Important information about Syndicate Reports and Accounts

Skuld Syndicate 1897

Syndicate Annual Report and Accounts

31 December 2017

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Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell (Chairman)*
R P Barke
C V Barley
L Harfitt
A J Hubbard*
D J G Hunt
M D Mohn*
S P A Norton
J W Ramage*
K Shah*
J M Tighe

Non-Executive Directors*

Company Secretary

C Chow

Managing Agent's Registered Office

5th Floor
Camomile Court
23 Camomile Street
London
EC3A 7LL

Managing Agent's Registered Number

1918744

Active Underwriter

M W Bennett

Bankers

Barclays Plc
Citibank NA
RBC Dexia

Investment Managers

New England Asset Management Limited (NEAM)

Registered Auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Managing Agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their report for the year ended 31 December 2017.

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

Results

The total recognised income for calendar year 2017 is a loss of £9.3m (2016: loss of £20.5m). Profits and losses will be distributed and collected by reference to the results of individual underwriting years.

The Syndicate presents its results under FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. In accordance with FRS102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS103.

Principal activity and review of the business

The Syndicate's principal activity continues to be the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate writes predominately marine and energy insurance primarily in the United Kingdom. The 2017 year saw the continuation of a property portfolio which is subject to an 85.5% (2016: 90%) quota share reinsurance with the Syndicate's Special Purpose Arrangement 6126 ("SPA6126").

Gross written premium income by class of business for the calendar year was as follows:

	2017 £'000	**2016 £'000**
Builders / Special Risks	332	2,212
Cargo	5,431	10,294
Energy Upstream Onshore	8,493	7,639
HE – Treaty	931	899
Increased Value	2,188	1,724
Loss of Hire	2,334	8,185
Marine Hull	24,171	25,296
Marine Liability	10,646	9,260
Marine War Risks	1,690	1,187
Non Marine Liability	7,292	4,431
OEGW Offshore Energy GOM	(6)	18
Offshore Energy Excluding GOM Wind	10,043	5,196
Political Risks	131	111
Ports and Terminals	2,073	5,200
Property Binders	17,337	6,350
Property D&F	32,661	22,742
Property Treaty	10,185	639
Speciality	514	0
Yachts	1,591	2,016
	138,037	113,399

Managing Agent's report continued

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

	2017 £'000	**2016 £'000**	**Change %**
Gross written premiums	138,037	113,399	21.7%
Loss for the financial year	(13,161)	(21,623)	(39.1%)
Total comprehensive loss	(9,251)	(20,478)	(54.8%)
Combined ratio	115.6%	127.0%	(11.4)%

Traditionally, the performance of the Syndicate has been assessed by measuring, as a percentage of underwriting capacity, the 36 month result on a funded accounting basis for a "closed" underwriting year of account.

The return on capacity for the 2015 closed year of account at 31 December 2017 is shown below together with forecasts for the two open years of account.

	2015 YOA Closed	**2016 YOA Open**	**2017 YOA Open**
Capacity (£'000)	90,000	130,000	147,000
Result/forecast (£'000)	(17,889)	(11,741)	(6,546)
Return on capacity (%)	(19.88%)	(9.03%)	(4.45%)

Principal risks and uncertainties

The Syndicate sets risk appetite annually, which is approved by the Agency as part of the Syndicate's business planning and Solvency Capital Requirement ('SCR') process. The Agency Risk Committee meets quarterly to oversee the risk management framework. The Syndicate Board reviews the risk profile and monitors performance against risk appetite using a series of key risk indicators. The principal risk and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the Syndicate actuary and the Reserving Committee.

Credit risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Syndicate Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers before business is placed with them.

Market risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board, a sub-committee of the Agency Board.

Exposure to changes in interest rates comes from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high quality floating rate notes.

In addition, an Investment committee which reports to the Syndicate Board ensures that the Syndicate's investments are held in high quality instruments.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the Syndicate Board and Investment Committee reviews cash flow projections regularly.

Operational risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a compliance officer who manages a team of four that monitor business activity and regulatory developments and assesses any effects on the Agency.

