Important information about Syndicate Reports and Accounts

Providing Equity Insurance

Syndicate 218

Report and Accounts 2016

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.**

Contents

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 Christopher E Watson
Company secretary	James D S Adams
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 2016 Financial Year

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 2016.

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 2014 year of account that has closed at 31 December 2016 are included from page 45.

Strategic Review

Principal activity

Syndicate 218 has a clear strategy of being a specialist motor-only broker-only insurer, focused on delivering sustainable profitable returns. It has a strong brand, ERS, and offers a broad range of specialist motor insurance products for the UK personal lines and commercial segments. The broad product base provides risk diversity between the classes and assists in easing the performance impact of the cyclical nature of the UK motor insurance market.

ERS offers specialised products to private and commercial customer groups in the UK with bespoke motor insurance needs. A broad range of products across different customer segments provides risk diversification benefits.

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

2016 – a year of progress

2016 marked the next phase of development for ERS moving from transformation to growth with a continued focus on specialism and profitable underwriting as well as a commitment to driving continued operational efficiency.

This sharper focus on business growth comes at the right time to make the most of the opportunities arising in the market, which are driven by the ongoing market inflationary pressures, recent insurer failures or exits from the market, and the dislocation caused by the recent announcement of the Ogden discount rate change.

To this end, the executive team has looked at ERS's market positioning and have identified four key elements to the strategy.

1. ERS is deliberately different. The combination of being the largest specialist motor insurer in Lloyd's, the focus on drivers with needs that are different or more intricate and the investment in expert underwriters and claims specialists creates an offering that is distinct from anyone else in the market. As a result we continue to seek out risks where proficiency of underwriting is front and centre and develop solutions to meet specific needs while generating profitable growth.
2. ERS has strong broker relationships. Although motor insurance is a must-have, customers should never be under or over insured – an issue that is becoming more prevalent with the use of internet self-fulfillment. We are committed to distribution solely through specialist brokers – whose knowledge and understanding of their market and customers together with our underwriting and claims capability and capacity continues to drive mutual and sustainable relationships.
3. Over the last three years, ERS has invested in a state of the art IT system to support its growth. This system is now embedded and will continue to be refined and developed to improve efficiency still further. There is no legacy IT in the business.
4. In a year that has seen the collapse of three motor underwriters and other carriers continuing to compete on price alone we believe it's vital that credit strength prevails in the UK motor market. We remain committed to being a sustainable business whose consistent underwriting approach, together with Lloyd's A+ rating provides brokers and their customers protection in a volatile market.

Other significant events in 2016 are summarised below:

ERS has operations in both Swansea and London with London being the focus for market specialists and Swansea the focus for operational excellence. In January, we merged our Large Loss and Complex Personal Injury teams in London to manage claims in excess of £50,000; the remaining claims being handled in Swansea. The Counter-Fraud activities and the majority of the IT capability are also based in Swansea which is seen as a centre of excellence for insurance administration.

The last year has seen a transition from "transformation" to the "perform" phase that has been reflected in the make up of the Executive team. As part of our focus on underwriting, defining our propositions, taking them to market, and writing the business, ERS has added three new executives to the team. Gina Butterworth, Director of Underwriting, Jonathan Watson, Director of Marketing, and Alex Hardy, Sales Director, have all been appointed to strengthen the company.

The scale of organisational change delivered during this time has been all encompassing, through a wholescale IT redesign and implementation of a state of the art new underwriting and claims system, and complete infrastructure update, closing offices, relocation and significant redundancy programme, all of which marks the completion of the transformation phase.

In December, ERS celebrated 70 years in business and during the year provided cover for more than 750,000 vehicles and wrote more than 500,000 policies.

During 2016, ERS fully embraced all three pillars of Solvency II.

Market overview

2016 saw significant increases in premium rates. According to the ABI, the average premium for 2016 was 9.3% higher than in 2015.

Ogden discount rate change (Ogden)

The Lord Chancellor announced a change in the Ogden discount rate on 27 February 2017. This has had an impact on both claimants and all compensators of personal injury claims, including insurers.

The Damages Act 1996 specifies that the return to be expected from the investment of certain personal injury lump sum awards shall take into account such rate of return as may from time to time be prescribed. This is known as the Ogden discount rate.

The historical Ogden discount rates have been 4.5% from 1995, 3% from 1998, 2.5% from June 2001, and finally minus 0.75% to take effect from 20 March 2017.

The impact of this downward movement in Ogden discount rate from the current 2.5% to minus 0.75% has been reflected in the 2016 results and constitutes an additional 8.8% points on the combined ratio. The impact of this is a £33.4m increase in net earned claim reserves.

The ABI has confirmed that lowering the Ogden discount rate applied in catastrophic compensation claims from its current rate of 2.5% to minus 0.75% will have far-reaching consequences for millions of motorists and businesses and the NHS. The decision assumes that people investing over the long term and being professionally advised will do so in a way that guarantees that they will lose money in real terms.

Given the scale of these extra costs, rate increases across the industry are inevitable and have been immediate. The ABI estimate that up to 36 million individual and business motor insurance policies could be affected by this decision.

The government's plan to hold a new consultation on the Ogden discount rate setting framework commencing before Easter 2017 creates an element of uncertainty for insurers as the rate could move in either direction with no indication of timing.

Financial performance

The result for the year was a loss of £21.7m (2015: £6.0m profit) inclusive of the impact of the Ogden discount rate change (see later). Before the impact of Ogden, the profit for the year was £11.7m, an improvement on 2015.

Syndicate 218 delivered year on year growth in gross written premiums of 3%, whilst retaining underwriting discipline in a market which during 2016 has seen a number of unrated insurers fail and other insurers pick up this business on expiring terms. These results reflect the benefits of ERS's continued focus on specialism.

Investment returns were a pleasing 3.3%.

Key performance indicators

Syndicate 218's key financial indicators during the year were as follows:

Financial year £'000	2016 (post Ogden)	2016 (pre Ogden)	2015*	2014	2013
Gross Written Premium	406,103	406,103	393,675	387,732	406,253
Net Earned Premium	377,790	377,790	363,548	367,510	408,186
Claims Ratio **	79.2%	70.4%	68.1%	67.9%	72.0%
Commission Ratio	15.6%	15.6%	16.0%	17.4%	18.1%
Expense Ratio	13.7%	13.7%	15.7%	15.7%	17.6%
Combined Operating Ratio	108.5%	99.7%	99.8%	101.0%	107.7%

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

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

2016 pre-Ogden delivered a small improvement in combined ratio year on year.

Review of the business

Underwriting outlook

During the 2016 underwriting year, we undertook a significant amount of underwriting action which delivered 5.2% of rate increases and 4% in the form of exited schemes and other remedial action. The most significant action was taken in the private car, motorcycle and taxi product lines.

The 2016 financial year and the performance of Syndicate 218 have been defined by a significant amount of disruption and volatility in the UK motor market.

The most significant driver of market results (and those of ERS) was substantially higher than expected repair cost inflation. Historically, repair cost inflation (linked to parts and labour costs) have been largely predictable with inflation running at 2% to 3%. During 2016, we saw repair cost inflation approaching 10%. This unexpected outcome was a consequence of:

- Increasing costs and complexity in the materials and repair processes used in modern cars; and
- The Brexit vote impact on a weakened Sterling causing a rise in costs of imported parts.

This inflation impact extends to repairs of our customer vehicles and third party vehicles. See below for third party views on inflation seen.

Third Party Inflation Forecasts for 2017	Accidental Damage	Third Party Damage	Third Party Injury Capped £100k	Third Party Injury Excess £100k	All Heads of Damage
Pricewaterhouse Coopers	9.0%	5.0%	3.0%	1.0%	–
Ernst & Young	8.0%	5.0%	4.0%	4.0%	5.1%
Institute & Faculty of Actuaries	–	2.0-6.5%	–	–	–
Claims suppliers	6.0-7.5%	8.0% 5.0-6.0% for general damage	–	–	–

Alongside damage inflation, we have seen continued pressure on injury claims. The volume of injury claims 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 terms of the competitive landscape, 2016 saw the failure or exit of three offshore and unrated insurers, the most notable being Enterprise and Gable. These failures created some opportunity for growth as we selectively targeted profitable sections of these books. Our expectation is that we will see further failures during 2017 as the requirements of Solvency II and the Ogden discount rate change take effect.

We have focused the business in seven areas which we outline in more detail below.

Class of business spotlight

Private Car remains an extremely challenging segment despite the improvements seen in the rating environment. Double digit rate increases were seen across the market during 2016 and we delivered similar levels of rate strengthening. However, much of the improvement in the rating environment was consumed by the claims inflation seen in own and third party damage claims. Application fraud and aggressive claim farming continue to be prevalent in this segment and these factors are having an adverse impact on loss ratio performance. Nevertheless, we saw some improvements in our loss ratio performance during 2016. We will continue to drive rate increases in 2017 and will sacrifice volume in segments where we don't believe that adequate returns are available.

