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ERS Providing Equity Insurance

Syndicate 218

Report and Accounts 2017

Providing
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 (resigned 6 June 2017) Ian D Broadwater (resigned 27 March 2017) Dr Henry O Brunjes Robert P Gullett Martin Hall (appointed 13 February 2018) Ian D Parker Nicholas C T Pawson Ignace L G van Waesberghe (appointed 27 March 2017) Katharine A Wade Ryan R Warren Christopher E Watson
Company secretary	David C Turner (appointed 14 July 2017) James D S Adams (resigned 14 July 2017)
Managing agent's registered office	52-54 Leadenhall Street London EC3A 2BJ
Managing agent's company number	00426475

SYNDICATE

Active underwriter	Mark H Bacon Martin Hall (appointed 13 February 2018)
Bankers	National Westminster 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
2017 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 2017.

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 Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103 "Insurance Contracts" ("FRS 103") where applicable.

Separate underwriting year accounts for the 2015 year of account that has closed at 31 December 2017 are included from page 47.

Strategic Review

Principal activity

Syndicate 218 retains its 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 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.

2017 – A challenging year

2017 was a challenging year mainly due to the Ogden discount rate announcement on 27 February 2017. This discount rate change created an overnight profitability challenge for the Syndicate and the motor insurance industry. Substantial rate increases were deployed across the portfolio with the focus remaining on margin not volume. As a result the Syndicate saw a reduction in premium versus 2016 as retention was impacted by the rate required to offset the discount rate changes.

ERS took the opportunity to launch the next phase of its two year underwriting transformation programme, initiating a full review of the underwriting propositions and processes.

ERS continues to be focused on specialism and profitable underwriting as well as a commitment to driving continued operational efficiency.

ERS's market positioning is at its strongest and the four key elements to the strategy remain as follows:

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. We continue to be 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. As more and more motor insurers move towards only screen rated products this creates an opportunity for ERS to capitalise on those segments where the "computer says no" and real underwriting expertise is required.
3. ERS has invested in a state of the art IT system to support its growth for the future. 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. ERS remains committed to being a sustainable business whose consistent underwriting approach, together with Lloyd's A+ rating provides brokers and their customers' protection in what continues to be a volatile market. In a year such as 2017 which saw the collapse of 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.

Other significant events in 2017 are summarised below:

2017 was the start of a "perform" phase for ERS. Whilst the financial performance has been depressed due to the Ogden discount rate change, the other actions and progress have continued.

The Executive team was reformed and strengthened reflecting the next phase of evolution of the Syndicate.

Martin Hall joined as Active Underwriter from February 2018 and Gina Butterworth, Director of Underwriting relinquished her role as interim to focus on overseeing the two year underwriting transformation programme to support Martin Hall.

The two year programme includes work to improve the underwriting performance through review of distribution, products, pricing enhancements, data and MI enhancements to drive strong financial performance in each product. This programme of work will support ERS in retaining its position as the leading specialist motor insurer of choice in the UK.

The operation centre in Swansea continued to enhance its capability with specialist teams being developed to build on technical expertise in line with its growing reputation as a centre of excellence for insurance administration.

2017 saw ERS launch and rebrand some of its specialist products most notably agriculture products and the prestige products through supercars resulting in significant year on year growth in those products.

During 2017 the broker Net Promotor Score ("NPS") feedback showed that ERS became the first choice for specialist motor insurance brokers and is well ahead of the second choice carriers, with a record high more than 40% of brokers surveyed indicated that they consider ERS first when seeking to place a risk with a specialist insurer. This is a significant improvement during 2017 and has affirmed the status of ERS as a specialist motor insurer of choice for motor brokers.

Market overview

Largely as a direct impact of the Ogden discount rate announcement, 2017 saw significant increases in premium rates across the majority of personal and commercial product lines.

According to the ABI, the average premium for 2017 was 9% higher than in 2016.

Ogden discount rate (Ogden) and other injury reforms

On 27 February 2017, the Lord Chancellor prescribed that a new Ogden rate of minus 0.75% will supersede the then rate of 2.5% and this took effect on 20 March 2017. As part of this announcement, the government agreed to bring forward a review of the framework underpinning the rate setting process, addressing:

- What methodology should be applied in setting rates;
- Who should set rates; and
- How frequently should rates be set.

Consequently, the Ministry of Justice ("MoJ") launched an Ogden rate consultation and published draft legislation in September 2017 concluding that:

- Rates will reference 'low risk' rather than 'very low risk' investments;
- Rates will be reviewed every 3 years; and
- Rates will be set by the Lord Chancellor in conjunction with an independent expert panel.

The Ogden rate of minus 0.75% remains unchanged as at 31 December 2017.

A paper on draft legislation titled 'The Personal Injury Discount Rate - How it Should be Set in Future' suggests the government expects that if a single rate were set today under a new approach, it may fall between 0% and 1%. This is currently the expected market view.

ERS has set its claims provisions on the basis of minus 0.75% Ogden discount rate, and if a rate of 0% or 1% was used alternatively, the net claims reserves would have been between £8.5m and £17.0m lower.

There are also future uncertainties arising from the whiplash reforms which have not yet been announced.

Financial performance

The result for the year was an improved loss of £12.2m (2016: £21.7m loss) and at an improved combined operating ratio of 104.9% (2016: 108.5%).

The improved performance is credited to the decisive and rigorous rate increases across all classes of business, but in particular Fleet, Commercial, Motorcycle and Private Car classes. Significant rate and mix action was taken during 2017 following the Ogden discount rate change announcement.

This together with a consistent and continuous focus on writing for profitability led to a 7.4% reduction in gross written premiums compared to prior year.

Investment returns were 1.7% (2016: 2.8%). The fixed income portfolio generated small returns as the modest increase in treasury yields was offset by narrowing of credit spreads. The portfolio saw higher returns on its absolute return fund due to equity performance. However the overall investment climate remains challenging.

The Syndicate renewed its excess of loss reinsurance programme on 1 January 2017, benefitting from a risks attaching program which locked in cover for all policies incepting during 2017 prior to any increase in reinsurance rates arising from the Ogden rate change.

The Syndicate also extended its reinsurance coverage with Third Point Reinsurance Company Limited ("TPRe") at an incremental cost of £63.5m. This contract protects £122.0m of reserves on 2010 to 2017 underwriting and accident years. The previous cover purchased in 2015 was cancelled and replaced.

Had it not been for the negative impact of the revised Ogden discount rate and the other one off items, the 2017 result would have been a profit of £14.9m and a combined operating ratio of 97.9%. This reflects our continued confidence in the underlying performance of the core business and the continued focus on underwriting for margin over volume.

Key performance indicators

Syndicate 218's key financial indicators are as follows:

Financial year £'000	2017 *	2016 (post Ogden)	2016 (pre Ogden)	2015 *	2014
Gross Written Premium	376,116	406,103	406,103	393,675	387,732
Net Earned Premium	386,961	377,790	377,790	363,548	367,510
Claims Ratio **	76.9%	79.2%	70.4%	68.1%	67.9%
Commission Ratio	15.2%	15.6%	15.6%	16.0%	17.4%
Expense Ratio	12.8%	13.7%	13.7%	15.7%	15.7%
Combined Operating Ratio	104.9%	108.5%	99.6%	99.8%	101.0%

* The 2015 & 2017 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.