The Syndicate has no appetite for failing to treat customers fairly. The Syndicate manages and monitors its conduct risk through a suite of risk indicators and reporting metrics as part of its documented conduct risk framework.

Group / strategic risk

This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business.

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

Future developments

The Syndicate will continue to transact the current classes of general direct insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The capacity for the 2018 year of account is £65m (2017 year of account £147m). The fall in capacity is because the Property book that was substantially ceded to SPA6126 is, for 2018, written through a separate syndicate. SPA6126 does not have a 2018 underwriting year and the 2017 and 2016 underwriting years are naturally open.

Managing Agent's report continued

The risks to UK economic growth remain significant not least because of the UK's decision to leave the European Union ("EU") ("Brexit"). There is significant change and associated uncertainty ahead for the market which is difficult to anticipate as the terms of the UK's exit from the EU remain unclear. Until that happens, the market will need to plan carefully for all possible scenarios to mitigate the impact of Brexit on Lloyd's businesses.

EU membership and access to the single market has enabled underwriters at Lloyd's to underwrite insurance and reinsurance from all the other 27 member states on a cross-border basis. The underwriters operate under a "passport" system, which allows them to conduct business throughout the EU while being regulated and supervised by the PRA.

To mitigate the impact of the Lloyd's Syndicates losing EEA passporting rights, Lloyd's are in the process of setting up an EU regulated insurance company (LIC) and have outlined the operational changes that syndicates will need to make to retain their EEA business, albeit through Reinsurance of LIC. The Managing Agency will be working with the Syndicate to implement these operational change in 2018 and to mitigate the risk of losing access to EEA business.

Directors

Details of the Directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 1. Changes to directors were as follows:

R P Barke	Appointed 1 January 2018
D F C Murphy	Resigned 30 June 2017

Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's Auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

The Managing Agent intends to reappoint Ernst & Young LLP as the Syndicate's auditors.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 13 April 2018

On behalf of the Board

C Chow
Company Secretary
16 March 2018

Statement of Managing Agent's responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently; subject to changes arising on the adoption of new accounting standards in the year.

- make judgements and estimates that are reasonable and prudent;

- state whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and

- prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

Independent auditor’s report

Independent auditor's report to the members of Syndicate 1897

Opinion

We have audited the syndicate annual accounts of Syndicate 1897 (‘the syndicate’) for the year ended 31 December 2017 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members’ Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 22, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and FRS 103 ‘Insurance Contracts’ (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate’s affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

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

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

Use of our report

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

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

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 6, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of the syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

Independent auditor's report continued

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

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

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

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

Benjamin Gregory (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
16 March 2018

Income statement

Technical account - General business

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Gross premiums written	3	138,037	113,399
Outward reinsurance premiums		(51,447)	(33,205)
Net written premiums		86,590	80,194
Change in the provision for unearned premiums			
• Gross amount		(8,193)	(11,502)
• Reinsurers' share		7,676	12,162
Change in the net provision for unearned premiums	4	(517)	660
Earned premiums, net of reinsurance		86,073	80,854
Allocated investment return transferred from the non-technical account		298	219
Claims paid			
• Gross amount		(90,270)	(67,098)
• Reinsurers' share		35,591	4,400
		(54,679)	(62,698)
Changes in claims outstanding			
• Gross amount		(53,385)	(19,115)
• Reinsurers' share		45,031	13,625
Change in the net provision for claims	4	(8,354)	(5,490)
Claims incurred, net of reinsurance		(63,033)	(68,188)
Net operating expenses	5	(37,707)	(34,431)
Balance on technical account – general business		(14,369)	(21,546)

Income statement continued

Non-technical account - General business

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Balance on technical account – general business		(14,369)	(21,546)
Investment income	9	298	219
Allocated investment return transferred to the general business technical account		(298)	(219)
Exchange gains/(losses)		1,208	(77)
Loss for the financial year		(13,161)	(21,623)

All the amounts above are in respect of continuing operations.