The **Bespoke and Classic Car** class focuses on the underwriting of enthusiast vehicle and non-standard private car and vans, including classic car, motorhome, kit cars and other risks of a non-standard nature. During 2016 we launched a selection of new propositions to the market, focusing on professional sports, entertainers and super cars. These new propositions underpin our specialist strategy and have shown very positive early trading results. Enthusiast vehicles continue to deliver good results, enabling continued planned growth and brand development in this space. The results in the segment for heavily convicted and high risk drivers has shown substantial improvement over 2015 with rate and underwriting increases of more than 15% being achieved during the year. A focus on bottom line will continue to be the priority for this segment in 2017.

The specialist **Agricultural** class saw a stabilising of premium volumes during 2016, 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 expertise and a strong market position with a number of key broker partners. The focus for 2017 is to leverage this position in the market to deliver profitable growth through a wider panel of specialist brokers.

The **Motorcycle book** faced a number of profitability challenges during 2015. Extensive work was undertaken during 2016 to rebuild core pricing and to remediate a number of adversely performing brokers. This focus led to a significant decline in premium volumes but on the plus side improved loss ratios. Our focus for 2017 is on maintaining premium income at this reduced level whilst we ensure that the remedial action has restored the book to profitability.

The **Motor Fleet** account showed steady premium growth during 2016 as we saw a number of our competitors located in unrated and offshore markets disappear. We also grew our share of niche segments such as bus and coach fleet. We also saw positive progress in terms of pricing levels with average rate increases seen through the year. Attritional loss ratios continued to be favourable but we have seen an unexpectedly high incidence of mid to large losses within the book.

Commercial Motor comprises taxi, haulage, bus, coach, showman and minibus. This book started to show strong improvements in loss ratios as an outcome of the extensive improvement actions taken in 2014 and 2015. The 2016 year has seen the benefit of these actions with clear improvements seen in the loss ratio performance of all products within the class. We have also seen some steady growth in the year, again benefitting from the failure of several unrated, offshore markets. The focus for 2017 is to drive further improvements in our loss ratio performance whilst seeking controlled growth, primarily in our minibus and specialist commercial vehicle products.

Motor Breakdown continued to deliver profitable results in 2016 but saw a large decline in trading volumes primarily due to the loss of one material broker relationship. The planned future growth of the product will be supported by a refreshed marketing campaign in 2017 to raise awareness of the product and attract new opportunities.

Capital

For the 2016 year of account, ERS Corporate Member Limited ("ERS CML") participated at 61.0%, with AXE Insurance PCC Limited acting on behalf of Securis renewing their tenancy for another year and responsible for 6.57% of capacity in 2017. This is their second year of participation. The remainder is owned by non-aligned Names.

£'000	Year of Account 2017	2016	2015	2014	2013
Syndicate Capacity	480,000	359,462	349,828	437,522	437,278
ERS CML Ownership	292,860	219,361	213,269	291,966	286,994
ERS CML Ownership	61.0%	61.0%	61.0%	66.7%	65.6%

Each member is required to provide capital sufficient to meet the syndicate's Economic Capital Assessment (ECA). Lloyd's rules require each member to hold sufficient capital across the particular member's interests at Lloyd's in aggregate, rather than at a syndicate level. A member's capital can be held through a combination of three available options. First, to be held in trust by Lloyd's, called Funds at Lloyd's (FAL). Second, to be held within and managed as syndicate funds, called Funds in Syndicate (FIS). Third, as a member's share of the members' balances on each syndicate on which it participates. As a result, because the capital requirement applies at an overall member level, the capital requirement in respect of Syndicate 218 is not disclosed in these accounts.

Syndicate capital is determined through the submission and agreement by Lloyd's of a Solvency Capital Requirement ("SCR") on an ultimate basis, 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

Syndicate 218's investments produced a return of £10.1m after expenses in 2016, equivalent to a 3.3% rate of return. This was an increase from £1.7m, equivalent to 0.4% during 2015. Total return includes net investment income, net realised gains and losses, net change in unrealised gains and losses, after deducting investment expenses.

The investment portfolio has performed well during 2016 despite economic uncertainties from Brexit and the outcome of the US presidential elections. The return was primarily due to the narrowing of credit spreads and the continued environment of low or sub-zero interest rates supporting bond performance.

Syndicate 218 investment assets totalled £301.8m on 31 December 2016 (£313.4m in 2015). Investment policy remains to invest predominantly in high-quality short-dated bonds and cash, with a maturity profile that reflects the predominantly short tail nature of underwriting commitments. Tactical allocations did not change significantly from the previous year.

Year of account forecasts

For the purposes of preparing the year of account forecasts to ultimate, Syndicate 218 has adopted the internal actuaries' best estimate outcomes as at 31 December 2016, which include implicit estimates of claims settled by Periodic Payment Orders ("PPO"). The directors of ERS SML have agreed an aggregate risk margin load of 5 .0% on net earned claim reserves.

As a percentage of underwriting capacity the 2014 year of account closed with a loss of 4.7%, an improvement over the forecast at the end of 2015. This result includes an adjustment for the impact of the change in Ogden discount rates.

As a percentage of underwriting capacity, the midpoint forecast to ultimate for the 2015 year of account is a loss of minus 4.9% with a best estimate profit of 0.1% and a worst estimate loss of minus 9.9%. This forecast reflects a deterioration on the forecast at year end 2015. This result includes an adjustment for the impact of the change in Ogden discount rates.

2017 Outlook

2017 will continue to build on the foundations created through our transformation, with an increased external market focus. We will be promoting clear propositions for each of our specialist products through a number of campaigns during the year to support growth of these classes.

The key focus areas for the year will remain on achieving differentiation through our specialisms, partnering with strategically aligned broker partners, and improving renewal retention rates.

The recent Ogden announcement whilst significantly impacting 2016 results, does provide many opportunities during 2017.

Rates across the board are increasing, with commercial classes and those classes with significant personal injury exposure being most impacted. Rate increases vary significantly by product with fluctuations between 3% and 18% but rates of an average of 10% are expected during the year as a direct result of Ogden.

Agile insurers, like ERS, who can react quickly in response to developments such as this and have the necessary financial strength, can benefit from the opportunities that will arise.

The market will see increasing excess of loss reinsurance costs during 2017, particularly those insurers with renewals after 1 January. The syndicate benefits from a risks attaching programme that has locked in cover for all policies incepting during 2017 and earlier. Any future increase in reinsurance costs will only impact policies incepting on or after 1 January 2018.

It is possible that smaller or less capitalised companies will consider whether it is worthwhile being in the market, and whether they have the capital to succeed in this market. There has already been one withdrawal from the Gibraltar market following the 27 February announcement.

ERS is well positioned to take full advantage of the opportunities posed.

Principal risks and uncertainties

Risk management

Effective risk management supports the achievement of the ERS SML'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 ERS SML's risk management processes and supports the Board and the Audit, Risk and Compliance Committee ("ARCC") in their responsibilities for risk and capital management.

ERS SML's risk management strategy puts structure around the risks to which Syndicate 218 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 Syndicate 218.

The ARCC supports the Board by overseeing the integration and effectiveness of the risk management and internal control framework in supporting ERS SML's strategic objectives, informing business plans and enabling the identification, assessment and monitoring of key risks in line with risk appetite. The ARCC monitors the maintenance of adequate capital for the risks associated with Syndicate 218's business activities.

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

Solvency II

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

The ERS SML'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. The internal model 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, risk mitigation, risk assessment and risk monitoring, and is used in the day-to-day operation of Syndicate 218.

Risk management culture

ERS SML 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;
- regular systems and controls reviews;
- policies relating to the key risk areas; and
- on-going monitoring of risk metrics and measures against risk appetite statements and tolerances.

The risk appetite and tolerance is set giving consideration to ERS SML'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 metrics and measures of the business are 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 and Internal Audit Function 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 Syndicate 218 is exposed.

The assessment of risk-based capital enables ERS SML 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 appetites and tolerances.

Key risks

Risks that could affect ERS SML's ability to meet its strategic objectives are identified on a continuous basis through the quarterly risk and control assessment process and the emerging risk process.

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

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

Strategic risk

ERS SML 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.

ERS SML 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

ERS SML defines insurance risk as the risk of fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. Syndicate 218's exposure to insurance risk arises from underwriting and pricing, concentration and reserving. While Syndicate 218 is exposed to concentrations of exposures, the geographical concentration of motor risks tends to be not very material.

ERS SML 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;
- 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;
- the Statement of Actuarial Opinion ("SAO") on claims reserve adequacy, as required by Lloyd's, is provided by an independent external actuarial firm.

Credit and counterparty risks

ERS SML defines credit and counterparty risk as the risk of default by debtors and transactional counterparties, as well as the loss in value of investment assets due to the deterioration in credit quality. Syndicate 218's exposure to credit risk arises from premium counterparty credit and other receivables, reinsurance counterparty credit and other recoveries, plus investment counterparty default.