** The claims ratios are inclusive of claims handling expenses.

Review of the business

Underwriting outlook

During the 2017 underwriting year, ERS undertook a significant amount of underwriting action and deployed 19.4% of rating strength increases of which 5.2% related to mix change in the form of exited schemes and brokers and other remedial action.

The most significant action was taken in the Fleet, Commercial, Motorcycle and Private Car classes.

The 2017 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 the impact of the Ogden discount rate change from 2.5% to minus 0.75%.

Class of business spotlight

Private Car remains an extremely challenging class despite the improvements seen in the rating environment. Double digit rate increases were seen across the market during 2017 and this class delivered similar levels of rate strengthening. ERS chose to sacrifice volume in the year in this class as it sought to achieve profitability as well as operational simplification. Further investment is planned for this class through pricing sophistication and real time deployment of rate changes through the launch of Insurer Hosted Pricing and enhanced Data Enrichment.

This class continued to see claims inflation in own and third party damage claims. In addition application fraud and aggressive claims farming continue to be prevalent in this class, with these factors having an adverse impact on the loss ratio performance. Nevertheless, there were improvements in the loss ratio performance during 2017.

ERS will continue to drive rate increases in 2018 although it expects rates to slow in this class and will sacrifice volume where it does not believe that adequate returns are available.

The **Bespoke and Classic Car** class focuses on the underwriting of enthusiast vehicles and high risk or distressed risks within its non-standard private cars and vans, including classic cars, motorhomes, kit cars and other risks of a non-standard nature. At the end of 2016 ERS launched a selection of new propositions to the market, focusing on professional sports, entertainers and super cars. These new propositions underpin ERS's specialist strategy and during 2017 these have developed extremely well.

Enthusiast vehicles continue to deliver good results, enabling continued planned growth and brand development in this space. The results in this class for heavily convicted and high risk drivers has continued to show substantial improvement over 2016 and prior with substantial rate and mix change increases being deployed during the year. A focus on bottom line will continue to be the priority for this class in 2018 as well as taking advantage of opportunities that are increasingly falling out of the direct insurer and aggregator space.

The specialist **Agricultural** class saw significant growth of 24% year on year during 2017 in excess of the original plan following a successful launch to market our enhanced proposition and an upgrade to our servicing model and service levels whilst continuing to deliver an attractive loss ratio performance. Premium rates for the year increased marginally and this has led to another year of solid underwriting performance. ERS continues to be recognised as having extensive expertise and a strong market position with a number of key broker partners supported by new marketing promotional material and campaigns this period. The focus for 2018 is to leverage this position in the market to deliver further profitable growth through a wider panel of specialist brokers.

The **Motorcycle** class remains challenging and 2017 saw deliberate remediation activity to further control the footprint in this class leading to a reduction in volume. Work continues to enhance our core pricing capability and to focus on better performing niche segments. Loss ratio performance continued to improve during 2017. The focus for 2018 is to scale back this class further focusing only on niche segments whilst enhancing pricing and speed of deploying rates to market.

The **Motor Fleet** class showed a reduction in premium during 2017 as ERS chose to focus on remediating and rebalancing the renewal portfolio and increasing rate in the portfolio. ERS took the decision to exit the loss making general haulage segment during 2017 whilst still retaining an appetite for the highly complex niche aspects of this segment. The market continued to see a number of competitors located in unrated and offshore markets disappear and brokers struggling to find capacity. ERS also grew its share of niche segments such as bus and coach fleet. It deployed double digit rate strength increases across the fleet class and have seen some mix change benefits throughout. In May 2017 ERS appointed a new Head of Fleet from within ERS and undertook a significant review of this class adopting either a "Protect", "Improve" or "Lose" strategy in very targeted segments. 2018 will see significant enhancement to its pricing sophistication and operational simplification. Attritional loss ratio performance is starting to show improvement on the prior years.

Commercial Motor comprises taxi, haulage, bus, coach, showman, minibus and other specialist commercial vehicles.

Many aspects of this class have shown improvements in loss ratios but in 2017 ERS refined its risk appetite and footprint in the taxi segment and deployed substantial rate increases. The taxi market remains volatile and in 2018 ERS will continue to monitor and review this segment. The focus for 2018 is to ensure that the actions taken in 2017 to deliver the further improvements in its loss ratio performance is as expected, whilst seeking controlled growth in some segments such as minibus and specialist commercial vehicle products.

Motor Breakdown continued to deliver profitable results in 2017 but saw a slight decline in trading volumes primarily due to the loss of a few broker relationships. During 2017 ERS initiated a significant project to simplify the product and to improve the operational workflow and servicing of this product. In addition ERS will be upgrading its distribution option for Motor Breakdown and seeking to build a software house solution. This project will be supported by a refreshed marketing campaign to raise awareness of the product and attract new opportunities.

Capital

For the 2017 year of account, ERS Corporate Member Limited ("ERS CML") participated at 61.2%, with Securis LCM limited renewing their tenancy for another year and responsible for 6.59% of capacity in 2017. 2017 is their third year of participation and they have renewed their participation in 2018 at 6.57%. The remainder is owned by non-aligned Names.

	Year of Account				
£'000	2018	2017	2016	2015	2014
Syndicate Capacity	480,000	478,865	359,462	349,828	437,522
ERS CML Participation	323,892	292,860	219,361	213,269	291,966
ERS CML Participation	67.5%	61.2%	61.0%	61.0%	66.7%

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 the Syndicate's 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 £6.8m after expenses in 2017, equivalent to a 1.7% rate of return. This was a decrease from £10.1m, equivalent to 2.8% during 2016. Total return includes net investment income, net realised gains and losses, net change in unrealised gains and losses, after deducting investment expenses.

Syndicate 218 investment assets totalled £254.5m on 31 December 2017 (£301.8m in 2016) which exclude the collateralised assets deposited by Third Point Reinsurance Company Ltd. The reduction stemmed from funding the reinsurance extension with Third Point Reinsurance Company Limited. 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 2017, 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 2015 year of account closed with a loss of minus 4.7%, a slight improvement over the forecast at the end of 2016 (a loss of minus 4.9%). This result includes reserve strengthening for the impact of the change in Ogden discount rates.

As a percentage of underwriting capacity, the midpoint forecast to ultimate for the 2016 year of account is a loss of minus 6.0% with a best estimate loss of minus 1.0% and a worst estimate loss of minus 11.0%. This forecast reflects a deterioration on the forecast at year end 2016 due to reserve strengthening in damage losses and the results of the unearned business at the year end which was impacted by the change in Ogden discount rates.

2018 Outlook

2018 will seek to consolidate the Syndicate's position on the back of the rate increases of 2017 and seek to continue the focus on growing our specialist products. ERS will be promoting clear propositions for a number of our specialist products through a host of campaigns during the year to support growth of these classes.

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

In addition ERS will be building out its Insurer Hosted Pricing capability, enhancing its Data Enrichment and Fraud Intelligence processes, focusing on improving its quote speed of response to market and ensuring that its underwriters and experts are accessible to broker partners.

Further rate increases will be deployed in the market during 2018 to fund the increased cost in January reinsurance renewals. ERS is far better positioned than some of its competitors due to the level of rating and underwriting action taken in 2017, some of which will earn through into 2018.

