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Syndicate 5000

Annual accounts
as at December 2017

TRAVELERS

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DIRECTORS AND ADMINISTRATION

Managing Agent

Travelers Syndicate Management Limited

Directors

Sir J Carter (Independent Non-Executive Director)
A G Coughlan (Independent Non-Executive Director)
G S Dibb (Independent Non-Executive Director)
P H Eddy (Non-Executive Director)
S M Genden (Non-Executive Director)
M J Gent
G J McKean (Independent Non-Executive Director)
K C Smith (Chairman)
M L Wilson

Company secretary

J M Abramson

Managing agent's registered office

Exchequer Court, 33 St. Mary Axe, London EC3A 8AG

Managing agent's registered number

3207530

SYNDICATE:

Active underwriter

S G Eccles (1st January 2017 to 4th September 2017), N Rnjak (5th September 2017 to 31st December 2017)

Bankers

Citibank N.A.
Royal Bank of Canada
National Westminster Bank Plc

Investment manager

The Travelers Indemnity Company

Registered auditor

KPMG LLP,
Chartered Accountants, Statutory Auditor,
15 Canada Square, London, E14 5GL

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of Travelers Syndicate Management Limited present their Strategic Report for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of Syndicate 5000 (the Syndicate) during the year continued to be the transaction of insurance in its chosen direct and predominantly non-liability classes, namely:

- Accident and Special Risks
- Aviation
- Global Construction
- Global Property
- Marine (including Energy)
- Power & Utilities (including Renewable Energy)
- Professional Risks (including Financial Institutions and Professional Indemnity insurance for major law firms)

The Syndicate's business is produced through the Lloyd's broker network and written in the subscription market, in either a lead or follow capacity. Opportunities in allied classes of business are being sought continuously.

REVIEW OF THE BUSINESS

The result for the year was a loss of £82.0m (2016: profit of £22.8m) and the combined ratio was 130.1% (2016: 92.6%). The principal driver of the loss was the third quarter Hurricanes, Harvey, Irma and Maria, and the fourth quarter Californian Wildfires, which in aggregate, including reinstatements, cost £72.0m. It has also been necessary to book a prior year reserve charge of £28.4m (2016: release of £16.1m) driven by some large prior year third party liability losses. The combined ratio excluding prior year development and catastrophe losses was 97.6% (2016: 98.7%).

Gross written premiums reported for 2017 were £362m, 20% higher than the prior year figure of £300m. This increase year on year is largely driven by favourable currency impacts and the absence of the large prior year premium reductions booked in 2016.

Premium rate change across the Syndicate was 1% negative in 2017 (2016: 4% negative). Rate reductions have largely ceased and we are beginning to see rate increases on lines impacted by the 2017 Hurricanes.

The Syndicate's capacity for 2018 is £300m, the same as for 2017. We will continue to maintain a disciplined approach to underwriting and to seek out opportunities for profit in our chosen classes.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

INVESTMENT REPORT

The Syndicate's investment portfolio is managed by The Travelers Indemnity Company, a subsidiary of The Travelers Companies, Inc.. A summary of the invested assets and returns is as follows:

	2017	*2016*
	£'m	*£'m*
Interest and realised gains and losses	7.6	4.2
Unrealised gains and losses	(3.2)	1.8
Total investment return	4.4	6.0
Cash and investment balance at 1 January	481.8	415.8
Cash and investment balance at 31 December	468.2	481.8

The Syndicate's total investment return was £4.4m compared to the prior year return of £6.0m. The portfolio is predominantly comprised of fixed income assets.

The currency mix of the portfolio as at 31 December was:

	2017	*2016*
US dollars	71%	72%
Sterling	17%	18%
Euro	8%	6%
Canadian dollars	4%	3%
Other	-	1%
Total	100%	100%

The credit risk in the portfolio is actively managed. Investment guidelines are designed to mitigate credit risk by ensuring a diversification of holdings and setting average credit rating targets across the whole portfolio.

The stratification of the portfolio's credit quality at 31 December was:

	2017	*2016*
AAA	52%	52%
AA	30%	30%
A	18%	18%
Total	100%	100%
Average credit quality	AA+	AA+

The average duration across the portfolio was 2.12 years at 31 December 2017 (2016: 2.17 years).

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

INVESTMENT REPORT (continued)

The total investment returns achieved for the major currencies were as follows:

	2017	*2016*
US dollars	1.4%	1.3%
Sterling	0.2%	1.9%
Euro	-0.1%	0.8%
Canadian dollars	-0.1%	0.4%

Investment returns are largely driven by prevailing market yields which remain low by historic standards. This applies to all currencies we invest in.

We do not anticipate any changes to our investment strategy in 2018.

RISK REVIEW

Principal Risks and Uncertainties

The Board of Directors of Travelers Syndicate Management Limited has overall responsibility for the establishment and oversight of the Syndicate's Risk Management Framework.