ERS SML mitigates credit risk in the following ways:

- solvency strength of brokers, agents and other intermediaries are assessed regularly;
- credit ratings of reinsurers are reviewed and assessed prior to placing business with them;
- clear tolerance limits are set to maximise the amount of reinsurance placed with highly rated reinsurers and minimise exposure concentrations with less highly rated reinsurers;
- exposure limits for approved counterparties are reviewed regularly in relation to financial institution deposits and financial investments.

Market risk

ERS SML defines market risk as the risk of variation in the value of financial institution deposits and financial investments relative to the variation in the value of liabilities due to market movements.

ERS SML mitigates market risk in the following ways:

- investment assets are actively managed by externally appointed investment managers subject to approved guidelines, mandates and performance benchmarks;
- diversification of the investment portfolio across asset classes is achieved by limiting concentration limits for each asset class and its underlying counterparty ratings;
- interest rate risk is managed by varying the duration of the investment portfolio according to interest rate direction and limiting duration length;
- price risk is managed by limiting the value at risk of the portfolio at specified confidence intervals.
- exchange rate risk is largely not applicable as risks underwritten are predominantly Sterling denominated.

Liquidity risk

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

ERS SML 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 Syndicate 218's ongoing liquidity requirements; and
- stress testing of liquidity needs relative to major risk events.

Operational risk
ERS SML 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.

ERS SML 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 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
ERS SML defines conduct risk as the risk that Syndicate 218 or our 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 complaints management.

ERS SML 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 risk, 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.

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 is a Name on Syndicate 218 during 2016. Nicholas C T Pawson's participation on Syndicate 218 is disclosed at note 26.

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 2017.

By order of the Board:

Ryan Warren
Director

21 March 2017

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 require 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). Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, 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, subject to any material departures disclosed and explained in the syndicate annual accounts;
- 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 2016 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 2016, included within Syndicate 218 Report and Accounts 2016 (the "Annual Report"), comprise:

- the statement of comprehensive income for the year then ended;
- the balance sheet as at 31 December 2016;
- 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 and other explanatory information.

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 exceptions 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 the 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

21 March 2017

Statement of comprehensive income – technical account for general business

	Note	2016 £000	2015 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	**406,103**	393,675
Outward reinsurance premiums		**(23,146)**	(78,643)
Net premiums written		**382,957**	315,032
Change in the provision for unearned premiums			
Gross amount	20	**(7,185)**	(10,591)
Reinsurers' share	20	**2,018**	607
Change in the net provision for unearned premiums		**(5,167)**	(9,984)
Earned premiums, net of reinsurance		**377,790**	305,048
Allocated investment return transferred from non-technical account	11	**10,079**	1,715
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	20	**(297,609)**	(271,060)
Reinsurers' share	20	**19,640**	14,375
Net claims paid		**(277,969)**	(256,685)
Change in the provision for claims			
Gross amount	20	**(142,333)**	6,855
Reinsurers' share	20	**132,629**	57,298
Change in the net provision for claims		**(9,704)**	64,153
Claims incurred, net of reinsurance		**(287,673)**	(192,532)
Changes in other technical provisions, net of reinsurance	20	**(11,513)**	20,249
Net operating expenses	8	**(110,883)**	(131,914)
Balance on the technical account for general business		**(22,200)**	2,566

All amounts relate to continuing operations.

The notes on pages 20 to 43 form an integral part of these annual accounts.

Statement of comprehensive income – non-technical account

	Note	2016 £000	2015 £000
Balance on the technical account for general business		**(22,200)**	2,566
Investment return			
Investment income	11	**1,433**	4,201
Unrealised gains on investments	11	**10,468**	6,561
Investment expenses and charges	11	**(1,116)**	(953)
Unrealised losses on investments	11	**(706)**	(8,094)
Allocated investment return transferred to technical account for general business	11	**(10,079)**	(1,715)
Other income	12	**457**	3,600
Other charges, including value adjustments	12	**–**	(163)
(Loss)/profit for the financial year		**(21,743)**	6,003

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

The notes on pages 20 to 43 form an integral part of these annual accounts.

Balance sheet – assets

	Note	2016 £000	2015 £000
Investments			
Other financial investments	5(i)(p), 13	**301,799**	313,409
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	**12,934**	10,916
Claims outstanding	5(i), 20	**353,465**	220,836
Other technical provisions	20	**8,736**	20,249
		375,135	252,001
Debtors			
Debtors arising out of direct insurance operations	5(i), 14	**69,984**	88,784
Debtors arising out of reinsurance operations	5(i)	**1,560**	537
Other debtors	15	**37,720**	33,221
		109,264	122,542
Other assets			
Cash at bank and in hand	5(i)	**43,164**	21,698
Overseas deposits	5(i)(p), 16	**1,155**	391
		44,319	22,089
Prepayments and accrued income			
Accrued interest and rent		**1,678**	354
Deferred acquisition costs	17	**39,373**	38,334
Other prepayments and accrued income	18	**8,082**	8,111
		49,133	46,799
Total assets	5(k)	**879,650**	756,840

The notes on pages 20 to 43 form an integral part of these annual accounts.

Balance sheet – liabilities

	Note	2016 £000	2015 £000
Members' balances		**(69,442)**	(37,285)
Technical provisions			
Provision for unearned premiums	20	**214,038**	206,853
Claims outstanding	5(e)(o), 20	**713,183**	570,850
		927,221	777,703
Creditors			
Creditors arising out of direct insurance operations	5(o), 21	**2,872**	1,134
Creditors arising out of reinsurance operations	5(o)	**5,804**	4,185
Other creditors including taxation and social security	5(o), 22	**12,079**	9,250
		20,755	14,569
Accruals and deferred income	5(o)	**1,116**	1,853
Total liabilities	5(k)	**879,650**	756,840

The notes on pages 20 to 43 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 14 to 19 were approved by the Board on 21 March 2017 and signed on behalf of the Syndicate's managing agent by:

Katharine A Wade
Finance Director

21 March 2017

Cash flow statement

	Note	2016 £000	2015 £000
Net cash inflow/(outflow) from operating activities	23	**13,715**	(99,967)
Cash flow from investing activities			
Purchase of equity and debt instruments		**(76,706)**	(107,474)
Sale of equity and debt instruments		**93,503**	178,897
Investment income received		**1,368**	6,416
Net cash generated from investing activities		**18,165**	77,839
Cash flow from financing activities			
Transfer to members in respect of underwriting participations		**(9,456)**	(118)
Members' agents fees		**(958)**	(941)
Net cash used in financing activities		**(10,414)**	(1,059)
Net increase/(decrease) in cash at bank and in hand		**21,466**	(23,187)
Cash and cash equivalents at the beginning of the year		**21,698**	44,885
Cash and cash equivalents at the end of the year		**43,164**	21,698
Cash and cash equivalents consist of			
Cash at bank and in hand		**43,164**	21,698
Cash and cash equivalents		**43,164**	21,698

The notes on pages 20 to 43 form an integral part of these annual accounts.

Statement of changes in members' balances

	2016 £000	2015 £000
Members' balances brought forward at the beginning of the year	**(37,285)**	(42,229)
(Loss)/profit for the financial year	**(21,743)**	6,003
Payment of the result to members' personal reserve funds:		
2013 year of account	**(9,456)**	–
2012 year of account	**–**	(118)
	(68,484)	(36,344)
Members' agent fees paid in year	**(958)**	(941)
Members' balances carried forward at the end of the year	**(69,442)**	(37,285)

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.

The notes on pages 20 to 43 form an integral part of these annual accounts.

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.

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 preparation and 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.

Change in accounting estimates

During the year, the syndicate reclassified £13,485,000 of expenses from net operating expenses to claims paid. This reclassification reflects the change in the syndicate's expense allocation basis to match the increased operational focus on claims handling activities that is aimed at reducing claim severities.

The impact of this reclassification has been:

- To increase claims paid by £13,485,000 during the year ended 31 December 2016; and
- To decrease operating expenses by £13,485,000 during the year ended 31 December 2016.

This reclassification has had no impact on the result for the financial year in the Statement of Comprehensive Income, nor on members' balances in the Balance Sheet.

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 in the year that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earning patterns or time apportionment as appropriate.

(iii) Reinsurance premium ceded

Outwards reinsurance premiums earned are accounted for either over the coverage period, or in line with the risk profile to which the inward business being protected relates.

(iv) investment return

Investment return comprises interest, 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 by excluding 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.

(v) 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 Syndicate Management Limited ("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.

(vi) Taxation

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

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.

(vii) Foreign currency

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 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 period.

(viii) Financial instruments

The managing agent has chosen to adopt Sections 11 and 12 of FRS 102 in respect of 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 13 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 transactions costs being expensed through the technical account.

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.

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.

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.

(ix) 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.

(x) 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.

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

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.

(xi) Claims provision 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 syndicate 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.

(xii) Discounted claims provision
On periodic payment orders ("PPOs"), 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.

(xiii) 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.

(xiv) 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.