The notes on pages 15 to 38 form part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2017

	2017 £'000	2016 £'000
Loss for the financial year	(13,161)	(21,623)
OCI – Currency Translation Differences	3,910	1,145
Total comprehensive loss for the year	(9,251)	(20,478)

Statement of changes in members' balances

For the year ended 31 December 2017

	2017 £'000	2016 £'000
At 1 January	(33,132)	(12,182)
Total comprehensive loss for the year	(9,251)	(20,478)
Collection/(Distribution) from members	2,784	(472)
At 31 December	(39,599)	(33,132)

Statement of financial position

As at 31 December 2017

	Notes	2017 £'000	2016 £'000
ASSETS			
Investments			
Financial investments	10	35,481	42,077
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	20,380	14,533
Claims outstanding	4	64,356	21,972
		84,736	36,505
Debtors			
Debtors arising out of direct insurance operations	11	42,364	46,473
Debtors arising out of reinsurance operations	12	15,584	14,048
Other debtors		740	567
		58,688	61,088
Cash and other assets			
Cash at bank and in hand	16	5,899	9,474
Other assets	15	6,337	8,287
		12,236	17,761
Prepayments and accrued income			
Deferred acquisition costs	4	15,580	15,680
Other prepayments and accrued income		89	135
		15,669	15,815
Total assets		206,810	173,246

The notes on pages 15 to 38 form part of these financial statements.

Statement of financial position continued

As at 31 December 2017

	Notes	2017 £'000	2016 £'000
MEMBERS' BALANCE AND LIABILITIES			
Capital and reserves			
Members' balances		(39,599)	(33,132)
Liabilities			
Technical provisions			
Provision for unearned premiums	4	69,245	70,050
Claims outstanding	4	152,455	110,206
		221,700	180,256
Creditors			
Creditors arising out of direct insurance operations	13	908	1,781
Creditors arising out of reinsurance operations	14	22,605	22,917
		23,513	24,698
Accruals and deferred income		1,196	1,424
Total liabilities		246,409	206,378
Total members' balances and liabilities		206,810	173,246

The notes on pages 15 to 38 form part of these financial statements.

The financial statements on pages 10 to 38 were approved by board of directors on 13 March 2018 and were signed on its behalf by:

D J G Hunt
Director
16 March 2018

Statement of cash flows

For the year ended 31 December 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Loss on ordinary activities		(13,161)	(21,623)
Increase in gross technical provisions		41,444	48,994
Increase in reinsurers' share of gross technical provisions		(48,231)	(28,925)
Decrease/(Increase) in debtors		2,400	(6,132)
(Decrease)/Increase in creditors		(1,185)	18,608
Movement in other asset/liabilities		1,868	(6,803)
Foreign exchange		6,783	(7,435)
Investment Return		(298)	(219)
Net cash outflows from operating activities		(10,380)	(3,535)
Cash from investing activities			
Purchase of equity and debt instruments		(54,944)	-
Sale of equity and debt instruments		27,525	-
Investment income received		298	219
Net cash (outflows)/inflows from investing activities		(27,121)	219
Cash from financing activities			
Collection of losses		2,784	-
Profit distribution		-	(471)
Net cash inflows/(outflows) from financing activities		2,784	(471)
Net decrease in cash and cash equivalents		(34,717)	(3,787)
Cash and cash equivalents at beginning of year		51,551	46,758
Exchange differences on opening cash		(2,873)	8,580
Cash and cash equivalents at end of year	16	13,961	51,551

Notes to the financial statements

For the year ended 31 December 2017

1. Basis of preparation

Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. The Syndicate's functional currency is USD. The financial statements are prepared in GBP which is the reporting and presentational currency of the Syndicate and rounded to the nearest £'000.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

2. Accounting Policies

Use of estimates

In preparation of the financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accounts, and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. Significant items subject to such estimates and assumptions include:

(i) provision for claims outstanding (refer to claims incurred accounting policy);

(ii) estimates of future premium for binder contracts (refer to gross premiums accounting policy).

Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's annual accounts.

Gross premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates, primarily relating to binder business, are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying future premium, is that past premium development can be used to project future premium development.

Accounting policies continued

Reinsurance premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

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

Claims incurred

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date, but not reported until after the year end.