It is possible that the market will see smaller or less well capitalised insurers consider whether it is worthwhile being in the market still and whether they have the capital to succeed. Uncertainty still remains in 2018 with regard to a further change to the Ogden discount rate but this does also provide many opportunities for ERS.

Rates across the board increased significantly in 2017. In 2018, it expects rates in the commercial classes to hold and rates in some of the more mainstream personal line classes to start to slow but with niche personal line classes holding up a bit better at least for the first half of 2018.

Agile insurers, like ERS, who can react quickly in response to market developments and have the necessary financial strength, can benefit from the opportunities that will arise. ERS is well positioned going into 2018 to take advantage of these market conditions although its focus will be to write for profit not volume.

Looking forward to 2018, we remain confident in the underlying performance of the business and the continued focus on underwriting discipline to deliver a return to profitability.

Principal risks and uncertainties

Risk management

Effective risk management supports the achievement of 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, measurement, 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, business plan targets and enabling the identification, assessment and monitoring of key risks in line with risk appetites. 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 since its implementation.

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 RMF has a broad scope including capital modelling, risk identification, risk measurement, risk mitigation, risk assessment and risk monitoring, and is used in the day-to-day operations of Syndicate 218.

Risk management culture

ERS SML maintains a strong risk management culture, which supported by the RMF, protects and advances the interests of both stakeholders and policyholders.

Risk appetite and tolerance

Risk appetite is the level of risk that ERS SML is willing to tolerate in pursuit of the Syndicate's objectives.

It is managed through:

- board-approved risk appetite statements and tolerances;
- 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 monthly 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 risk return trade-offs 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 internal model 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 return 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 monthly risk appetite monitoring of existing and emerging risks.

The main risks are regularly reported and discussed at the RMC and the ARCC through the yearly 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 for 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;
- purchase of reinsurance above a limit (currently £2.5m) with unlimited sideways cover.

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 and counterparty risks 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 with maximum exposure limits for each reinsurance group with the limits set by reinsurer rating;
- exposure limits for approved counterparties are reviewed regularly in respect of 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 setting the duration of the investment portfolio relative to the duration of the liabilities;
- 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 is monitored daily and liquidity projections are performed on a monthly basis;
- 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, cyber security threats, business and transaction processing errors.

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;
- business continuity plans and disaster recovery plans are tested periodically to ensure that the business is able to respond effectively to incidents and minimises the impact of any major disruption; and
- risk events are analysed and any corrective action taken.

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 and controls 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 which is aligned with the Lloyd's Code to provide 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*
Dr Henry O Brunjes*
Robert P Gullett*
Martin Hall (appointed 13 February 2018)
Ian D Parker*
Nicholas C T Pawson*#
Ignace L G van Waesberghe (appointed 27 March 2017)
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. 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 2018.

By order of the Board:

Ian Parker
Director

14 March 2018

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 it 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 United Kingdom 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

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 2017 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the syndicate annual accounts (the "Annual Report"), which comprise:

- the statement of comprehensive income for the year then ended;
- the balance sheet as at 31 December 2017;
- the statement of changes in members' balances;
- the cash flow statement; and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Reporting on other information

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

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

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

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

Managing Agent's Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Responsibilities for the syndicate annual accounts and the audit

Responsibilities of the Managing Agent for the syndicate annual accounts

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 12, the Managing Agent is responsible for the preparation of the syndicate annual accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the syndicate annual accounts

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

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

Use of this report

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

Other required reporting

Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

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

14 March 2018

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Statement of comprehensive income – technical account for general business

	Note	2017 £000	2016 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	**376,116**	406,103
Outward reinsurance premiums		**(87,967)**	(23,146)
Net premiums written		**288,149**	382,957
Change in the provision for unearned premiums			
Gross amount	20	**38,441**	(7,185)
Reinsurers' share	20	**(3,129)**	2,018
Change in the net provision for unearned premiums		**35,312**	(5,167)
Earned premiums, net of reinsurance		**323,461**	377,790
Allocated investment return transferred from non-technical account	11	**6,758**	10,079
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	20	**(277,903)**	(297,609)
Reinsurers' share	20	**7,354**	19,640
Net claims paid		**(270,549)**	(277,969)
Change in the provision for claims			
Gross amount	20	**(39,638)**	(142,333)
Reinsurers' share	20	**63,298**	132,629
Change in the net provision for claims		**23,660**	(9,704)
Claims incurred, net of reinsurance		**(246,889)**	(287,673)
Changes in other technical provisions, net of reinsurance	20	**12,868**	(11,513)
Net operating expenses	8	**(108,253)**	(110,883)
Balance on the technical account for general business		**(12,055)**	(22,200)

All amounts relate to continuing operations.

The notes on pages 22 to 45 form an integral part of these annual accounts.

Statement of comprehensive income – non-technical account

	Note	2017 £000	2016 £000
Balance on the technical account for general business		**(12,055)**	(22,200)
Investment return			
Investment income	11	**2,717**	1,433
Unrealised gains on investments	11	**10,490**	10,468
Investment expenses and charges	11	**(2,009)**	(1,116)
Unrealised losses on investments	11	**(4,440)**	(706)
Allocated investment return transferred to technical account for general business	11	**(6,758)**	(10,079)
		–	–
Other income	12	**–**	457
Other charges, including value adjustments	12	**(118)**	–
		(118)	457
Loss for the financial year		**(12,173)**	(21,743)

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 22 to 45 form an integral part of these annual accounts.

Balance sheet – assets

	Note	2017 £000	2016 £000
Investments			
Other financial investments	5(i)(p), 13	**254,529**	301,799
Reinsurers' share of technical provisions			
Provision for unearned premiums	20	**9,805**	12,934
Claims outstanding	5(i), 19, 20	**416,763**	353,465
Other technical provisions	20	**21,604**	8,736
		448,172	375,135
Debtors			
Debtors arising out of direct insurance operations	5(i), 14	**50,781**	69,984
Debtors arising out of reinsurance operations	5(i)	**963**	1,560
Other debtors	15	**43,786**	37,720
		95,530	109,264
Other assets			
Cash at bank and in hand	5(i)	**36,494**	43,164
Overseas deposits	5(i)(p), 16	**1,023**	1,155
		37,517	44,319
Prepayments and accrued income			
Accrued interest and rent		**1,365**	1,678
Deferred acquisition costs	17	**37,598**	39,373
Other prepayments and accrued income	18	**7,701**	8,082
		46,664	49,133
Total assets	5(k)	**882,412**	879,650

The notes on pages 22 to 45 form an integral part of these annual accounts.

Balance sheet – liabilities

	Note	2017 £000	2016 £000
Members' balances		**(60,681)**	(69,442)
Technical provisions			
Provision for unearned premiums	20	**175,597**	214,038
Claims outstanding	5(e)(o), 19, 20	**752,821**	713,183
		928,418	927,221
Creditors			
Creditors arising out of direct insurance operations	5(o), 21	**5,174**	2,872
Creditors arising out of reinsurance operations	5(o)	**668**	5,804
Other creditors including taxation and social security	5(o), 22	**8,322**	12,079
		14,164	20,755
Accruals and deferred income	5(o)	**511**	1,116
Total liabilities	5(k)	**882,412**	879,650

The notes on pages 22 to 45 form an integral part of these annual accounts.