(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 20. 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

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

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 estimation of the following:

- the development of previously paid claims, where payments to date are extrapolated based upon observed development of earlier years;
- 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. The syndicate's management discusses and challenges the actuarial best estimate and booked claims provisions at the quarterly Reserving Committee and at the Audit and Risk Compliance Committee ("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 a Statement of Actuarial Opinion ("SAO") against which the syndicate's best estimate with a 5% risk margin load 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 syndicate less booked premiums at the balance sheet date. The carrying value amount of the accrual is £14.1m (2015: £17.2m).

(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 20.

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.

(a) 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.

(a)(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.

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

The syndicate purchases motor 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 cover purchased limits the loss arising from any one event to £2.5 million in respect of policies incepted during 2014, 2015 and 2016. 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 £2.0 million for 2011 and £1.0 million for 2010. All purchases of reinsurance are approved, in advance, by the ERS SML board of directors.

The syndicate has in place a whole account aggregate excess of loss reinsurance contract with Third Point Reinsurance Ltd. ("TPRe") for the 2010 to 2014 underwriting years of account covering losses during accident years 2010 through 2014.

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.

5. Management of insurance and financial risk (continued)

(a) Insurance risk management and control (continued)

(a)(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.

(a)(iv) Claims reserving

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

(b) Sources of uncertainty in the estimation of future claim payments

Claims on motor insurance contracts are payable on a loss-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. 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, with a 5% risk margin load on top of the best estimate. Independent calculations are performed by an external signing actuary, who also provides the Lloyd's SAO. The difference between the two valuations of net claims reserves for business earned at 31 December 2016 is 2.0% (31 December 2015: 2.2%).

The following key areas of uncertainties have been identified:

- Ogden discount rate review: The possible future movement in the personal injury discount rate, also known as Ogden tables, from its current discount rate of minus 0.75% is a key uncertainty. A consultation is scheduled to be held by the government in April 2017 with the aim of reforming the approach used in setting Ogden discount rates.
- Propensities for Periodic Payment Orders (PPOs): The propensity for PPO payments will vary based upon the associated Ogden discount rate. Claimants are likely to favour lump sum settlements in the presence of negative discount rates.

5. Management of insurance and financial risk (continued)

(b) Sources of uncertainty in the estimation of future claim payments (continued)

- Further inflation in claims costs: External factors could continue to increase claims costs, such as the depreciation of the pound affecting the prices of imported parts.

(c) Process used to decide on assumptions
In principle, the methodology is consistent with the approach in previous reviews.

Gross of reinsurance, projections are undertaken by class of business for property damage and personal injury with losses capped at £30k. For personal injury losses greater than £30k, these projections are undertaken for all classes in aggregate. The aim is the classification of claims into homogeneous groups based on their development and settlement characteristics.

Periodic payment order (PPO) claims are also analysed separately. Projections of PPO claims are performed on an underwriting year basis. In light of the recent change in the Ogden discount rate from 2.5% to minus 0.75% the propensity for PPO claims occurring in future are assumed to be 0%. For claims that have been reported, the costs for each claim are projected based on impaired mortality assumptions. Future projected payments are adjusted for wage inflation and investment return. The wage inflation assumption of 3% is based on publicly available information and the investment assumption of 3% is 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 three methods most commonly used are the Chain-ladder, Bornhuetter-Ferguson and Cape Cod 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 Cape Cod method is very similar to the Bornhuetter-Ferguson method. It is a more dynamic approach to estimating the initial a priori loss estimate by having the ability to adjust for trends seen in historical experience. 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 result of a single method, and in some cases are selected using a weighted average of different methods.

(d) 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 five 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 syndicate's management believes the estimated total claims outstanding are adequate at the end of the current year.

5. Management of insurance and financial risk (continued)

(e) Analysis of claims development – gross of reinsurance

Underwriting year	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimate of ultimate gross claims costs*:								
At end of reporting year	3,781,082	208,222	153,501	143,566	131,703	133,540	160,620	
One year later	4,032,869	406,977	297,674	283,826	277,730	310,479		
Two years later	4,041,444	393,155	285,714	281,283	304,552			
Three years later	4,084,569	392,082	278,870	289,954				
Four years later	4,097,992	390,225	286,880					
Five years later	4,093,874	403,272						
Six years or more later	4,126,220							
Current estimate of cumulative claims	4,126,220	403,272	286,880	289,954	304,552	310,479	160,620	5,881,977
Cumulative payments to date	3,973,814	349,075	236,399	220,256	190,845	155,083	43,322	5,168,794
Total gross provision included in the balance sheet	**152,406**	**54,197**	**50,481**	**69,698**	**113,707**	**155,396**	**117,298**	**713,183**

(f) Analysis of claims development – net of reinsurance

Underwriting year	2010 and prior £000	2011 £000	2012 £000	2013 £000	2014 £000	2015 £000	2016 £000	Total £000
Estimate of ultimate net claims costs*:								
At end of reporting year	3,417,877	194,957	150,161	135,703	126,461	125,486	141,002	
One year later	3,602,457	383,615	289,365	263,609	250,567	276,697		
Two years later	3,589,261	372,498	281,247	248,156	248,104			
Three years later	3,606,928	369,195	257,871	237,160				
Four years later	3,596,359	356,339	253,554					
Five years later	3,590,986	357,570						
Six years or more later	3,589,504							
Current estimate of cumulative claims	3,589,504	357,570	253,554	237,160	248,104	276,697	141,002	5,103,591
Cumulative payments to date	3,570,947	340,381	236,431	207,064	190,792	154,986	43,272	4,743,873
Total net provision included in the balance sheet	**18,557**	**17,189**	**17,123**	**30,096**	**57,312**	**121,711**	**97,730**	**359,718**

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

The syndicate 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.

The movements in 2016 have been affected by the change in the Ogden discount rate from 2.5% to minus 0.75% causing deteriorations in the gross position. The net impact to the syndicate is reduced due to the benefit of reinsurance.

5. Management of insurance and financial risk (continued)

(g) Sensitivity analysis on claim provisions

The syndicate's management makes estimates and assumptions concerning the future which have a 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 £1.9m (2015: £1.8m) decrease to the net claims outstanding 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 £7.1m (2015: £7.2m) decrease to the net claims outstanding and a corresponding increase in profit and net assets of the syndicate.

(h) Financial risk management and control

The syndicate's management sets risk appetite annually as part of the syndicate's business planning and capital setting process. The 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 8.

(i) 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:

- Brokers and intermediaries – Whereby counterparties fail to pass on premiums collected or claims paid on behalf of the syndicate.
- Reinsurers – Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by 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 while 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 acceptable levels of credit risk by placing limits on its exposure to singular and group counterparties, and to geographical and industry segments. Such risk limits are subject to regular review.

Brokers and intermediaries

Exposures to brokers and insurance intermediaries are 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. The syndicate also reduces its exposure to credit risk through broker de-concentration by increasing its broker count.

Reinsurers

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

During 2015, a £58.5m reinsurance premium was paid to TPRe and a corresponding reinsurance recovery of £58.5m recognised. In return, TPRe has placed the sum of £58.5m in a ring-fenced sole beneficiary trust fund which is custodied by BNY Mellon to mitigate credit risk failure.

Investments

Investments are primarily allowed only in liquid securities and with counterparties that have a credit rating equal to investment grade or better. Given the investment portfolio's high credit ratings, the syndicate does not expect any counterparty failures in meeting obligations.

The syndicate imposes guidelines on its external investment managers in relation to the constituents of the investment portfolios. These guidelines specify the acceptable asset classes, duration and credit ratings. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

5. Management of insurance and financial risk (continued)

(i) Credit risk (continued)

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

2016	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	**87,166**	**74,525**	**74,570**	**48,059**	**1,414**	**17,220**	**302,954**
Insurance debtors	**10,154**	**5,959**	**4,660**	**14,118**	**8,491**	**26,602**	**69,984**
Reinsurance debtors	**–**	**929**	**631**	**41**	**(39)**	**(2)**	**1,560**
Reinsurers' share of claims outstanding	**–**	**82,860**	**260,408**	**1,228**	**543**	**8,426**	**353,465**
Cash at bank and in hand	**89**	**1,884**	**351**	**40,705**	**–**	**135**	**43,164**
Total	**97,409**	**166,157**	**340,620**	**104,151**	**10,409**	**52,381**	**771,127**

2015	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	92,118	53,898	73,731	62,863	–	31,190	313,800
Insurance debtors	10,290	5,342	4,396	16,520	12,179	40,057	88,784
Reinsurance debtors	–	266	161	16	–	94	537
Reinsurers' share of claims outstanding	–	85,374	132,344	1,565	–	1,553	220,836
Cash at bank and in hand	–	321	620	20,757	–	–	21,698
Total	102,408	145,201	211,252	101,721	12,179	72,894	645,655

The syndicate has impacted 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.

Assets are classified as past due when the contractual payment is in arrears. An assessment is performed on all assets, based on the ageing maturity of these assets, which may result in an impairment charge in the statement of comprehensive income if the syndicate considers this to be appropriate.