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by actuaries. These techniques generally involve projecting from past experience of 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. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business and the claims experience for the year. The Syndicate uses a number of statistical techniques to assist in making these estimates.

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

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

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Accounting policies continued

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired risks

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

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

At 31 December 2017 the Syndicate had £0.1m of unexpired risk provision (31 December 2016 £0.6m).

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2017 or 2016.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Accounting policies continued

Insurance receivables are not recognised when the derecognition criteria for financial assets have been met.

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

Foreign currencies

The Syndicate's functional currency is USD. The reporting and presentational currency is GBP.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

The following balance sheet rates of exchange have been used in the preparation of these accounts:

	2017	**2016**
	Year End	**Year End**
USD	1.35	1.24
CAD	1.70	1.66
EUR	1.13	1.17

Financial liabilities

The Syndicate's financial liabilities include trade and other payables and insurance payables. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

A financial liability is derecognised when the obligation under the liability is discharged or expires.

Financial investments

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis.

Accounting policies continued

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business.

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 (currently at 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

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

Accounting policies continued

Profit commission

Profit commission is charged by the managing agent at a rate of 5% of profit subject to the operation of a two year deficit clause. Such commission does not become payable until after the appropriate year of account closes normally at 36 months.

Pension costs

The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Syndicate operating expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed Syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used and volume of business transacted.

3. Segmental analysis

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

2017	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Marine aviation and transport	55,702	59,477	(47,069)	(18,847)	734	(5,705)
Fire and other damage to property	35,972	25,904	(52,095)	(7,413)	26,169	(7,435)
Third-party liability	6,891	5,631	(2,025)	(1,437)	40	2,209
Pecuniary loss	14	16	(6)	(2)	1	9
Other	-	-	(190)	-	171	(19)
	98,579	91,028	(101,385)	(27,699)	27,115	(10,941)
Reinsurance	39,458	38,816	(42,270)	(10,008)	9,736	(3,726)
Total	138,037	129,844	(143,655)	(37,707)	36,851	(14,667)

2016	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Direct insurance:						
Marine aviation and transport	59,786	63,792	(55,150)	(22,270)	(1,783)	(15,411)
Fire and other damage to property	19,841	12,934	(16,154)	(3,857)	2,422	(4,655)
Third-party liability	3,607	2,200	(853)	(740)	(225)	382
Pecuniary loss	(2)	10	(3)	(7)	(1)	(1)
Other	-	-	-	-	-	-
	83,232	78,936	(72,160)	(26,874)	413	(19,685)
Reinsurance	30,167	22,961	(14,053)	(7,557)	(3,432)	(2,081)
Total	113,399	101,897	(86,213)	(34,431)	(3,019)	(21,766)

Commissions on direct insurance gross premiums earned during 2017 were £15.8m (2016: £18.4m).

All premiums were concluded in the UK.

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions.

Gross operating expenses are the same as net operating expenses shown in the income statement, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2017.

4. Technical provisions

	2017			2016		
	Gross provisions £'000	Reinsurance assets £'000	Net £'000	Gross provisions £'000	Reinsurance assets £'000	Net £'000
Claims outstanding						
Balance at 1 January	110,206	(21,972)	88,234	77,314	(6,448)	70,866
Change in claims outstanding	53,385	(45,031)	8,354	19,115	(13,625)	5,490
Effect of FX and other movements	(11,136)	2,647	(8,489)	13,777	(1,899)	11,878
Balance at 31 December	**152,455**	**(64,356)**	**88,099**	**110,206**	**(21,972)**	**88,234**
Claims notified	97,092	(41,290)	55,802	71,704	(16,354)	55,350
Claims incurred but not reported	55,363	(23,066)	32,297	38,502	(5,618)	32,884
Balance at 31 December	**152,455**	**(64,356)**	**88,099**	**110,206**	**(21,972)**	**88,234**
Unearned premiums						
Balance at 1 January	70,050	(14,533)	55,517	53,948	(1,131)	52,817
Change in unearned premiums	8,193	(7,676)	517	11,502	(12,162)	(660)
Effect of movements in exchange rates	(8,998)	1,829	(7,169)	4,600	(1,240)	3,360
Balance at 31 December	**69,245**	**(20,380)**	**48,865**	**70,050**	**(14,533)**	**55,517**
Deferred acquisition costs						
Balance at 1 January	15,680	-	15,680	12,696	-	12,696
Change in deferred acquisition costs	1,964	-	1,964	1,950	-	1,950
Effect of movements in exchange rates	(2,064)	-	(2,064)	1,034	-	1,034
Balance at 31 December	**15,580**	**-**	**15,580**	**15,680**	**-**	**15,680**