The Board of Directors has established a Board Risk and Remuneration Committee and an Executive Risk Committee responsible for setting the risk appetite and approving it annually as part of the Syndicate's business planning process. The Board Risk and Remuneration Committee meets regularly to provide oversight of key risks and issues and to oversee performance against risk appetite. The Executive Risk Committee meets regularly to review and update key risks and issues arising from the risk register and to monitor performance against risk appetite using a series of metrics.

The principal risks and uncertainties facing the Syndicate are set out below.

Insurance Risk

Insurance risk relates to underwriting and claims management and the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities, and includes catastrophe risk and reserve risk.

The Managing Agent manages insurance risk by setting an appetite annually through the business planning process, which sets down the Syndicate's targets for underwriting classes, underwriting volumes, pricing sufficiency, line sizes and retentions by class of business. The Managing Agent subsequently monitors performance against the business plan throughout the year. The Syndicate uses catastrophe modelling software to model probabilities of loss from catastrophe exposed business.

Reserve adequacy is monitored through quarterly internal actuarial review. Reserves are reviewed annually by an independent external actuary. The Underwriting Committee oversees underwriting and catastrophe risks and the Finance Committee oversees reserving risk.

Credit Risk

The major sources of credit risk arise from the risk of default by one or more of the Syndicate's reinsurers or from one or more of the Syndicate's investment counterparties. The Syndicate operates a rigorous policy for the selection of reinsurers and managing the quantum of exposure ceded to any one reinsurer. The Syndicate has a conservative appetite to credit risk from investment counterparties and maintains a high quality investment portfolio with an average credit rating of AA+. The Finance Committee monitors and manages the Syndicate's exposure to credit risk.

Market Risk

The primary source of market risk is the risk of adverse movements in net assets due to movements in interest rates, currency rates and the market value of securities. Market risk exposures are monitored through the Finance Committee.

STRATEGIC REPORT OF THE DIRECTORS OF THE MANAGING AGENT

RISK REVIEW (continued)

Operational Risk

The primary source of operational risk is the failure of people, processes or systems. These risks are managed through well documented policies and procedures, sound internal control processes and business continuity management procedures. The Executive Risk Committee oversees this risk type.

Regulatory Risk

Regulatory risk comprises the failure to comply with relevant regulations and laws. This risk is overseen by the Executive Risk Committee.

Conduct Risk

Conduct risk is the risk that the Syndicate fails to pay due regard to the interest of its customers or fails to treat them fairly at all times. Conduct risk exposures are monitored through the Executive Risk Committee.

Approved by the Board of Travelers Syndicate Management Limited on *14 March 2018*.

M L Wilson
Chief Executive Officer

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent present their Managing Agent's 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.

The Managing Agent has agreed with the Syndicate's members to take advantage of the dispensation available and will not be producing separate underwriting year accounts for the Syndicate.

RESULTS

The result for the year ended 31 December 2017 is a loss of £82.0m (2016: profit of £22.8m).

PRINCIPAL ACTIVITIES

The principal activities of the Syndicate are described within the Strategic Report of the Directors' of the Managing Agent.

BUSINESS REVIEW

An analysis of the performance of the Syndicate is described within the Strategic Report of the Directors' of the Managing Agent.

DIRECTORS AND DIRECTORS' INTERESTS

All of the directors set out on page 1 served throughout the year. S G Eccles resigned as a director on 4th September 2017.

No director participated in the Syndicate during the period under review.

The directors benefited from qualifying third party indemnity provisions.

ACTIVE UNDERWRITER

S G Eccles resigned as the Active Underwriter of the Syndicate on 4th September 2017. N Rnjak was appointed as Active Underwriter to replace S G Eccles.

DISCLOSURE OF INFORMATION TO THE AUDITOR

The directors of the Managing Agent who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

AUDITOR

Pursuant to Section14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

J Abramson
Company Secretary

14 March 2018

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The directors of the managing agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.
The Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*
Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period. In preparing these financial statements, the directors of the managing agent are required to:

— Select suitable accounting policies and then apply them consistently;

— Make judgements and 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 financial statements; and

— Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

— Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

The directors of the managing agent are 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 them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.
The directors of the managing agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board

J Abramson
Company Secretary

14 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 5000

Opinion

We have audited the financial statements of Syndicate 5000 for the year ended 31 December 2017 which comprise the Statement of Profit or Loss: Technical account – General business, Statement of Profit or Loss: Non-technical account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- 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 year then ended;
- have been properly prepared in accordance with UK accounting standards, including 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the Directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the Directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 7, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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 company and the syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
16 March 2018