2016	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 debtors	**36,066**	**32,717**	**754**	**762**	**1,240**	**(1,555)**	**69,984**
Reinsurance debtors	**1,560**	**–**	**–**	**–**	**–**	**–**	**1,560**
Reinsurers' share of claims outstanding	**355,462**	**–**	**–**	**–**	**–**	**(1,997)**	**353,465**
Total	**393,088**	**32,717**	**754**	**762**	**1,240**	**(3,552)**	**425,009**

5. Management of insurance and financial risk (continued)

(i) Credit risk (continued)

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 debtors	70,008	14,124	3,486	1,830	891	(1,555)	88,784
Reinsurance debtors	418	–	24	15	161	(81)	537
Reinsurers' share of claims outstanding	223,325	–	–	–	–	(2,489)	220,836
Total	293,751	14,124	3,510	1,845	1,052	(4,125)	310,157

(j) 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 syndicate engages external investment managers to actively manage the market risk associated with financial investments. Detailed guidelines imposed on the investment managers are in place and the ERS SML Board and its investment committee regularly monitor performance and risk metrics. Financial investments represent a significant proportion of the syndicate's assets and the syndicate's management monitors various performance and risk metrics.

(k) 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 (GBP), Canadian dollars (CAD), Euros (EUR) and US dollars (USD). Transactions in all other currencies are converted to UK pounds sterling on initial recognition.

Although over 99.5% of the insurance premiums are GBP-denominated, the syndicate has some exposure to non-GBP denominated insurance claims from its legacy run-off portfolios. The foreign exchange rate exposure is closely monitored from a liquidity and asset-liability matching standpoint.

The investment managers invest part of the GBP-denominated premium trust fund in non-GBP denominated investments which are fully hedged back to GBP using derivatives, thereby mitigating the foreign exchange risk.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

2016	**GBP £000**	**USD £000**	**CAD £000**	**EUR £000**	**Other £000**	**Total £000**
Total assets	**875,606**	**625**	**2,089**	**238**	**1,092**	**879,650**
Total liabilities and members' balances	**(880,271)**	**(61)**	**(273)**	**955**	**–**	**(879,650)**
Total	**(4,665)**	**564**	**1,816**	**1,193**	**1,092**	**–**

2015	GBP £000	USD £000	CAD £000	EUR £000	Other £000	Total £000
Total assets	754,156	281	1,421	982	–	756,840
Total liabilities and members' balances	(756,020)	(6)	(660)	(154)	–	(756,840)
Total	(1,864)	275	761	828	–	–

(l) Price risk

Shares, other variable yield securities and units in unit trusts that are recognised on the balance sheet at their fair values are susceptible to losses due to adverse changes in prices. This is referred to as price risk and forms part of credit and market risk.

Depending on the syndicate's risk appetite, these investments are well diversified within high quality, liquid securities. The syndicate imposes guidelines on its investment managers that sets out minimum credit ratings, maximum durations, diversification requirements across industry sectors, and concentration limits in any one industrial sector or counterparty.

5. Management of insurance and financial risk (continued)

(l) Price risk (continued)
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.

(m) Interest rate risk
The majority of the syndicate's investments comprise debt securities and other fixed income securities. The fair value of these securities are inversely correlated to interest rate movements. If interest rates fall, the fair value of the syndicate's securities 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.

The fair values of the syndicate's debt and fixed income securities are stated in note 13.

(n) Sensitivity analysis on 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 investments.

	2016 increase/(decrease) on profit and net assets £000	2015 increase/(decrease) on profit and net assets £000
Interest rate risk		
50 basis points increase in yield curve	**(2,877)**	(3,655)
50 basis points decrease in yield curve	**3,064**	3,860
Price risk		
5% increase in stock market prices	**88**	112
5% decrease in stock market prices	**(70)**	(159)

No sensitivity analysis has been presented for currency risk as the syndicate currently has minimal foreign currency risk.

(o) 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 converted 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 impacted liabilities. All liabilities are analysed in ageing maturity buckets based on contractual cash flows except for gross claims outstanding, which are analysed in ageing maturity buckets based on expected cash flows.

2016	**No stated maturity £000**	**0-1 year £000**	**1-3 years £000**	**3-5 years £000**	**> 5 years £000**	**Total £000**
Gross claims outstanding	**–**	**(172,720)**	**(204,143)**	**(108,795)**	**(227,525)**	**(713,183)**
Insurance creditors	**–**	**(2,872)**	**–**	**–**	**–**	**(2,872)**
Reinsurance creditors	**–**	**(5,804)**	**–**	**–**	**–**	**(5,804)**
Other creditors	**–**	**(12,079)**	**–**	**–**	**–**	**(12,079)**
Accruals and deferred income	**–**	**(1,116)**	**–**	**–**	**–**	**(1,116)**
Total	**–**	**(194,591)**	**(204,143)**	**(108,795)**	**(227,525)**	**(735,054)**

5. Management of insurance and financial risk (continued)

(o) Liquidity risk (continued)

2015	No stated maturity £000	0-1 year £000	1-3 years £000	3-5 years £000	> 5 years £000	Total £000
Gross claims outstanding	–	(164,455)	(172,082)	(77,888)	(156,425)	(570,850)
Insurance creditors	–	(1,134)	–	–	–	(1,134)
Reinsurance creditors	–	(4,185)	–	–	–	(4,185)
Other creditors	(1,421)	(7,829)	–	–	–	(9,250)
Accruals and deferred income	(1,853)	–	–	–	–	(1,853)
Total	(3,274)	(177,603)	(172,082)	(77,888)	(156,425)	(587,272)

(p) Fair value hierarchy

The syndicate has classified its financial investments using the fair value hierarchy in accordance with the FRS 102 amendments on “Fair value hierarchy disclosures” issued by the Financial Reporting Council on 8 March 2016.

The amended fair value hierarchy classifies financial instruments into Levels 1 through 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The classifications within the fair value hierarchy are defined as follows:

- Level 1 – Quoted price for an identical asset in an active market. This includes securities and financial investments that are priced based on unadjusted quoted prices in an active market for identical assets that can be accessed at the measurement date.
- Level 2 – Price of a recent transaction for an identical asset and valuation technique using observable market data. This includes securities and financial investments that are priced using valuation techniques based on direct or indirect observable market data, including market prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors.
- Level 3 – Valuation technique using unobservable market data. This includes securities and financial investments which are priced using valuation techniques incorporating unobservable market data.

2016	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Shares, other variable yield securities and units in unit trusts	**131,030**	**(1,831)**	**348**	**129,547**
Debt securities and other fixed income securities	**–**	**171,218**	**–**	**171,218**
Participation in investment pools	**1**	**393**	**–**	**394**
Overseas deposits	**1,092**	**703**	**–**	**1,795**
Total	**132,123**	**170,483**	**348**	**302,954**

2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	31,776	92,349	158	124,283
Debt securities and other fixed income securities	–	188,586	–	188,586
Participation in investment pools	315	–	–	315
Overseas deposits	616	–	–	616
Total	32,707	280,935	158	313,800

(q) Capital Management

The syndicate’s objectives, policies and processes for managing capital are disclosed in the Report of the Managing Agent.

6. Segmental analysis

2016	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance						
Accident and health	**(2)**	**(2)**	**(266)**	**–**	**51**	**(217)**
Motor (third party liability)	**–**	**–**	**(2)**	**–**	**–**	**(2)**
Motor (other classes)	**390,539**	**379,781**	**(430,170)**	**(104,794)**	**116,365**	**(38,818)**
Fire and other damage to property	**3,300**	**3,847**	**(365)**	**(1,618)**	**(453)**	**1,411**
Other	**12,266**	**15,292**	**(8,683)**	**(4,485)**	**33**	**2,157**
	406,103	**398,918**	**(439,486)**	**(110,897)**	**115,996**	**(35,469)**
Reinsurance accepted	**–**	**–**	**(456)**	**(3)**	**3,649**	**3,190**
Total	**406,103**	**398,918**	**(439,942)**	**(110,900)**	**119,645**	**(32,279)**
Investment return						**10,079**
Technical account balance						**(22,200)**

2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance						
Accident and health	13	13	165	7	214	399
Motor (third party liability)	–	–	1	–	–	1
Motor (other classes)	368,813	358,395	(245,252)	(124,310)	11,078	(89)
Fire and other damage to property	5,220	5,176	(2,573)	(2,196)	1,532	1,939
Other	19,607	19,478	(11,459)	(5,542)	(20)	2,457
	393,653	383,062	(259,118)	(132,041)	12,804	4,707
Reinsurance accepted	22	22	(5,087)	127	1,082	(3,856)
Total	393,675	383,084	(264,205)	(131,914)	13,886	851
Investment return						1,715
Technical account balance						2,566

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

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

	2016 £000	2015 £000
Net claims (strengthening)/release	**(22,690)**	14,475
Risk margin reserve release	**9,705**	12,437
Loss adjustment expense reserve release	**1,479**	3,914
Total	**(11,506)**	30,826