The Syndicate annual accounts on pages 16 to 21 were approved by the Board on 12 March 2018 and signed on behalf of the Syndicate's managing agent by:

Katharine A Wade
Finance Director

14 March 2018

Statement of changes in members' balances

	2017 £000	2016 £000
Members' balances brought forward at the beginning of the year	**(69,442)**	(37,285)
Loss for the financial year	**(12,173)**	(21,743)
Collection/(payment) of the result to/from members' personal reserve funds:		
2014 year of account	**21,903**	–
2013 year of account	**–**	(9,456)
	(59,712)	(68,484)
Members' agent fees paid in year	**(969)**	(958)
Members' balances carried forward at the end of the year	**(60,681)**	(69,442)

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 22 to 45 form an integral part of these annual accounts.

Cash flow statement

	Note	2017 £000	2016 £000
Net cash (outflow)/inflow from operating activities	23	**(82,932)**	13,715
Cash flow from investing activities			
Purchase of equity and debt instruments		**(101,959)**	(76,706)
Sale of equity and debt instruments		**153,081**	93,503
Investment income received net of expenses paid		**4,206**	1,368
Net cash generated in investing activities		**55,328**	18,165
Cash flow from financing activities			
Transfer from/(to) members in respect of underwriting participations		**21,903**	(9,456)
Members' agents fees		**(969)**	(958)
Net cash generated/(used) in financing activities		**20,934**	(10,414)
Net (decrease)/increase in cash at bank and in hand		**(6,670)**	21,466
Cash and cash equivalents at the beginning of the year		**43,164**	21,698
Cash and cash equivalents at the end of the year		**36,494**	43,164
Cash and cash equivalents consist of:			
Cash at bank and in hand		**36,494**	43,164
Cash and cash equivalents		**36,494**	43,164

The notes on pages 22 to 45 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 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 syndicate.

Basis of accounting

(i) Gross premiums written

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

(ii) Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of gross and reinsurers' share of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established 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 statement of comprehensive income – non-technical account. A transfer is made from the statement of comprehensive income non-technical account to the statement of comprehensive income – 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 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.

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)
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 'Members' balances'. 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 re-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 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 also 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 statement of comprehensive income – non-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 use futures and option derivatives for investing activities. 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 statement of comprehensive income - 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.

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 earned premiums.

3. Summary of significant accounting policies (continued)

Basis of accounting (continued)

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 premium rating and other pricing models of business accepted, together with assessments of underwriting conditions.

The reinsurers' share of provision 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 premium rating and other pricing models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The syndicate considers that the provision for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to it. 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 on the assets held to cover the provisions between inception and settlement of PPOs.

(xiii) Unexpired risks provision

A provision for unexpired risks is made where claims, related claims handling costs and other 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 on 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 deficit clause on all unclosed underwriting years.

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 can be established with certainty, and the final outcome may be better or worse than that provided.

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

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

- paid claims development, where payments to date are extrapolated based upon observed development of earlier years;
- estimates based upon a projection of claims numbers and average burning cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected ultimate 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 solely 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 these are typically paid annually over the claimant's life span.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from all the syndicate's reinsurance arrangements, having due regard to 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 selected 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 £23.3m (2016: £14.1m).

(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. Premiums are linearly earned between the inception and expiry of each contract, or between the effective to and effective from date of any contractual term amendments. 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 aims 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 tolerances, underwritten in accordance with risk strategy and priced to reflect the underlying risk;
- to minimise reserve risk volatility through robust reserving and application of actuarial modelling approaches; and
- to mitigate insurance risk through the use of optimal reinsurance arrangements.

The syndicate is exposed to the uncertainties 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 property and personal accident and health business. The syndicate reduces its concentration risk by writing business in a number of different motor classes including private car, bespoke, agriculture, motorcycle, motor fleet, commercial motor 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 profiles and geography, and contain only risks which meet the approved underwriting criteria as acceptable. 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 is reviewed on a regular basis.

All policies are predominantly 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 outcomes.

(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 claims and to protect capital resources.

The syndicate purchases motor excess of loss reinsurance contracts to reduce the impact of individual large claims and the accumulation of claims that arise from the same event. The cover purchased limits the claims arising from any one event to £2.5 million in respect of policies incepted during 2014, 2015, 2016 and 2017. 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 2017 underwriting years of account covering losses during accident years 2010 through 2017.

5. Management of insurance and financial risk (continued)

(a) Insurance risk management and control (continued)

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 note 5(i).

(a)(iii) Claims management

Liabilities arising from motor insurance contracts cover both property and liability indemnities. 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 every year end. 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 any expected subrogation and/or salvage 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 the development and incidence on the rest of the portfolio. Particular consideration is given to the operational and systems changes that occur within the business, which would distort the information of how claims have developed and settled across different periods of time.

Where possible, multiple statistical methods are used to estimate the required level of claims provisions. This provides a greater understanding of the trends inherent in the claims experience being projected. These claims projections derived by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation method is selected taking into account the characteristics of the risk and the extent of the development each year. Being able to explain the differences in the methods develops and evidences the understanding of the underlying claims estimation processes.

The calculation of claims provisions are performed internally on a best estimate basis, meaning that the provisions are intended to represent the probability-weighted average of all possible payment outcomes, with a 5% risk margin load on top of the best estimate. Independent calculations are performed by an external actuary, who also provides the Lloyd's SAO. The difference between the two valuations of net claims reserves for business earned at 31 December 2017 is 5.0% (31 December 2016: 2.0%).

5. Management of insurance and financial risk (continued)

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

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 draft legislation, issued in September 2017, which sets out to reform the approach used in setting Ogden discount rates is awaiting enaction.
- 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.
- Further inflation in claim severities and frequencies: External factors could continue to increase claim severities, such as the depreciation of the pound affecting the prices of imported parts. Claimant behavior could also increase claim frequencies.

(c) Process used to decide on assumptions

In principle, the methodology is consistent with the approach applied in previous reviews.

Gross of reinsurance, claims 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 the 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 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 and claims handling costs 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 an extended period and provide a measure of the syndicate's ability to adequately estimate the ultimate level of claims.

5. Management of insurance and financial risk (continued)

(d) Development of claims provision (continued)

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 provisions. The syndicate's management believes the estimated total claims provisions are adequate at the end of the current year.

(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	2017 £000	Total £000
Estimate of ultimate gross claims costs*:									
At end of reporting year	3,780,828	208,081	153,465	143,566	131,703	133,019	159,975	147,903	
One year later	4,032,490	406,799	297,639	283,826	277,623	309,218	358,417		
Two years later	4,041,074	392,977	285,678	281,283	304,469	311,413			
Three years later	4,084,200	391,904	278,834	289,954	296,205				
Four years later	4,097,623	390,047	286,845	287,586					
Five years later	4,093,504	403,093	275,972						
Six years later	4,125,850	392,760							
Seven years or more later	4,113,577								
Current estimate of cumulative claims	4,113,577	392,760	275,972	287,586	296,205	311,413	358,417	147,903	6,183,833
Cumulative payments to date	3,980,550	360,930	244,644	230,668	210,480	194,623	165,609	43,508	5,431,012
Total gross provision included in the balance sheet	**133,027**	**31,830**	**31,328**	**56,918**	**85,725**	**116,790**	**192,808**	**104,395**	**752,821**

5. Management of insurance and financial risk (continued)

(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	2017 £000	Total £000
Estimate of ultimate net claims costs*:									
At end of reporting year	3,417,624	194,816	150,125	135,703	126,461	124,964	140,356	110,306	
One year later	3,602,078	383,436	289,330	263,609	250,460	275,436	269,444		
Two years later	3,588,892	372,319	281,211	248,155	248,020	262,315			
Three years later	3,606,558	369,017	257,835	237,160	246,888				
Four years later	3,595,990	356,161	253,518	244,605					
Five years later	3,590,616	357,392	256,362						
Six years later	3,589,135	359,508							
Seven years or more later	3,585,367								
Current estimate of cumulative claims	3,585,367	359,508	256,362	244,605	246,888	262,315	269,444	110,306	5,334,795
Cumulative payments to date	3,574,387	350,041	244,675	216,959	210,458	194,520	164,568	43,129	4,998,737
Total net provision included in the balance sheet	**10,980**	**9,467**	**11,687**	**27,646**	**36,430**	**67,795**	**104,876**	**67,177**	**336,058**

* 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.

