year of account; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

What we have audited

The syndicate underwriting year accounts, included within Syndicate 218 Report and Accounts 2015 (the "Annual Report"), comprise:

- the statement of comprehensive income;
- the balance sheet as at 31 December 2015;
- the cash flow statement;
- the statement of changes in members' balances;
- the notes to the syndicate underwriting year accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate underwriting year accounts is applicable law and United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) we are required to report to you if, in our opinion:

- the Managing Agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the syndicate underwriting year accounts and the audit

Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 43, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the financial reporting framework described above and for being satisfied that they give a true and fair view of the result for the 2013 closed year of account.

Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of syndicate underwriting year accounts involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate underwriting year accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating disclosures in the syndicate underwriting year accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Matthew Nichols
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP,
Chartered Accountants and Statutory Auditors
London

15 March 2016

Statement of comprehensive income – technical account for general business

	Note	£000
Syndicate allocated capacity		**437,278**
Earned premiums, net of reinsurance		
Gross premiums written	2	**425,243**
Outward reinsurance premiums		**(77,809)**
Earned premiums, net of reinsurance		**347,434**
Reinsurance to close premium received, net of reinsurance	3	**207,728**
Allocated investment return transferred from the non-technical account	11	**6,815**
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		**(271,448)**
Reinsurers' share		**20,434**
Net claims paid		**(251,014)**
Reinsurance to close premium payable, net of reinsurance	4	**(147,256)**
Claims incurred, net of reinsurance		**(398,270)**
Net operating expenses	2,5	**(156,864)**
Balance on the technical account for general business		**6,843**

All items relate to continuing operations.

The notes on pages 51 to 54 form an integral part of these underwriting accounts.

Statement of comprehensive income – non-technical account

	Note	£000
Balance on the technical account for general business		**6,843**
Investment income	11	**5,559**
Unrealised gains on investments	11	**9,297**
Investment expenses and charges	11	**(1,126)**
Unrealised losses on investments	11	**(6,915)**
Allocated investment return transferred to technical account for general business	11	**(6,815)**
Other income	12	**4,000**
Other charges, including value adjustments		**(149)**
Profit for the 2013 closed year of account		**10,694**

There are no differences between the profit for the financial period stated above and their historical cost equivalents and the statement of comprehensive income for the period.

The notes on pages 51 to 54 form an integral part of these underwriting accounts.

Balance sheet

	Note	£000
Assets		
Investments	6	**136,317**
Debtors	7	**10,441**
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	**201,712**
		348,470
Other assets		
Cash at bank and in hand		**9,756**
Overseas deposits	8	**391**
Accrued interest and rent		**1,354**
Total assets		**359,971**
Liabilities		
Amounts due to members		**(9,454)**
Gross reinsurance to close premium payable	4	**(348,968)**
Other creditors including taxation and social security	9	**(949)**
Accruals and deferred income		**(600)**
Total liabilities		**359,971**

The notes on pages 51 to 54 form an integral part of these underwriting accounts.

The underwriting year accounts on pages 46 to 50 were approved by the Board on 14 March 2016 and signed on behalf of the Syndicate’s managing agent by:

Katharine A Wade
Finance Director

14 March 2016

Cash flow statement

	Note	£000
Net cash outflow from operating activities	13	**(36,282)**
Cash flow from investing activities		
Purchase of equity and debt instruments		**(287,384)**
Sale of equity and debt instruments		**327,140**
Investment income received		**6,400**
Net cash generated from investing activities		**46,156**
Cash flow from financing activities		
Transfer from members in respect of underwriting participations		**(118)**
Net cash used in financing activities		**(118)**
Net increase in cash at bank and in hand		**9,756**
Cash and cash equivalents at the beginning of the period		**–**
Cash and cash equivalents at the end of the period		**9,756**
Cash and cash equivalents consist of:		
Cash at bank and in hand		**9,756**
Cash and cash equivalents		**9,756**

Statement of changes in members' balances

	£000
2012 year of account	
Members' balances brought forward at 31 December 2014	**118**
Payment of the result to members' personal reserve funds	**(118)**
Amounts due to members carried forward at 31 December 2015	**–**
2013 year of account	
Profit for the 2013 closed year of account	**10,694**
Members' agent fees paid on behalf of members	**(1,240)**
Amounts due to members carried forward at 31 December 2015	**9,454**
Combined amount due to members carried forward at 31 December 2015	**9,454**