8. Net operating expenses

	2016 £000	2015 £000
Gross		
Acquisition costs – commission expenses	**59,649**	58,857
Acquisition costs – operating expenses	**38,104**	59,087
Change in deferred acquisition costs – commission expenses	**(534)**	(647)
Change in deferred acquisition costs – operating expenses	**(900)**	(167)
Administrative expenses	**7,929**	8,084
Lloyd's personal expenses and other charges	**6,652**	6,700
	110,900	131,914
Reinsurers' share		
Acquisition costs – commission expenses	**(412)**	–
Change in deferred acquisition costs – commission expenses	**395**	–
	(17)	–
Total	**110,883**	131,914

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

	2016 £000	2015 £000
Auditors' remuneration		
Fees payable to the auditor for the audit of the syndicate's annual accounts and Lloyd's returns	**525**	516
Fees payable to the auditor for other services pursuant to legislation	**244**	362
Total	**769**	878

9. Staff numbers and costs of ERS Administration Services Limited (ERS ASL)

All syndicate staff are employed by ERS ASL. The following salary related costs were charged to the syndicate:

	2016 £000	2015 £000
Wages and salaries	**24,699**	25,395
Social security costs	**2,930**	2,509
Other pension costs	**1,243**	1,365
Other	**2,957**	4,810
Total	**31,829**	34,079

The average number of staff employed by ERS ASL to work for the syndicate were:

	2016 Number	2015 Number
Underwriting	**246**	220
Claims	**317**	321
Administration	**96**	104
Total	**659**	645

10. Director and key management costs of ERS Syndicate Management Limited (ERS SML)

Directors of ERS SML
The following emoluments of ERS SML's executive directors were charged to the syndicate:

	2016 £000	2015 £000
Aggregate emoluments	**1,253**	1,300
Pension contributions	**176**	184
Total	**1,429**	1,484

Emoluments of the highest paid ERS SML's executive director charged to the syndicate were:

	2016 £000	2015 £000
Aggregate emoluments	**264**	316
Pension contributions	**38**	46
Total	**302**	362

Key management of ERS SML
Key management includes directors and senior management. The following emoluments were charged to the syndicate:

	2016 £000	2015 £000
Salaries and other short term benefits	**2,393**	2,536
Termination benefits	**197**	–
Pension contributions	**253**	263
Total	**2,843**	2,799

The emoluments of the Active Underwriter for the 2016 year of account were charged to the syndicate:

	2016 £000	2015 £000
Aggregate emoluments	**264**	259
Pension contributions	**38**	37
Total	**302**	296

11. Investment return

	2016 £000	2015 £000
Investment income		
Income from financial assets at fair value through profit and loss	**2,223**	574
Net (losses)/gains on realisation of investments	**(790)**	3,627
	1,433	4,201
Unrealised gains on investments	**10,468**	6,561
Investment expenses and charges		
Investment management expenses	**(1,116)**	(953)
Unrealised losses on investments	**(706)**	(8,094)
Total investment return	**10,079**	1,715

Investment returns are allocated from the non-technical to the technical account as the entire investment portfolio supports the general insurance business.

12. Other income and other charges, including value adjustments

	2016 £000	2015 £000
Sale of motor breakdowns brands	**–**	3,600
Foreign exchange gain/(loss)	**457**	(163)
Total	**457**	3,437

13. Other financial investments

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

	2016		2015	
	Fair value £000	**Cost £000**	Fair value £000	Cost £000
Designated at fair value through profit or loss				
Shares, other variable yield securities and units in unit trusts	**129,547**	**106,402**	124,283	106,402
Debt securities and other fixed income securities	**171,218**	**171,509**	188,586	190,779
Participation in investment pools	**394**	**394**	315	315
Overseas deposits	**640**	**640**	225	225
Total	**301,799**	**278,945**	313,409	297,721

14. Debtors arising out of direct insurance operations

	2016 £000	2015 £000
Due within one year		
Policyholders	**78**	76
Intermediaries	**69,906**	88,708
Total	**69,984**	88,784

15. Other debtors

	2016 £000	2015 £000
Due within one year		
Related parties	**34,905**	28,583
Other	**815**	1,838
Due after one year		
Other	**2,000**	2,800
Total	**37,720**	33,221

16. Overseas deposits

Overseas deposits are amounts lodged as a condition of conducting underwriting business in certain countries. These comprise cash and cash equivalents.

17. Deferred acquisition costs

	2016 £000	2015 £000
Balance at 1 January	**38,334**	37,330
Change in deferred acquisition costs – gross	**1,434**	814
Change in deferred acquisition costs – reinsurers' share	**(395)**	190
Balance at 31 December	**39,373**	38,334

18. Other prepayments and accrued income

	2016 £000	2015 £000
Prepaid administrative expenses	**3,960**	4,722
Prepaid Lloyd's personal expenses and other charges	**4,122**	3,389
Total	**8,082**	8,111

19. Discounted claims

The claims relating to PPOs have been discounted at the following rate. The period that will elapse before claims are settled is determined using impaired mortality tables.

	Discount rates		**Mean term of liabilities**	
Class of business	**2016**	2015	**2016**	2015
Motor	**3.0%**	3.0%	**14.9 years**	7.6 years

The effect of discounting credits on claims provisions is shown as follows:

	2016		2015	
	Gross £000	**Reinsurers' share £000**	Gross £000	Reinsurers' share £000
Claims provisions before discounting	**743,015**	**380,411**	670,207	299,379
Discounting credits	**(29,832)**	**(26,946)**	(99,357)	(78,543)
Claims provisions after discounting	**713,183**	**353,465**	570,850	220,836

The movements in the mean term of liabilities and the gross discounting credits are solely as a result of the reduction in the Ogden discount rate and the revised assumptions regarding the propensity of future unknown PPOs.

Mean Term of Liabilities: PPO settlements consist of both a lump sum and future annuity elements. As the propensity of future unknown PPOs has been revised to 0% following the change in the discount rate from 2.5% to minus 0.75%, only known settled PPO liabilities remain. These consist only of future annuity payments with no short-term lump sum payments. The removal of these short-term lump sum elements caused an overall increase in the mean term of liabilities.

Discounting Credits: Due to the reduction in propensity for future unknown PPOs down to 0%, it is expected that future claimants would seek a lump sum payment rather than PPOs and therefore, only known settled PPO liabilities remain. The removal of future unknown PPOs led to future annuity payments and the associated discounting credits to be significantly lower.

20. Technical provisions

	2016		2015	
	Gross technical provisions £000	Reinsurers' share of technical provisions £000	Gross technical provisions £000	Reinsurers' share of technical provisions £000
Provision for unearned premiums				
Balance at 1 January	**206,853**	**10,916**	196,262	10,309
Change in unearned premiums	**7,185**	**2,018**	10,591	607
Balance at 31 December	**214,038**	**12,934**	206,853	10,916
Claims outstanding				
Balance at 1 January	**570,850**	**220,836**	577,705	163,538
Claims paid	**(297,609)**	**(19,640)**	(271,060)	(14,375)
Claims incurred	**439,942**	**152,269**	264,205	71,673
Balance at 31 December	**713,183**	**353,465**	570,850	220,836
Claims outstanding				
Claims notified	**484,445**	**136,135**	503,957	149,386
Claims incurred but not reported	**228,738**	**217,330**	66,893	71,450
Balance at 31 December	**713,183**	**353,465**	570,850	220,836
Other technical provisions				
Balance at 1 January	**–**	**20,249**	–	–
Change in other technical provisions	**–**	**(11,513)**	–	20,249
Balance at 31 December	**–**	**8,736**	–	20,249

Other technical provisions relate to the TPRe reinsurance recoverables.

21. Creditors arising out of direct insurance operations

	2016 £000	2015 £000
Due within one year		
Intermediaries	**2,872**	1,134
Total	**2,872**	1,134

22. Other creditors including taxation and social security

	2016 £000	2015 £000
Due within one year		
Tax authorities	**10,811**	8,783
Related parties	**1,268**	467
Total	**12,079**	9,250

23. Reconciliation of operating (loss)/profit to net cash inflow/(outflow) from operating activities

	2016 £000	2015 £000
(Loss)/profit for the financial year	**(21,743)**	6,003
Increase in gross technical provisions	**149,518**	3,735
Increase in reinsurers' share of technical provisions	**(123,133)**	(78,154)
Decrease/(increase) in debtors	**10,943**	(29,915)
Increase/(decrease) in creditors	**5,450**	(651)
Movements in other assets/liabilities	**(765)**	556
Investment return	**(6,555)**	(1,541)
Net cash inflow/(outflow) from operating activities	**13,715**	(99,967)

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	Stamp participation £000
2017	459
2016	345
2015	335
2014	419

ERS Corporate Member Limited ("ERS CML")

ERS CML is a wholly owned subsidiary of ERS IGL through which ERS DGB conducts its underwriting business at Lloyd's. ERS CML provides dedicated corporate capacity for the syndicate as follows:

Year of account	Stamp participation £000
2017	292,860
2016	219,361
2015	213,269
2014	291,966

26. Related parties (continued)

ERS CML's share of the syndicate loss for the year is £12,967,000. ERS CML's share of the syndicate's 2014 closed year of account loss is £13,842,000.