5. Net operating expenses

	2017	2016
	£'000	£'000
Acquisition costs	(27,441)	(23,934)
Change in deferred acquisition costs	1,964	1,950
Administration expenses	(12,230)	(12,447)
Net operating expenses	(37,707)	(34,431)

Members' standard personal expenses amounting to £1.6m (2016: £1.6m) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

6. Staff costs

	2017	2016
	£'000	£'000
Wages and salaries	(2,495)	(2,313)
Social security costs	(300)	(273)
Other pension costs	(187)	(218)
	(2,982)	(2,804)

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

	2017	2016
Administration and finance	7	12
Underwriting	16	16
Claims	3	3
	26	31

7. Auditor's remuneration

	2017	2016
	£'000	£'000
Audit of the Syndicate annual accounts	(25)	(23)
Other services pursuant to Regulation and Lloyd's Byelaws	(87)	(86)
Other non-audit services	(64)	(61)
	(176)	(170)

Auditor's remuneration is included as part of the administrative expenses in note 5 to the financial statements.

8. Emoluments of the directors of Asta Managing Agency Ltd

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of J. M. Tighe, S.P.A. Norton, D.J.G. Hunt and L Harfitt. J.M. Tighe and S.P.A Norton's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of D.J.G. Hunt and L Harfitt is disclosed in the financial statements of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate. The emoluments of the Active Underwriter are borne by Skuld Services Limited, and are not separately identifiable from the fee charged by Skuld Services Limited to the Syndicate.

No other compensation was payable to key management personnel.

9. Investment return

	2017	2016
	£'000	£'000
Income from other financial investments	337	219
Gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	13	-
Total investment income	350	219
Losses on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	-	-
Investment expenses and charges	(2)	-
	(2)	-
Net unrealised losses on investments		
- Financial instruments at fair value through profit and loss	(50)	-
Total investment return	298	219

Investment return continued

Average amount of funds available for investing during the year:		
Sterling	6,348	4,648
United States dollars	45,764	45,731
Canadian dollars	15,811	11,434
Euro	9,262	8,786
Combined in sterling	58,751	53,101
Gross calendar year investment yield:		
Sterling	(6)	22
United States dollars	332	214
Canadian dollars	82	69
Euro	(3)	-
Combined in sterling	298	219

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each quarter during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

10. Financial investments

	2017		
	Carrying value	**Purchase price**	**Listed**
	£'000	**£'000**	**£'000**
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	8,062	8,062	8,062
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	27,419	27,469	27,427
	35,481	35,531	35,489

Financial investments continued

	2016		
	Carrying value	Purchase price	Listed
	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	42,077	42,077	42,077
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	-	-	-
	42,077	42,077	42,077

Amounts included within Shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These have the attributes of a cash instrument with the carrying value and purchase price being the same.

There was no material change in fair value for financial instruments held at fair value (other than derivatives) attributable to own credit risk in the current or comparative period.

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

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
31 December 2017				
Shares and other variable yield securities and units in unit trusts	-	8,062	-	8,062
Debt securities and other fixed income securities	11,319	16,100	-	27,419
Other assets	3,837	2,494	6	6,337
Total	15,156	26,656	6	41,818

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
31 December 2016				
Shares and other variable yield securities and units in unit trusts	-	42,077	-	42,077
Debt securities and other fixed income securities	-	-	-	-
Other assets	6,044	2,243	-	8,287
Total	6,044	44,320	-	50,364

Financial investments continued

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data.