(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 27. 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/improvement in the loss ratio for the current underwriting year would result in a £1.6m (2016: £1.9m) decrease/increase to the net claims outstanding and a corresponding increase/decrease in profit and net assets of the syndicate. A 1% reduction/improvement in the loss ratios for each of the last two underwriting years would result in a £6.9m (2016: £7.1m) decrease/increase to the net claims outstanding and a corresponding increase/decrease 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 tolerances 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.

5. Management of insurance and financial risk (continued)

(i) Credit risk (continued)

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 to protect claims reserves on the 2010 to 2014 underwriting and accident years. This contract was cancelled and replaced during 2017 at an incremental cost of £63.5m to protect £122.0m of claims reserves on the 2010 to 2017 underwriting and accident years. In return, TPRe has placed the sum of £122m 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, credit rating and the maximum exposure to these. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

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

2017	AAA £000	AA £000	A £000	BBB £000	<BBB £000	Asset classes not subject to rating £000	Total £000
Financial investments and overseas deposits	45,103	48,624	77,694	56,542	–	27,589	255,552
Insurance debtors	20,246	5,150	3,652	6,807	5,111	9,815	50,781
Reinsurance debtors	–	277	613	–	–	73	963
Reinsurers' share of claims outstanding	–	156,172	260,591	–	–	–	416,763
Cash at bank and in hand	524	1,118	302	34,400	–	150	36,494
Total	**65,873**	**211,341**	**342,852**	**97,749**	**5,111**	**37,627**	**760,553**

5. Management of insurance and financial risk (continued)

(i) Credit risk (continued)

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

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.

2017	**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**	**Past due greater than 1 year £000**	**Past due and impaired £000**	**Total £000**
Insurance debtors	**37,391**	**13,991**	**423**	**136**	**150**	**(1,310)**	**50,781**
Reinsurance debtors	**559**	**–**	**173**	**263**	**30**	**(62)**	**963**
Reinsurers' share of claims outstanding	**417,857**	**–**	**–**	**–**	**–**	**(1,094)**	**416,763**
Total	**455,807**	**13,991**	**596**	**399**	**180**	**(2,466)**	**468,507**

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	Past due 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

(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.

5. Management of insurance and financial risk (continued)

(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:

2017	**GBP £000**	**USD £000**	**CAD £000**	**EUR £000**	**Other £000**	**Total £000**
Total assets	**879,746**	**318**	**1,964**	**384**	**–**	**882,412**
Total liabilities and members' balances	**(883,471)**	**(38)**	**(142)**	**1,239**	**–**	**(882,412)**
Total	**(3,725)**	**280**	**1,822**	**1,623**	**–**	**–**

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	–

(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.

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 asset 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.

5. Management of insurance and financial risk (continued)

(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.

	2017 increase/(decrease) on profit and net assets £000	2016 increase/(decrease) on profit and net assets £000
Interest rate risk		
50 basis points increase in yield curve	**(2,461)**	(2,877)
50 basis points decrease in yield curve	**2,631**	3,064
Price risk		
5% increase in stock market prices	**168**	88
5% decrease in stock market prices	**(182)**	(70)

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 daily 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.

2017	**No stated maturity £000**	**0-1 year £000**	**1-3 years £000**	**3-5 years £000**	**> 5 years £000**	**Total £000**
Gross claims outstanding	**–**	**(272,935)**	**(209,309)**	**(121,829)**	**(148,748)**	**(752,821)**
Insurance creditors	**–**	**(5,174)**	**–**	**–**	**–**	**(5,174)**
Reinsurance creditors	**–**	**(668)**	**–**	**–**	**–**	**(668)**
Other creditors	**–**	**(8,322)**	**–**	**–**	**–**	**(8,322)**
Accruals and deferred income	**–**	**(511)**	**–**	**–**	**–**	**(511)**
Total	**–**	**(287,610)**	**(209,309)**	**(121,829)**	**(148,748)**	**(767,496)**

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)

(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 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.

2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares, other variable yield securities and units in unit trusts	126,918	7,241	322	134,481
Debt securities and other fixed income securities	–	118,822	–	118,822
Participation in investment pools	–	383	–	383
Overseas deposits	–	1,866	–	1,866
Total	**126,918**	**128,312**	**322**	**255,552**

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

(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

2017	**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	**–**	**–**	**189**	**–**	**(67)**	**122**
Motor (third party liability)	**–**	**–**	**(1)**	**–**	**–**	**(1)**
Motor (other classes)	**359,007**	**397,557**	**(309,384)**	**(103,238)**	**(6,560)**	**(21,625)**
Fire and other damage to property	**5,364**	**4,817**	**(1,470)**	**(1,893)**	**515**	**1,969**
Other	**11,745**	**12,183**	**(7,289)**	**(3,967)**	**(78)**	**849**
	376,116	**414,557**	**(317,955)**	**(109,098)**	**(6,190)**	**(18,686)**
Reinsurance accepted	**–**	**–**	**414**	**(3)**	**(538)**	**(127)**
Total	**376,116**	**414,557**	**(317,541)**	**(109,101)**	**(6,728)**	**(18,813)**
Investment return						**6,758**
Technical account balance						**(12,055)**

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)

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

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

	2017 £000	2016 £000
Net claims (strengthening)/release	**(4,408)**	(22,690)
Risk margin reserve release	**12,224**	9,705
Loss adjustment expense reserve release	**1,744**	1,479
Total	**9,560**	(11,506)

8. Net operating expenses

	2017 £000	2016 £000
Gross		
Acquisition costs – commission expenses	**54,417**	59,649
Acquisition costs – operating expenses	**19,482**	38,104
Change in deferred acquisition costs – commission expenses	**5,190**	(534)
Change in deferred acquisition costs – operating expenses	**(445)**	(900)
Administrative expenses	**23,369**	7,929
Lloyd's personal expenses and other charges	**7,088**	6,652
	109,101	110,900
Reinsurers' share		
Acquisition costs – commission expenses	**2,122**	(412)
Change in deferred acquisition costs – commission expenses	**(2,970)**	395
	(848)	(17)
Total	**108,253**	110,883

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

	2017 £000	2016 £000
Auditors' remuneration		
Fees payable to the auditor for the audit of the syndicate's annual accounts and Lloyd's returns	**573**	525
Fees payable to the auditor for other services pursuant to legislation	**252**	244
Total	**825**	769

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:

	2017 £000	2016 £000
Wages and salaries	**23,333**	24,967
Social security costs	**2,371**	2,662
Other pension costs	**1,230**	1,243
Other	**1,401**	2,957
Total	**28,335**	31,829

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

	2017 Number	2016 Number
Underwriting	**249**	246
Claims	**318**	317
Administration	**109**	96
Total	**676**	659

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:

	2017 £000	2016 £000
Aggregate emoluments	**849**	894
Pension contributions	**16**	127
Total	**865**	1,021

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

	2017 £000	2016 £000
Aggregate emoluments	**250**	264
Pension contributions	**–**	38
Total	**250**	302

Key management of ERS SML

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

	2017 £000	2016 £000
Salaries and other short term benefits	**2,751**	2,393
Termination benefits	**95**	197
Pension contributions	**376**	253
Total	**3,222**	2,843

The emoluments of the Active Underwriter for the 2017 year of account were charged to the syndicate:

	2017 £000	2016 £000
Aggregate emoluments	**384**	264
Pension contributions	**–**	38
Total	**384**	302

11. Investment return

	2017 £000	2016 £000
Investment income		
Income from financial assets at fair value through profit and loss	**5,917**	2,223
Net (losses)/gains on realisation of investments	**(3,200)**	(790)
	2,717	1,433
Unrealised gains on investments	**10,490**	10,468
Investment expenses and charges	**(2,009)**	(1,116)
Unrealised losses on investments	**(4,440)**	(706)
Total investment return	**6,758**	10,079

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

	2017 £000	2016 £000
Foreign exchange (loss)/gain	**(118)**	457
Total	**(118)**	457

13. Other financial investments

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

	2017		2016	
	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	**134,481**	**106,376**	129,547	106,402
Debt securities and other fixed income securities	**118,822**	**119,349**	171,218	171,509
Participation in investment pools	**383**	**383**	394	394
Overseas deposits	**843**	**843**	640	640
Total	**254,529**	**226,951**	301,799	278,945

14. Debtors arising out of direct insurance operations

	2017 £000	2016 £000
Due within one year		
Policyholders	**78**	78
Intermediaries	**50,703**	69,906
Total	**50,781**	69,984

15. Other debtors

	2017 £000	2016 £000
Due within one year		
Related parties	**41,766**	34,905
Other	**820**	815
Due after one year		
Other	**1,200**	2,000
Total	**43,786**	37,720

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

	2017 £000	2016 £000
Balance at 1 January	**39,373**	38,334
Change in deferred acquisition costs – gross	**(4,745)**	1,434
Change in deferred acquisition costs – reinsurers' share	**2,970**	(395)
Balance at 31 December	**37,598**	39,373

18. Other prepayments and accrued income

	2017 £000	2016 £000
Prepaid administrative expenses	**3,597**	3,960
Prepaid Lloyd's personal expenses and other charges	**4,104**	4,122
Total	**7,701**	8,082

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	**2017**	2016	**2017**	2016
Motor	**3.0%**	3.0%	**17.5 years**	14.9 years

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

	2017		2016	
	Gross £000	**Reinsurers' share £000**	Gross £000	Reinsurers' share £000
Claims provisions before discounting	**798,199**	**456,251**	743,015	380,411
Discounting credits	**(45,378)**	**(39,488)**	(29,832)	(26,946)
Claims provisions after discounting	**752,821**	**416,763**	713,183	353,465

Movements in the mean term of liabilities and the gross discounting credits are due to the increase of settled 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

	2017		2016	
	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	**214,038**	**12,934**	206,853	10,916
Change in unearned premiums	**(38,441)**	**(3,129)**	7,185	2,018
Balance at 31 December	**175,597**	**9,805**	214,038	12,934
Claims outstanding				
Balance at 1 January	**713,183**	**353,465**	570,850	220,836
Claims paid	**(277,903)**	**(7,354)**	(297,609)	(19,640)
Claims incurred	**317,541**	**70,652**	439,942	152,269
Balance at 31 December	**752,821**	**416,763**	713,183	353,465
Claims outstanding				
Claims notified	**626,509**	**289,573**	484,445	136,135
Claims incurred but not reported	**126,312**	**127,190**	228,738	217,330
Balance at 31 December	**752,821**	**416,763**	713,183	353,465
Other technical provisions				
Balance at 1 January	**–**	**8,736**	–	20,249
Change in other technical provisions	**–**	**12,868**	–	(11,513)
Balance at 31 December	**–**	**21,604**	–	8,736

Other technical provisions relate to the TPRe reinsurance recoverables on cedable claims that have not exceeded the attachment point.

21. Creditors arising out of direct insurance operations

	2017 £000	2016 £000
Due within one year		
Intermediaries	**5,174**	2,872
Total	**5,174**	2,872

22. Other creditors including taxation and social security

	2017 £000	2016 £000
Due within one year		
Tax authorities	**7,042**	10,811
Related parties	**1,280**	1,268
Total	**8,322**	12,079

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

	2017 £000	2016 £000
Loss for the financial year	**(12,173)**	(21,743)
Increase in gross technical provisions	**1,197**	149,518
Increase in reinsurers' share of technical provisions	**(73,037)**	(123,133)
Decrease in debtors	**16,204**	10,943
(Decrease)/increase in creditors	**(7,197)**	5,450
Movements in other assets/liabilities	**132**	(765)
Investment return	**(8,058)**	(6,555)
Net cash (outflow)/inflow from operating activities	**(82,932)**	13,715

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 through a corporate entity is as follows:

Year of account	Stamp participation £000
2018	559
2017	459
2016	345
2015	335

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
2018	323,892
2017	292,860
2016	219,361
2015	213,269

ERS CML's share of the syndicate loss for the year is £7,449,570. ERS CML's share of the syndicate's 2015 closed year of account loss is £9,923,140.

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
2017 calendar year	4	3,949
2016 calendar year	76	3,550

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2015 closed year	(12)	3,498
2014 closed year	73	4,375

26. Related parties (continued)

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
2017 calendar year	(540)	747
2016 calendar year	(1,256)	789

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2015 closed year	(2)	903
2014 closed year	–	461

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 SML 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.

ERS SSL recharged the following expenses to the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2017 calendar year	40,960	47,924
2016 calendar year	34,727	52,345

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2015 closed year	4,106	57,342
2014 closed year	3,247	63,182

26. Related parties (continued)

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 generated the following income for the syndicate:

	Closing balance receivable/ (payable) £000	In-year expense/ (income) transactions £000
2017 calendar year	–	–
2016 calendar year	(2)	2

	Closing balance receivable/ (payable) £000	Cumulative expense/ (income) transactions £000
2015 closed year	–	–
2014 closed year	(2)	(5)