STATEMENT OF PROFIT AND LOSS ACCOUNT: TECHNICAL ACCOUNT – GENERAL BUSINESS

for the year ended 31 December 2017

	Notes	*2017* *£'000*	*2016* *£'000*
Gross premiums written	5	361,752	300,466
Outward reinsurance premiums		(35,631)	(31,745)
Net premiums written		326,121	268,721
Change in the provision for unearned premiums			
Gross amount	15	(18,715)	(9,786)
Reinsurers' share	15	1,533	8,663
Earned Premiums, net of reinsurance		308,939	267,598
Allocated Investment Return transferred from the non-technical account		4,565	2,879
Claims incurred, net of reinsurance			
Claims paid			
Gross claims paid		(205,753)	(180,717)
Reinsurers' share		14,669	15,125
Net claims paid		(191,084)	(165,592)
Change in the provision for claims			
Gross amount	15	(98,310)	39,743
Reinsurers' share	15	18,955	(1,982)
Change in the net provision for claims		(79,355)	37,761
Claims incurred, net of reinsurance		(270,439)	(127,831)
Net operating expenses	7	(131,599)	(120,061)
Balance on the technical account for general business		(88,534)	22,585

All operations relate to continuing activities.

The accompanying notes form an integral part of these financial statements

STATEMENT OF PROFIT AND LOSS ACCOUNT: NON-TECHNICAL ACCOUNT

for the year ended 31 December 2017

	2017 £'000	2016 £'000
Balance on the technical account for general business	(88,534)	22,585
Realised gains on investments	224	403
Investment Income	8,178	7,425
Investment expenses and charges	(262)	(280)
Realised losses on investments	(561)	(3,349)
	7,579	4,199
Allocated investment return transferred to technical account for general business	(4,565)	(2,879)
Profit/(loss) on foreign exchange	3,555	(1,155)
(Loss)/profit for the financial year	(81,965)	22,750

All operations relate to continuing activities.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	2017 £'000	Restated 2016 £'000
(Loss)/profit for the year	(81,965)	22,750
Unrealised (losses)/gains on investments	(3,184)	1,727
Currency translation differences	(16,604)	24,732
Total comprehensive (loss)/income for the year	(101,753)	49,209

The accompanying notes form an integral part of these financial statements

BALANCE SHEET
as at 31 December 2017

	Notes	2017 £'000	2016 £'000
Investments			
Financial investments	11	442,825	445,368
Reinsurers' share of technical provisions	15		
Provision for unearned premium		18,030	18,306
Claims outstanding		64,909	49,701
		82,939	68,007
Debtors	12		
Arising out of direct insurance operations		109,343	125,426
Arising out of reinsurance operations		7,385	12,761
Other debtors		6,025	4,151
		122,753	142,338
Other Assets			
Cash and cash equivalents		14,538	23,088
Overseas deposits		10,828	13,304
		25,366	36,392
Prepayments and accrued income			
Accrued interest		2,573	2,266
Deferred acquisition costs	13	48,847	46,930
Other prepayments and accrued Income		1,082	1,333
		52,502	50,529
Total Assets		726,385	742,634
Capital & Reserves			
Members' balances		(40,841)	(139,402)
Technical Provisions	15		
Provision for unearned premiums		(199,251)	(193,888)
Claims outstanding		(425,796)	(350,170)
		(625,047)	(544,058)
Creditors			
Arising out of direct insurance operations		(15,720)	(16,817)
Arising out of reinsurance operations		(33,234)	(29,783)
Other creditors		(9,708)	(9,258)
		(58,662)	(55,858)
Accruals & deferred income		(1,835)	(3,316)
Total Liabilities		(726,385)	(742,634)

The Syndicate financial statements on pages 10 to 38 were approved by the Board of Travelers Syndicate Management Limited on 14 March 2018 and were signed on its behalf by:

Mike Gent

M J GENT
Director

STATEMENT OF CHANGES IN MEMBERS' BALANCES
for the year ended 31 December 2017

	2017 £'000	Restated 2016 £'000
Members' balances brought forward at 1 January	139,402	90,327
(Loss)/profit for the financial year	(81,965)	22,750
Other comprehensive (loss)/income	(19,788)	26,459
Total comprehensive (loss)/income	(101,753)	49,209
Members' funds transferred to Funds in Syndicate (FIS)	73,869	29,821
Payment of profits from members' personal reserve funds	(73,869)	(29,821)
Non-standard Personal Expenses	3,192	(134)
Members' balances carried forward at 31 December	40,841	139,402