11. Debtors arising out of direct insurance operations

	2017	2016
	£'000	£'000
Due from intermediaries within one year	42,288	46,349
Due from intermediaries after one year	76	124
	42,364	46,473

12. Debtors arising out of reinsurance operations

	2017	2016
	£'000	£'000
Due from intermediaries within one year	15,584	14,048
Due from intermediaries after one year	-	-
	15,584	14,048

13. Creditors arising out of direct insurance operations

	2017	2016
	£'000	£'000
Due to intermediaries within one year	891	1,771
Due to intermediaries after one year	17	10
	908	1,781

14. Creditors arising out of reinsurance operations

	2017	2016
	£'000	£'000
Due to intermediaries within one year	5,144	5,213
Due to intermediaries after one year	17,461	17,704
	22,605	22,917

15. Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

16. Cash and cash equivalents

	2017	2016
	£'000	£'000
Cash at bank and in hand	5,899	9,474
Shares and other variable yield securities and units in unit trusts	8,062	42,077
	13,961	51,551

Shares and other variable yield securities and units in unit trusts are investments in nature but are treated as Cash and cash equivalents for cash flow purposes, so therefore are included in both Financial investments and Cash and cash equivalents.

17. Related parties

Asta provides service and support to Syndicate 1897 in its capacity as Managing Agent. Managing agent's fees of £0.9m (2016: £0.8m) and service charges of £2.1m (2016: £2.2m) were recharged by Asta to the Syndicate during 2017. As at 31 December 2017 an amount of £0.3m (2016: £0.3m) was owed to Asta in respect of services provided.

From time to time, Syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Byelaw provisions. All transactions are entered into on an arms length basis.

Skuld Services Limited provided support to the syndicate throughout 2017. These fees were £5.0m (2016: £4.9m), held in Administration expenses. As at 31 December 2017 an amount of £0.4m (2016: £0.7m) was owed to Skuld Services Limited in respect of services provided, which is held within Accruals and Deferred Income in the financial statements.

18. Disclosure of interests

Managing Agent's interest

During 2017 Asta was the managing agent for ten Syndicates and three Special Purpose Arrangements. Syndicates 1686, 1729, 1897, 1910, 2357, 2525, 2689, 2786, 4242 and 5886 as well as Special Purpose Arrangements 6117, 6123 and 6126 were managed on behalf of third party capital providers.

On 7 February 2017, Syndicate 1910 and Special Purpose Arrangement 6117 migrated to Argo Managing Agency Limited.

Disclosure of interests continued

On 4 August 2017, Syndicate 1686 migrated to AXIS Managing Agency Ltd.

On 1 January 2018 Asta took on management of Syndicate 1980 and Syndicate 3268. Asta also took on management of Special Purpose Arrangement 6131.

The agency also provides administrative services to Syndicates and undertakes a number of ancillary roles for clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

19. 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 PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses. Refer to note 21 for further details.

20. Off-balance sheet items

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

21. Risk management

a) Governance framework

The Syndicate's risk and financial management framework aims to protect the Syndicate's members capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, while maximising the returns to its members. The directors recognise the critical importance of having efficient and effective risk management systems in place.

Asta maintains a risk management function for the Syndicate with clear terms of reference from the Syndicate Board, its committees and sub committees. Asta supplements this with a clear organisational structure with documented delegated authorities and responsibilities from the main Asta managing agency board to the Syndicate who perform the underwriting activities. Lastly, the Syndicate policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the Syndicate.

The Syndicate board approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. The Syndicate board places significant emphasis on the assessment and documentation of risks and controls, including the articulation of the Syndicate's risk appetite.

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 1897 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), held within and managed within a Syndicate (Funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 12, represent resources available to meet members' and Lloyd's capital requirements.

Risk management continued

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risks mitigation programme. The syndicate's reinsurance program is predominantly covered by a whole account, non-proportional losses occurring during policy which covers the calendar year. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

Sub committees of the Syndicate board oversee the management of reserving risk. The use of standardised and internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the Syndicate's risk appetite as decided by the Syndicate board.

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising out of the Realistic Disaster Scenarios (RDS) on the Syndicate's in-force exposure at 31 December 2017.