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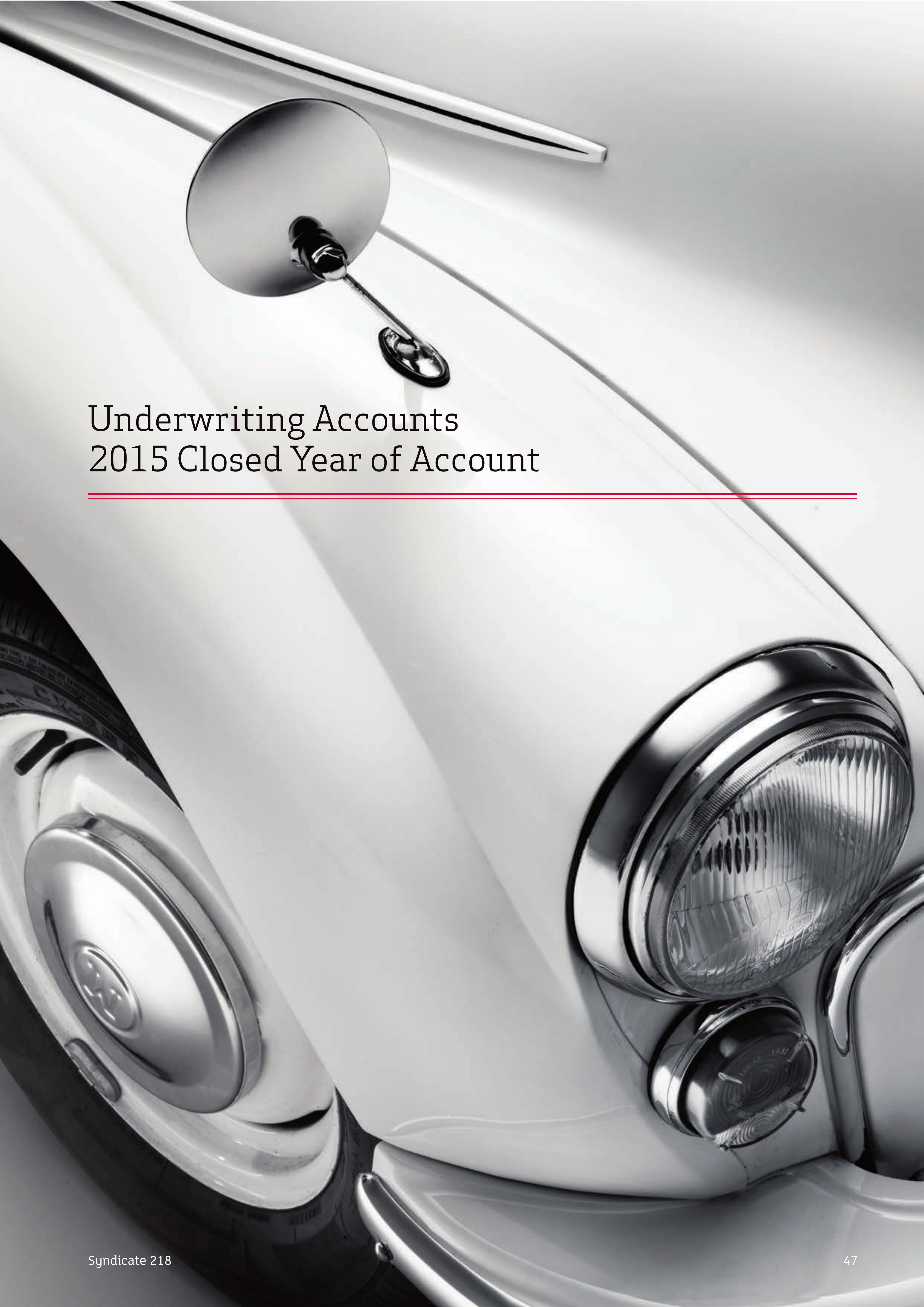

Underwriting Accounts
2015 Closed Year of Account

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 2015 closed underwriting year of account as at 31 December 2017.

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

Review of the 2015 closed year of account

The 2015 account has closed with a loss of £16,277,000 after personal expenses representing a loss on underwriting capacity of 4.7%. The profit attributable to business reinsured into the 2015 year of account was £15,918,000 representing a profit on underwriting capacity of 4.5%. The pure 2015 underwriting year (excluding the 2014 and prior years which reinsured into 2015) has generated a loss of £32,195,000 representing 9.2% of underwriting capacity, which is a deterioration on the original syndicate business forecast expected profit of 2.5% 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 2017 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:

Ian Parker
Director

14 March 2018

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 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 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 – 2015 closed year of account

Report on the syndicate underwriting accounts

Opinion

In our opinion, Syndicate 218's syndicate underwriting year accounts for the 2015 year of account for the three years ended 31 December 2017 (the "syndicate underwriting year accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its loss for the 2015 closed year of account;
- have been properly prepared in accordance with United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland", as modified by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate underwriting year accounts included within the syndicate annual accounts (the "Annual Report"), which comprise:

- the statement of comprehensive income for the three years then ended;
- the balance sheet as at 31 December 2017;
- the statement of changes in members' balances;
- the cash flow statement for the three years then ended; and
- the notes to the syndicate underwriting accounts, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Conclusions relating to going concern

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

Reporting on other information

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

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

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance

Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

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

Managing Agent's Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate underwriting year accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

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

Responsibilities for the syndicate underwriting accounts and the audit

Responsibilities of the Managing Agent for the syndicate underwriting accounts
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 49, the Managing Agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the applicable framework and for being satisfied that they give a true and fair view of the result for the 2015 closed year of account. The Managing Agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

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

14 March 2018

Statement of comprehensive income – technical account for general business

	Note	£000
Syndicate allocated capacity		**349,828**
Earned premiums, net of reinsurance		
Gross premiums written	2	**386,192**
Outward reinsurance premiums		**(13,671)**
Earned premiums, net of reinsurance		**372,521**
Reinsurance to close premium received, net of reinsurance	3	**131,540**
Allocated investment return transferred from non-technical account	11	**6,759**
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		**(262,459)**
Reinsurers' share		**6,081**
Net claims paid		**(256,378)**
Reinsurance to close premium payable, net of reinsurance	4	**(154,788)**
Claims incurred, net of reinsurance		**(411,166)**
Net operating expenses	2,5	**(119,494)**
Balance on the technical account for general business		**(19,840)**

All items relate to continuing operations.

The notes on pages 57 to 61 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		**(19,840)**
Investment return		
Investment income	11	**2,350**
Unrealised gains on investments	11	**10,033**
Investment expenses and charges	11	**(1,984)**
Unrealised losses on investments	11	**(3,640)**
Allocated investment return transferred to technical account for general business	11	**(6,759)**
		–
Other income		**3,600**
Other charges, including value adjustments		**(37)**
		3,563
Loss for the 2015 closed year of account		**(16,277)**

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 57 to 61 form an integral part of these underwriting accounts.

Balance sheet

	Note	£000
Assets		
Investments	6	**110,828**
Debtors	7	**9,788**
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	**300,830**
		421,446
Other assets		
Cash at bank and in hand		**16,597**
Overseas deposits	8	**1,023**
Accrued interest and rent		**514**
Deferred acquisition costs	13	**1,152**
		19,286
Total assets		**440,732**
Members' balances		**(17,217)**
Liabilities		
Gross reinsurance to close premium payable	4	**455,618**
Creditors	9	**2,406**
Accruals and deferred income		**(75)**
		457,949
Total liabilities		**440,732**

The notes on pages 57 to 61 form an integral part of these underwriting accounts.

The underwriting year accounts on pages 52 to 56 were approved by the Board on 12 March 2018 and signed on behalf of the syndicate's managing agent by:

Katharine A Wade
Finance Director

14 March 2018

Statement of changes in members' balances

	£000
2014 year of account	
Members' balances brought forward at 31 December 2016	**(21,903)**
Receipt of the loss from members' personal reserve funds	**21,903**
Members' balances carried forward at 31 December 2017	**–**
2015 year of account	
Loss for the 2015 closed year of account	**(16,277)**
Members' agent fees paid on behalf of members	**(940)**
Amounts due from members carried forward at 31 December 2017	**(17,217)**
Combined amount due from members carried forward at 31 December 2017	**(17,217)**

The notes on pages 57 to 61 form an integral part of these underwriting accounts.