ERS Syndicate Management Limited ("ERS SML")

ERS SML is a wholly owned subsidiary of ERS IGL and acts as managing agent for the syndicate.

ERS SML charged the following managing fees to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2016 calendar year	76	3,550
2015 calendar year	76	3,936

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2014 closed year	73	4,375
2013 closed year	69	4,373

ERS Administration Services Limited ("ERS ASL")

ERS ASL is a wholly owned subsidiary of ERS IGL and provides services for all activities of the ERS DGB Group. All expenses not paid directly by the syndicate nor ERS SSL are paid for by ERS ASL and recharged accordingly. In accordance with ERS SML's current syndicate expense policy, which complies with the Lloyd's Code of Practice:

- Directly attributable expenses are recharged fully to the syndicate.
- Non-directly attributable expenses are recharged to the syndicate on an allocation basis across all other ERS IGL group companies. These allocations are on an equitable basis, to ensure no gain or loss arises from these accounting treatments.

ERS ASL recharged the following expenses to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2016 calendar year	(1,256)	1,256
2015 calendar year	(468)	468

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2014 closed year	–	70
2013 closed year	–	12

ERS Syndicate Services Limited ("ERS SSL")

ERS SSL is a wholly owned subsidiary of ERS SML and acts as a service company for the syndicate.

ERS SSL became an appointed representative of the managing agent ERS SML on 14 January 2005, and is authorised by the PRA and regulated by the Financial Conduct Authority ("FCA") and PRA. The managing agent ERS ASL does not receive any direct income from ERS SSL. No director of the managing agent ERS SML has received any benefit for acting as a director of ERS SSL.

26. Related parties (continued)

ERS SSL recharged the following expenses to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2016 calendar year	34,727	52,345
2015 calendar year	27,527	60,308

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2014 closed year	3,247	63,182
2013 closed year	2,953	68,955

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

ERS A&H is a wholly owned subsidiary of ERS IGL and was a service company for the syndicate. ERS A&H is an Appointed Representative of ERS SML, and is authorised by the PRA and regulated by the FCA and PRA. No director of the managing agent ERS SML has received any benefit for acting as a director of ERS A&H.

ERS A&H recharged the following expenses to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2016 calendar year	(2)	2
2015 calendar year	–	(13)

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2014 closed year	(2)	(5)
2013 closed year	–	7

ERS Properties Limited ("ERS PL")

ERS PL is a wholly owned subsidiary of ERS IGL and is a property holding company.

ERS PL 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.

26. Related parties (continued)

ERS PL charged the following rental to the syndicate via ERS SSL:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2016 calendar year	–	–
2015 calendar year	–	458

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2014 closed year	–	451
2013 closed year	–	–

ERS Insurance Group Limited ("ERS IGL")

ERS IGL is a wholly owned subsidiary of ERS DGB, an intermediate holding company, as well as a property holding company.

ERS IGL acquired, for its own benefit and at its own risk, the freehold land and various properties at Crucible Park in Swansea on 21 October 2016. One of the properties is occupied by the syndicate and rental thereon has been payable to ERS IGL since 21 October 2016. The rental is on an arm's length basis at a level set by an independent chartered surveyor.

ERS IGL charged the following rental to the syndicate via ERS SSL:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2016 calendar year	(418)	418
2015 calendar year	–	–

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2014 closed year	–	8
2013 closed year	–	–

27. Subsequent events

The Ministry of Justice made an announcement on 27 February 2017 to revise the personal injury ("Ogden") discount rate from 2.5% to minus 0.75% effective 20 March 2017.

As the Ogden discount rate is applied to the syndicate's long-tail motor liabilities that existed at the balance sheet date, the syndicate has applied this revised discount rate on the valuation of its reported claims provision at 31 December 2016. The effect of this revision is shown below.

	2016 Impact on statement of comprehensive income £000		2016 Impact on balance sheet £000	
Pre-Ogden discount rate revision	11,726	profit	(35,973)	members' balances
Revision of Ogden discount rate from 2.5% to minus 0.75%				
Change in claims outstanding – gross	(155,750)		(155,750)	
Change in claims outstanding – reinsurers' share	122,281		122,281	
	(33,469)		(33,469)	
Post-Ogden discount rate revision	(21,743)	loss	(69,442)	members' balances

[This page is intentionally left blank]

Underwriting Accounts 2014 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 2014 closed underwriting year of account as at 31 December 2016.

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

Review of the 2014 closed year of account

The 2014 account has closed with a loss of £20,743,000 after personal expenses representing a loss on underwriting capacity of 4.7%. The profit attributable to business reinsured into the 2014 year of account was £8,961,000 representing a profit on underwriting capacity of 2.0%. The pure 2014 underwriting year (excluding the 2013 and prior years which reinsured into 2014) has generated a loss of £29,704,000 representing 6.7% of underwriting capacity, which is a deterioration on the original syndicate business forecast expected profit of 0.2% of underwriting capacity.

Review of the business

This is available in the Report of the Managing Agent within the Annual Report and Accounts for the 2016 Financial Year.

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:

Ryan Warren
Director

21 March 2017

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;
- 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 – 2014 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 2014 year of account for the three years ended 31 December 2016 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's loss for the 2014 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 2016 (the "Annual Report"), comprise:

- the statement of comprehensive income;
- the balance sheet as at 31 December 2016;
- the cash flow statement;
- the statement of changes in member's 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 47, 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 2014 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

21 March 2017

Statement of comprehensive income – technical account for general business

	Note	£000
Syndicate allocated capacity		**437,522**
Earned premiums, net of reinsurance		
Gross premiums written	2	**380,447**
Outward reinsurance premiums		**(34,103)**
Earned premiums, net of reinsurance		**346,344**
Reinsurance to close premium received, net of reinsurance	3	**147,256**
Allocated investment return transferred from non-technical account	11	**8,959**
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		**(277,425)**
Reinsurers' share		**19,576**
Net claims paid		**(257,849)**
Reinsurance to close premium payable, net of reinsurance	4	**(131,540)**
Claims incurred, net of reinsurance		**(389,389)**
Net operating expenses	2,5	**(134,200)**
Balance on the technical account for general business		**(21,030)**

All items relate to continuing operations.

The notes on pages 55 to 59 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		**(21,030)**
Investment return		
Investment Income	11	**4,419**
Unrealised gains on investments	11	**8,794**
Investment expenses and charges	11	**(1,177)**
Unrealised losses on investments	11	**(3,077)**
Allocated investment return transferred to technical account for general business	11	**(8,959)**
Other income		**287**
Loss for the 2014 closed year of account		**(20,743)**

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

The notes on pages 55 to 59 form an integral part of these underwriting accounts.

Balance sheet

	Note	£000
Assets		
Investments	6	**88,380**
Debtors	7	**6,114**
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	**308,949**
		403,443
Other assets		
Cash at bank and in hand		**13,213**
Overseas deposits	8	**1,155**
Accrued interest and rent		**2,800**
		17,168
Total assets		**420,611**
Members' balances		**(21,903)**
Liabilities		
Gross reinsurance to close premium payable	4	**440,489**
Creditors	9	**1,901**
Accruals and deferred income		**124**
		442,514
Total liabilities		**420,611**

The notes on pages 55 to 59 form an integral part of these underwriting accounts.

The underwriting year accounts on pages 50 to 54 were approved by the Board on 21 March 2017 and signed on behalf of the syndicate's managing agent by:

Katharine A Wade
Finance Director

21 March 2017

Cash flow statement

	Note	£000
Net cash outflow from operating activities	12	**(32,741)**
Cash flow from investing activities		
Purchase of equity and debt instruments		**(27,052)**
Sale of equity and debt instruments		**78,431**
Investment income received		**5,191**
Net cash generated from investing activities		**56,570**
Cash flow from financing activities		
Transfer to members in respect of underwriting participations		**(9,456)**
Members' agents fees		**(1,160)**
Net cash used in financing activities		**(10,616)**
Net increase in cash at bank and in hand		**13,213**
Cash and cash equivalents at the beginning of the period		**–**
Cash and cash equivalents at the end of the period		**13,213**
Cash and cash equivalents consist of:		
Cash at bank and in hand		**13,213**
Cash and cash equivalents		**13,213**

The notes on pages 55 to 59 form an integral part of these underwriting accounts.

Statement of changes in members' balances

	£000
2013 year of account	
Members' balances brought forward at 31 December 2015	**9,456**
Payment of profit to members' personal reserve funds	**(9,456)**
Members' balances carried forward at 31 December 2016	**–**
2014 year of account	
Loss for the 2014 closed year of account	**(20,743)**
Members' agent fees paid on behalf of members	**(1,160)**
Amounts due from members carried forward at 31 December 2016	**(21,903)**
Combined amount due from members carried forward at 31 December 2016	**(21,903)**

The notes on pages 55 to 59 form an integral part of these underwriting accounts.