Notes to the accounts

1. Accounting policies

Basis of preparation

These accounts have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable Accounting Standards in the United Kingdom, comprising Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS102") as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2013 year of account which has been closed by reinsurance to close as at 31 December 2015. Consequently the balance sheet represents the assets and liabilities of the 2013 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three year period until closure. These accounts cover the three years from the date of inception of the 2013 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

The underwriting accounts for each year of account are normally kept open for three years before the result for that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close ("RITC") premium to the successor year of account.

These accounts relate to the 2013 closed year of account, which has been closed by RITC as at 31 December 2015. Consequently the balance sheet represents the assets and liabilities of the 2013 year of account at the date of closure. These accounts therefore cover transactions in the three years from the date of inception of the 2013 year of account to the closure date of 31 December 2015. As each syndicate year of account is a separate annual venture, this is the only reporting period and so corresponding amounts are not shown.

Accounting policies

The accounting policies adopted are the same as those disclosed in the annual report and accounts with the exception of:

Claims

Gross claims paid include internal and external claims settlement expenses, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers.

These are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

The net RITC premium is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

2. Segmental analysis

2013 closed year of account	Gross premiums written £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:					
Accident and health	3,406	(997)	(1,895)	(75)	439
Motor (third party liability)	–	1	–	–	1
Motor (other classes)	376,201	(241,281)	(134,618)	935	1,237
Fire and other damage to property	26,872	(11,961)	(13,081)	(1,782)	48
Other	18,742	(9,139)	(7,397)	(47)	2,159
	425,221	(263,377)	(156,991)	(969)	3,884
Reinsurance accepted	22	(5,088)	127	1,083	(3,856)
Total	**425,243**	**(268,465)**	**(156,864)**	**114**	**28**

Gross operating expenses are the same as net operating expenses shown in the profit and loss account as no commission in respect of outwards reinsurance was received and offset in arriving at the net operating expenses.

The reinsurance balance comprises outward reinsurance premiums payable less reinsurance recoveries receivable.

3. RITC premium received, net of reinsurance

	£000
2012 year of account	
Provision for reported claims	**292,990**
Provision for IBNR	**58,961**
Gross RITC received	**351,951**
Provision for reported claims – reinsurers' share	**(103,664)**
Provision for IBNR – reinsurers' share	**(40,559)**
Other technical provisions – reinsurers' share	**–**
Reinsurance recoveries anticipated on gross RITC premium received	**(144,223)**
RITC premium received, net of reinsurance	**207,728**

4. RITC premium payable, net of reinsurance

	£000
2013 year of account	
Provision for reported claims	**280,873**
Provision for IBNR	**68,095**
Gross RITC payable	**348,968**
Provision for reported claims – reinsurers' share	**(130,673)**
Provision for IBNR – reinsurers' share	**(55,031)**
Other technical provisions – reinsurers' share	**(16,008)**
Reinsurance recoveries anticipated on gross RITC premium payable	**(201,712)**
RITC premium payable, net of reinsurance	**147,256**

Other technical provisions – reinsurers' share relate to the TPRe reinsurance recoverables.

5. Net operating expenses

	£000
Acquisition costs	141,580
Administrative expenses	5,469
Members' standard personal expenses	7,278
Auditors' remuneration	831
Directors' remuneration	1,706
Total	**156,864**

6. Investments

	Fair value £000	Cost £000
Designated at fair value through profit or loss		
Shares and other variable yield securities	53,936	54,377
Debt securities and other fixed income securities	82,381	83,411
Total	**136,317**	**137,788**

All financial instruments are designated at fair value through profit or loss on initial recognition.

7. Debtors

	£000
Due from intermediaries	6,879
Arising out of reinsurance operations	537
Due from service companies	2,953
Other	72
Total	**10,441**

8. Overseas deposits

Overseas deposits comprise amounts lodged as a condition of conducting underwriting business in certain countries.