Cash flow statement

	Note	£000
Net cash inflow from operating activities	12	**12,738**
Cash flow from investing activities		
Purchase of equity and debt instruments		**(45,493)**
Sale of equity and debt instruments		**29,804**
Investment income received net of expenses paid		**(1,415)**
Net cash generated/(used) in investing activities		**(17,104)**
Cash flow from financing activities		
Transfer from members in respect of underwriting participations		**21,903**
Members' agents fees		**(940)**
Net cash generated/(used) in financing activities		**20,963**
Net increase in cash at bank and in hand		**16,597**
Cash and cash equivalents at the beginning of the period		**–**
Cash and cash equivalents at the end of the period		**16,597**
Cash and cash equivalents consist of:		
Cash at bank and in hand		**16,597**
Cash and cash equivalents		**16,597**

The notes on pages 57 to 61 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 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 2015 year of account which has been closed by reinsurance to close as at 31 December 2017. Consequently, the balance sheet represents the assets and liabilities of the 2015 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.

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

RITC premium
The 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

2015 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	–	189	–	(67)	122
Motor (third party liability)	–	(1)	–	–	(1)
Motor (other classes)	363,431	(266,471)	(112,548)	(15,647)	(31,235)
Fire and other damage to property	4,526	(1,344)	(1,729)	469	1,922
Other	18,235	(10,375)	(5,086)	(54)	2,720
	386,192	(278,002)	(119,363)	(15,299)	(26,472)
Reinsurance accepted	–	414	(3)	(538)	(127)
Total	**386,192**	**(277,588)**	**(119,366)**	**(15,837)**	**(26,599)**
Investment return					6,759
Technical account balance					**(19,840)**

3. RITC premium received, 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 received	**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 received	**(308,949)**
RITC premium received, net of reinsurance	**131,540**

4. RITC premium paid, net of reinsurance

2015 year of account closure at 31 December 2017	£000
Gross	
Provision for reported claims	**383,590**
Provision for IBNR	**72,028**
Gross RITC payable	**455,618**
Reinsurers' share	
Provision for reported claims	**(218,902)**
Provision for IBNR	**(72,711)**
Other technical provisions	**(9,217)**
Reinsurance recoveries anticipated on gross RITC premium payable	**(300,830)**
RITC premium payable, net of reinsurance	**154,788**

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

5. Net operating expenses

	£000
Gross	
Acquisition costs – commission expenses	**57,079**
Acquisition costs – operating expenses	**47,312**
Administrative expenses	**6,300**
Lloyd's personal expenses and other charges	**6,344**
Auditor's remuneration	**873**
Directors' remuneration	**1,458**
	119,366
Reinsurers' share	
Acquisition costs – commission expenses	**128**
	128
Total	**119,494**

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	**58,189**	46,028
Debt securities and other fixed income securities	**51,413**	51,641
Participation in investment pools	**383**	384
Overseas deposits	**843**	843
Total	**110,828**	98,896

7. Debtors

	£000
Debtors arising out of direct insurance operations – policyholders	**74**
Debtors arising out of direct insurance operations – intermediaries	**2,703**
Debtors arising out of reinsurance operations	**901**
Debtors due from related parties	**4,110**
Other	**2,000**
Total	**9,788**

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	**2,391**
Other	**15**
Total	**2,406**

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%**	**17.5 years**

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

	Gross £000	Reinsurers' share £000
Claims provisions before discounting	500,996	340,318
Discounting credits	(45,378)	(39,488)
Claims provisions after discounting	**455,618**	**300,830**

11. Investment return

	£000
Investment income	
Income from financial assets at fair value through profit and loss	**3,398**
Net gains on realisation of investments	**(1,048)**
	2,350
Unrealised gains on investments	**10,033**
Investment expenses and charges	**(1,984)**
Unrealised losses on investments	**(3,640)**
Total investment return	**6,759**

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 inflow from operating activities

	£000
Loss for the closed year of account	**(16,277)**
RITC premium received, net of reinsurance – non cash consideration	**(118,327)**
RITC premium payable, net of reinsurance	**154,788**
Increase in debtors	**(2,539)**
Increase in creditors	**909**
Movements in other assets and liabilities	**(472)**
Investment return	**(5,344)**
Net cash inflow from operating activities	**12,738**

13. Deferred acquisition costs

	£000
Deferred acquisition costs – reinsurers' share	**1,152**
Total	**1,152**

Reinsurers' share of deferred acquisition cost relate to the deferral of TPRe fees.

14. Related parties

Information regarding related parties of the syndicate is disclosed on pages 43 to 45.

Seven year summary of results

	2009 closed	2010 closed	2011 closed	2012 closed	2013 closed	2014 closed	2015 closed
Syndicate allocated capacity (£'000)	452,082	485,906	485,976	436,931	437,278	437,522	349,828
Number of members of the syndicate	1,367	1,384	1,471	1,412	1,390	1,331	1,293
Aggregate net premiums (£'000)	566,131	585,737	499,876	418,546	347,434	346,344	372,521

	2009 £	2010 £	2011 £	2012 £	2013 £	2014 £	2015 £
Result for a member with an illustrative share of £10,000							
Gross premiums written	13,287	12,704	10,938	9,932	9,725	8,695	11,040
As a percentage of allocated capacity	*133%*	*127%*	*109%*	*99%*	*97%*	*87%*	*110%*
Net premiums written	12,523	12,055	10,286	9,579	7,945	7,916	10,649
As a percentage of allocated capacity	*125%*	*121%*	*103%*	*96%*	*79%*	*79%*	*106%*
Premiums for the reinsurance to close an earlier year of account	3,037	5,137	4,971	5,427	4,750	3,365	3,760
Net claims paid	(8,880)	(10,213)	(8,120)	(6,793)	(5,740)	(5,893)	(7,329)
Reinsurance to close year of account	(5,521)	(4,972)	(4,880)	(4,754)	(3,368)	(3,006)	(4,425)
Underwriting result	1,159	2,007	2,257	3,459	3,587	2,382	2,655
As a percentage of gross premiums	*9%*	*16%*	*21%*	*35%*	*37%*	*27%*	*24%*
Syndicate operating expenses	(3,857)	(4,183)	(3,619)	(3,464)	(3,333)	(2,900)	(3,132)
Net underwriting result	(2,698)	(2,176)	(1,362)	(5)	254	(518)	(477)
As a percentage of gross premiums	*(20%)*	*(17%)*	*(12%)*	*(0%)*	*3%*	*(6%)*	*(4%)*
Investment return	92	286	283	188	156	205	193
Profit/(loss) before personal expenses	(2,606)	(1,890)	(1,079)	183	410	(313)	(284)
Illustrative personal expenses	(196)	(190)	(177)	(152)	(166)	(161)	(181)
Illustrative profit commission	–	–	–	–	–	–	–
Profit/(loss) after illustrative profit commission and personal expenses (£)	(2,802)	(2,080)	(1,256)	31	244	(474)	(465)

Notes:

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

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