	Estimated Gross loss	**Estimated Net loss**
	£'000	**£'000**
Aggregate Exceedance Probability Loss 30 Year Return Period – Whole World	(49,621)	(7,173)
Aggregate Exceedance Probability Loss 30 Year Return Period – US WS (Incl. GM WS)	(40,087)	(905)
Alternative RDS A	(29,851)	(746)
Cyber – Major Data Security Breach	(29,384)	(746)
Aggregate Exceedance Probability Loss 30 Year Return Period – UC EQ	(22,013)	(906)
Marine – Marine Collision in US Waters	(19,847)	(746)

Risk management continued

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

	2017 Loss/(Profit)	**2016 Loss/(Profit)**
Gross	**£’000**	**£’000**
Five percent increase	7,775	5,621
Five percent decrease	(7,775)	(5,621)
Net		
Five percent increase	4,493	4,500
Five percent decrease	(4,493)	(4,500)

The Syndicate has material exposure to the Hurricanes Harvey, Irma and Maria (“HIM”) in the 2016 and 2017 year of account. This increases the uncertainty of the Syndicate’s total reserves, but does not increase that uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. A 5% increase in Gross (Net) HIM reserves would result in an £1.7m (£0.1m) increase in Gross (Net) Reserves.

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

The Syndicate has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined by the balance sheet date.

Risk management continued

Underwriting year	2011	2012	2013	2014	2015	2016	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative gross claims incurred:							
At end of underwriting year	7,385	17,460	26,751	29,308	34,323	52,362	84,295
One year later	17,680	33,775	55,137	61,385	67,469	97,222	
Two years later	20,365	37,482	54,757	64,243	70,756		
Three years later	19,960	34,933	52,957	66,876			
Four years later	20,867	34,771	53,917				
Five years later	20,952	34,673					
Six years later	21,202						
Less cumulative gross paid	(20,551)	(33,136)	(48,670)	(56,151)	(51,068)	(45,956)	(20,954)
Liability for gross outstanding claims (2011 to 2017)	651	1,537	5,247	10,725	19,688	51,266	63,341
Total gross outstanding claims all years							152,455

Underwriting year	2011	2012	2013	2014	2015	2016	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative net claims incurred:							
At end of underwriting year	6,532	14,700	24,109	25,919	32,935	36,872	25,489
One year later	13,150	31,922	47,924	54,178	64,664	62,213	
Two years later	15,551	35,540	49,859	56,629	67,857		
Three years later	14,550	32,573	47,754	59,004			
Four years later	15,017	32,411	48,716				
Five years later	14,906	32,313					
Six years later	15,114						
Less cumulative net paid	(14,788)	(30,775)	(43,892)	(49,183)	(49,477)	(29,798)	(4,694)
Liability for net outstanding claims (2011 to 2017)	326	1,538	4,824	9,821	18,380	32,415	20,795
Total net outstanding claims all years							88,099

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for future experience potentially being more adverse than assumed is at its highest.

As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus. In 2017, there has been an overall deficit of £4.9m on prior year reserves (2016 deficit of £2.3m). The deficit is primarily driven by premium reductions and reserve increases on the marine and energy classes of business.

Risk management continued

d) Financial risk

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to honour their obligation to the Syndicate.

The following policies and procedures are in place to mitigate the exposure to credit risk:

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub-committee of the Syndicate Board.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2017	**£'000**			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	8,062	-	-	8,062
Debt Securities and other fixed income securities	27,419	-	-	27,419
Overseas Deposits	6,337	-	-	6,337
Reinsurers share of claims outstanding	64,356	-	-	64,356
Debtors arising out of direct insurance operations	36,506	5,858	-	42,364
Debtors arising out of reinsurance insurance operations	866	-	-	866
Other debtors	50,232	1,275	-	51,507
Cash and cash equivalents	5,899	-	-	5,899
Total	199,677	7,133	-	206,810