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" ("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).

Members participate in 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 2014 year of account which has been closed by reinsurance to close as at 31 December 2016. Consequently, the balance sheet represents the assets and liabilities of the 2014 year of account at the date of closure. The underwriting account reflects the transactions for that year of account during the three year period from date of inception until 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.

Change in accounting estimates

During the year, the syndicate reclassified £2,320,000 of expenses from net operating expenses to claims paid. This reclassification reflects the change in the syndicate's expense allocation basis to match the increased operational focus on claims handling activities that is aimed at reducing claim severities.

The impact of this reclassification has been:

- To increase claims paid by £2,320,000 during the year ended 31 December 2016; and
- To decrease operating expenses by £2,320,000 during the year ended 31 December 2016.

This reclassification has had no impact on the result for the financial year in the Statement of Comprehensive Income, nor on members' balances in the Balance Sheet.

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

2014 closed year of account	Gross premiums written and earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance					
Accident and health	(2)	(266)	13	38	(217)
Motor (third party liability)	–	(2)	–	–	(2)
Motor (other classes)	356,692	(357,138)	(126,551)	89,660	(37,337)
Fire and other damage to property	4,514	(449)	(1,837)	(588)	1,640
Other	19,243	(10,635)	(5,822)	(49)	2,737
	380,447	(368,490)	(134,197)	89,061	(33,179)
Reinsurance accepted	–	(456)	(3)	3,649	3,190
Total	**380,447**	**(368,946)**	**(134,200)**	**92,710**	**(29,989)**
Investment return					8,959
Technical account balance					**(21,030)**

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

3. RITC premium received, net of reinsurance

2013 year of account closure at 31 December 2015	£000
Gross	
Provision for reported claims	**280,873**
Provision for IBNR	**68,095**
Gross RITC received	**348,968**
Reinsurers' share	
Provision for reported claims	**(130,673)**
Provision for IBNR	**(55,030)**
Other technical provisions	**(16,009)**
Reinsurance recoveries anticipated on gross RITC premium received	**(201,712)**
RITC premium received, net of reinsurance	**147,256**

4. RITC premium paid, net of reinsurance

2014 year of account closure at 31 December 2016	£000
Gross	
Provision for reported claims	**267,170**
Provision for IBNR	**173,319**
Gross RITC payable	**440,489**
Reinsurers' share	
Provision for reported claims	**(133,978)**
Provision for IBNR	**(166,235)**
Other technical provisions	**(8,736)**
Reinsurance recoveries anticipated on gross RITC premium payable	**(308,949)**
RITC premium payable, net of reinsurance	**131,540**

Reinsurers' share of other technical provisions relate to the TPRe reinsurance recoverable.

5. Net operating expenses

	£000
Acquisition costs – commission expenses	**58,414**
Acquisition costs – operating expenses	**60,250**
Administrative expenses	**6,365**
Lloyd's personal expenses and other charges	**7,059**
Auditor's remuneration	**866**
Directors' remuneration	**1,246**
Total	**134,200**

6. Investments

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

	Fair value £000	Cost £000
Designated at fair value through profit or loss		
Shares, other variable yield securities and units in unit trusts	37,622	30,900
Debt securities and other fixed income securities	49,724	49,808
Participation in investment pools	394	394
Overseas deposits	640	640
Total	**88,380**	**81,742**

7. Debtors

	£000
Debtors arising out of direct insurance operations – policyholders	**64**
Debtors arising out of direct insurance operations – intermediaries	**993**
Debtors arising out of reinsurance operations	**1,688**
Debtors due from related parties	**3,369**
Total	**6,114**

8. Overseas deposits

Overseas deposits are amounts lodged as a condition of conducting underwriting business in certain countries. These comprise cash and cash equivalents.

9. Creditors

	£000
Creditors arising out of direct insurance operations – intermediaries	**1,358**
Other	**543**
Total	**1,901**

10. Discounted claims

The claims relating to PPOs have been discounted at the following rate. The period that will elapse before claims are settled is determined using impaired mortality tables.

Class of business	Discount rate	Mean term of liabilities
Motor	**3.0%**	**14.9 years**

The effect of discounting credits on claims provisions is shown as follows:

	Gross £000	Reinsurers' share £000
Claims provisions before discounting	470,321	335,895
Discounting credits	(29,832)	(26,946)
Claims provisions after discounting	**440,489**	**308,949**

11. Investment return

	£000
Investment income	
Income from financial assets at fair value through profit and loss	**1,790**
Net gains on realisation of investments	**2,629**
	4,419
Unrealised gains on investments	**8,794**
Investment expenses and charges	
Investment management expenses	**(1,177)**
Unrealised losses on investments	**(3,077)**
Total investment return	**8,959**

Investment returns are allocated from the non-technical to the technical account as the entire investment portfolio supports the general insurance business.

12. Reconciliation of loss for the year of account to net cash outflow from operating activities

	£000
Loss for the closed year of account	**(20,743)**
Decrease in debtors	**2,881**
Increase in creditors	**476**
RITC premium received, net of reinsurance – non cash consideration	**(137,500)**
RITC premium payable, net of reinsurance	**131,540**
Movements in other assets and liabilities	**(763)**
Investment return	**(8,632)**
Net cash outflow from operating activities	**(32,741)**

13. Related parties

Information regarding related parties of the syndicate is disclosed on pages 39 to 42.

14. Subsequent events

The Ministry of Justice made an announcement on 27 February 2017 to revise the personal injury ("Ogden") discount rate from 2.5% to minus 0.75% effective 20 March 2017.

As the Ogden discount rate is applied to the syndicate's long-tail motor liabilities that existed at the balance sheet date, the syndicate has applied this revised discount rate on the valuation of its reported claims provision at 31 December 2016. The effect of this revision is shown below.

	2016 Impact on statement of comprehensive income £000		2016 Impact on balance sheet £000	
Pre-Ogden discount rate revision	(4,018)	loss	(5,178)	members' balances
Revision of Ogden discount rate from 2.5% to minus 0.75%				
Change in claims outstanding – gross	(107,908)		(107,908)	
Change in claims outstanding – reinsurers' share	91,183		91,183	
	(16,725)		(16,725)	
Post-Ogden discount rate revision	(20,743)	loss	(21,903)	members' balances

Seven year summary of results

	2008 closed	2009 closed	2010 closed	2011 closed	2012 closed	2013 closed	2014 closed
Syndicate allocated capacity (£'000)	420,473	452,082	485,906	485,976	436,931	437,278	437,522
Number of members of the syndicate	1,370	1,367	1,384	1,471	1,412	1,390	1,331
Aggregate net premiums (£'000)	481,735	566,131	585,737	499,876	418,546	347,434	346,344

	2008 £	2009 £	2010 £	2011 £	2012 £	2013 £	2014 £
Result for a member with an illustrative share of £10,000							
Gross premiums written	12,159	13,287	12,704	10,938	9,932	9,725	8,695
As a percentage of allocated capacity	*122%*	*133%*	*127%*	*109%*	*99%*	*97%*	*87%*
Net premiums written	11,457	12,523	12,055	10,286	9,579	7,945	7,916
As a percentage of allocated capacity	*115%*	*125%*	*121%*	*103%*	*96%*	*79%*	*79%*
Premiums for the reinsurance to close an earlier year of account	1,707	3,037	5,137	4,971	5,427	4,750	3,365
Net claims paid	(11,975)	(8,880)	(10,213)	(8,120)	(6,793)	(5,740)	(5,893)
Reinsurance to close year of account	(3,265)	(5,521)	(4,972)	(4,880)	(4,754)	(3,368)	(3,006)
Underwriting result	(2,076)	1,159	2,007	2,257	3,459	3,587	2,382
As a percentage of gross premiums	*(17%)*	*9%*	*16%*	*21%*	*35%*	*37%*	*27%*
Syndicate operating expenses	(3,777)	(3,857)	(4,183)	(3,619)	(3,464)	(3,333)	(2,900)
Net underwriting result	(5,853)	(2,698)	(2,176)	(1,362)	(5)	254	(518)
As a percentage of gross premiums	*(48%)*	*(20%)*	*(17%)*	*(12%)*	*(0%)*	*3%*	*(6%)*
Investment return	145	92	286	283	188	156	205
Profit/(loss) before personal expenses	(5,708)	(2,606)	(1,890)	(1,079)	183	410	(313)
Illustrative personal expenses	(208)	(196)	(190)	(177)	(152)	(166)	(161)
Illustrative profit commission	–	–	–	–	–	–	–
Profit/(loss) after illustrative profit commission and personal expenses (£)	(5,916)	(2,802)	(2,080)	(1,256)	31	244	(474)

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.

If you have finished reading this report and no longer wish to retain it, please recycle it. Thank you.

Produced by Perivan Financial Print 244184

Providing
Equity Insurance

ERS Syndicate Management Limited
52-54 Leadenhall Street
London
EC3A 2BJ