9. Other creditors including taxation and social security

	£000
Due to intermediaries	(716)
Arising out of reinsurance operations	24
Other	(257)
Total	**(949)**

10. Discounted claims

The claims relating to PPOs have been discounted as follows:

Class of business	Discount rate	Mean term of liabilities
Motor	**3.0%**	**8.0 years**

The period that will elapse before claims are settled is determined using impaired mortality tables.

The claims provisions before discounting are as follows:

	£000
Total claims provisions before discounting	432,177
Reinsurers' share of total claims provisions before discounting	(268,648)
Net claims provisions before discounting	**163,529**

11. Investment return

	£000
Investment Income	
Income from financial assets at fair value through profit and loss	**439**
Net gains on realisation of investments	**5,120**
	5,559
Investment expenses and charges	
Other investment management expenses	**(1,126)**
	4,433
Net unrealised gains on investments	**2,382**
Total investment return	**6,815**
Investment return is analysed between:	
Allocated investment return transferred to the general business technical account	**6,815**
Total investment return	**6,815**

12. Other income

	£000
Rights to renew business	4,000
Total	**4,000**

13. Reconciliation of profit for the year of account to net cash outflow from operating activities

	£000
Profit for the closed year of account	**10,694**
Decrease in debtors	**643**
Increase in creditors	**209**
Non-cash consideration for net RITC received	**(186,970)**
RITC premium payable, net of reinsurance	**147,256**
Decrease in other assets	**478**
Investment return	**(7,353)**
Other movements	**(1,239)**
Net cash outflow from operating activities	**(36,282)**

14. Related parties

Information regarding related parties of the Syndicate is disclosed on pages 39 to 40.

Seven year summary of results

	2007 closed	2008 closed	2009 closed	2010 closed	2011 closed	2012 closed	2013 closed
Syndicate allocated capacity (£'000)	420,004	420,073	452,082	485,906	485,976	436,931	437,278
Number of members of the Syndicate	1,403	1,370	1,367	1,384	1,471	1,412	1,390
Aggregate net premiums (£'000)	553,296	481,735	566,131	585,737	499,876	418,546	347,434
Result for a member with an illustrative share of £10,000:							
Gross premiums	13,823	12,159	13,287	12,704	10,938	9,932	9,725
As a percentage of allocated capacity	138%	122%	133%	127%	109%	99%	97%
Net premiums	13,174	11,457	12,523	12,055	10,286	9,579	7,945
As a percentage of allocated capacity	132%	115%	125%	121%	103%	96%	79%
Premiums for the reinsurance to close an earlier year of account	2,719	1,707	3,037	5,137	4,971	5,427	4,750
Net claims	(11,038)	(11,975)	(8,880)	(10,213)	(8,120)	(6,793)	(5,740)
Reinsurance to close year of account	(1,709)	(3,265)	(5,521)	(4,972)	(4,880)	(4,754)	(3,368)
Underwriting result	3,146	(2,076)	1,159	2,007	2,257	3,459	3,587
As a percentage of gross premiums	23%	(17)%	9%	16%	21%	35%	37%
Syndicate operating expenses	(3,533)	(3,777)	(3,857)	(4,183)	(3,619)	(3,464)	(3,333)
Net underwriting result	(387)	(5,853)	(2,698)	(2,176)	(1,362)	(5)	254
As a percentage of gross premiums	(3)%	(48)%	(20)%	(17)%	(12)%	0%	3%
Investment return	646	145	92	286	283	188	156
Profit/(loss) before personal expenses	259	(5,708)	(2,606)	(1,890)	(1,079)	183	410
Illustrative personal expenses	(251)	(208)	(196)	(190)	(177)	(152)	(166)
Illustrative profit commission	(1)	–	–	–	–	–	–
Profit/(loss) after illustrative profit commission and personal expenses (£)	**7**	**(5,916)**	**(2,802)**	**(2,080)**	**(1,256)**	**31**	**244**

Notes:

1. The illustrative profit commission and personal expenses are estimates of amounts which might be charged on a share of £10,000.
2. The effect of any minimum charges on personal expenses or deficit clauses on profit commission has been ignored.
3. From the 2010 year of account onwards investment expenses are included within Investment return as a result of a change in accounting basis. The 2009 and prior results have not been restated.
4. The 2008 year of account was closed at 48 months.
5. Syndicate operating expenses include foreign exchange differences and other non-technical income and charges.

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