Risk management continued

2016	£'000			
	Neither past due or impaired	Past due	Impaired	Total
Shares and other variable yield securities	42,077	-	-	42,077
Debt Securities and other fixed income securities	-	-	-	-
Overseas Deposits	8,287	-	-	8,287
Reinsurers share of claims outstanding	21,972	-	-	21,972
Debtors arising out of direct insurance operations	40,680	5,793	-	46,473
Debtors arising out of reinsurance insurance operations	370	-	-	370
Other debtors	43,969	624	-	44,593
Cash and cash equivalents	9,474	-	-	9,474
Total	166,829	6,417	-	173,246

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2017 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2017	£'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	8,062	-	-	-	8,062
Debt Securities and other fixed income securities	6,855	13,505	7,059	-	-	-	27,419
Overseas Deposits	1,745	340	4,014	238	-	-	6,337
Reinsurers share of claims outstanding	-	6,851	57,505	-	-	-	64,356
Debtors arising out of reinsurance insurance operations	-	-	866	-	-	-	866
Cash and cash equivalents	-	-	5,899	-	-	-	5,899
Total	8,600	20,696	83,405	238	-	-	112,939

Risk management continued

2016				£'000			
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	42,077	-	-	-	42,077
Overseas Deposits	1,516	419	279	133	-	5,940	8,287
Reinsurers share of claims outstanding	-	-	21,972	-	-	-	21,972
Debtors arising out of reinsurance insurance operations	-	-	370	-	-	-	370
Cash and cash equivalents	-	-	9,474	-	-	-	9,474
Total	1,516	419	74,172	133	-	5,940	82,180

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

Liquidity risk

Liquidity risk is the risk that the Syndicate may not have enough cash to pay insurance claims and other liabilities. The Syndicate tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

Risk management continued

2017	£'000					
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Creditors	-	6,035	17,478	-	-	23,513
Claims outstanding	-	77,682	43,503	11,318	19,952	152,455
Total	-	83,717	60,981	11,318	19,952	175,968

2016	£'000					
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	Total
Creditors	-	6,983	17,714	-	-	24,697
Claims outstanding	-	47,377	40,213	12,817	9,798	110,205
Total	-	54,360	57,927	12,817	9,798	134,902

Market risk

a. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is USD and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP and Canadian dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

2017	£'000				
	GBP	USD	EUR	CAD	Total
Total Assets	22,054	158,075	13,327	13,354	206,810
Total Liabilities	(21,822)	(193,316)	(22,163)	(9,108)	(246,409)
Net Assets	232	(35,241)	(8,836)	4,246	(39,599)

2016	£'000				
	GBP	USD	EUR	CAD	Total
Total Assets	17,318	124,711	19,864	11,353	173,246
Total Liabilities	(15,673)	(158,142)	(21,488)	(11,075)	(206,378)
Net Assets	1,645	(33,431)	(1,624)	278	(33,132)

Risk management continued

The Syndicate matches its currency position so it holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currency adjustments.

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of Sterling against the value of the US dollar, Canadian dollar and Euro dollar simultaneously. The analysis is based on the information as at 31st December 2017.

	Impact on profit and member's balance	
	2017	**2016**
	(Loss)/Profit	**(Loss)/Profit**
	£'000	**£'000**
Sterling weakens		
10% against other currencies	(3,983)	(3,478)
20% against other currencies	(7,966)	(6,956)
Sterling strengthens		
10% against other currencies	3,983	3,478
20% against other currencies	7,966	6,956

b. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

	2017	**2016**
	(Loss)/Profit	**(Loss)/Profit**
	£'000	**£'000**
Interest Rate Risk		
Impact of 50 basis point increase on result	(243)	(49)
Impact of 50 basis point decrease on result	243	49
Impact of 50 basis point increase on net assets	(243)	(49)
Impact of 50 basis point decrease on net assets	243	49

The method used for deriving sensitivity information and significant variables did not change from the previous period.

22. Post balance sheet events

Subsequent to the balance sheet date, the 2015 underwriting year loss of £17.9m (US$ 24.1m) has been called as a consequence of this year closing. This will be collected in USD during 2018.

Subsequent to the balance sheet date, the Syndicate has made open-year cash calls on the naturally open 2016 and 2017 Years of Account for £7.4m (US$ 10.0m) and £3.7m (US$ 5.0m) respectively. These will be collected in USD during 2018.