The accompanying notes form an integral part of these financial statements

STATEMENT OF CASH FLOWS
for the year ended 31 December 2017

	Notes	2017 £'000	Restated 2016 £'000
Cash flows from operating activities			
(Loss)/Profit for the financial year		(81,965)	22,750
Increase in gross technical provisions		80,989	44,992
Decrease in reinsurers' share of technical provisions		(14,932)	(16,321)
Decrease/(increase) in debtors		21,112	(27,180)
Increase in creditors		1,323	15,741
Movement in other assets/liabilities		2,476	(1,429)
Investment return		(7,579)	(4,199)
Net cash inflow from operating activities		1,424	34,354
Cash flows from investing activities			
Acquisition of financial instruments		(139,805)	(189,201)
Proceeds from sale of financial instruments		114,103	198,712
Investment income received		7,272	3,704
Foreign Exchange		28,159	(74,824)
Cash flows from financing activities			
Transfer to members in respect of underwriting participations		(73,869)	(29,821)
Net increase in Funds in Syndicate		73,869	29,821
Other comprehensive (loss)/income		(19,788)	26,459
Net decrease in cash and cash equivalents		(8,635)	(796)
Cash and cash equivalents at 1 January		23,939	24,735
Cash and cash equivalents at 31 December	16	15,304	23,939

The accompanying notes form an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

Syndicate 5000 (the Syndicate) is supported by two corporate members` of the Society of Lloyd's and underwrites insurance business in the London Market. The Syndicate's Managing Agent is Travelers Syndicate Management Limited. The address of the Syndicate's Managing Agent is Exchequer Court, 33 St Mary Axe, London EC3A 8AG.

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland (FRS 102) as issued in September 2015, and Financial Reporting Standard 103 *Insurance Contracts* (FRS 103) as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets held for sale that are measured at fair value.

The Syndicate has considerable financial resources together with prudent investment guidelines, a high quality of invested assets, sound underwriting procedures, strong controls and risk mitigating processes (including, but not limited to, reinsurance) and the support of a financially strong parent company. As a consequence, the Directors of the Managing Agent believe that the Syndicate is well placed to manage its business risks successfully. The Directors are confident that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

The financial statements are presented in Pound Sterling (GBP), which is the Syndicate's presentational currency. The functional currency of Syndicate 5000 is the US dollar. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgement and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate. There is the risk that material adverse changes to this estimate in future years may have a material impact on the Syndicate's reported performance and financial position.

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate, to reduce the likelihood of adverse run-off deviation.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of accounting

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

b) Premiums written

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. Premiums written include estimates for pipeline premiums representing amounts written but not reported to the Syndicate by the balance sheet date.

c) Unearned premiums

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

d) Reinsurance premiums ceded

Outwards reinsurance premiums are accounted for in the accounting period in which the underlying reinsurance treaty or facultative contract incepts.

e) Claims provisions and related recoveries

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

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 provisions relating to previous years.

The provision for claims outstanding is assessed on an individual case basis for reported claims 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 by the balance sheet date but not reported until after the year end (IBNR), 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 from more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. 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, together with a contract by contract assessment of problematical areas and major catastrophes that do not lend themselves to projection based methods.

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

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

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measurable impact on the amount that

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

the Syndicate will receive from the reinsurer. Impairment losses are recognised in profit or loss in the period in which the impairment loss is recognised.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

f. Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period, in respect of contracts concluded before that date, are expected to exceed the unearned premiums after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums.

g. Acquisition costs

Acquisition costs include the direct expenses, primarily commissions and brokerage, of acquiring the insurance policies written during the year. Acquisition costs are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred which correspond to the proportion of gross written premiums which are unearned at the balance sheet date.

h. Foreign currencies

Transactions in foreign currencies are translated to the functional currency using exchange rates at the date of transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts into the functional currency are included in the non-technical account. Differences arising from the conversion of the functional to the presentational currency are included in the statement of comprehensive income.

i. Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS39 Financial Instruments: Recognition and Measurement (as adopted for use in the EU).

Classification
The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit and loss or the statement of comprehensive income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Debt and other fixed-income securities are designated as available for sale and initially recognised at fair value. After initial measurement, these assets are subsequently measured at fair value. Interest earned whilst holding available for sale financial assets is reported as interest income. Other fair value changes are recognised in other comprehensive income and accumulated in the fair value reserve.

If an available-for-sale investment is sold or impaired, the net cumulative gain or loss accumulated in the fair value reserve is reclassified to profit or loss. Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The net cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment, and the current fair value, less any impairment loss recognised previously in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. Otherwise it is reversed through the statement of comprehensive income.

Deposits with credit institutions, debtors and accrued interest are classified as loans and receivables.

Recognition
Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial instruments are derecognised if the Syndicate's contractual rights to the cash flows from the financial instruments expire or the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when the syndicate's contractual obligations are discharged, cancelled, or expire.

Identification and measurement of impairment
The Syndicate conducts a periodic review to identify invested assets having other than temporary impairments. Some of the factors considered in identifying other than temporary impairments include: (1) whether the Syndicate intends to sell the investment or whether it is more likely than not that the Syndicate will be required to sell the investment prior to an anticipated recovery in value; (2) the likelihood of the recoveries in full of the principal and interest; (3) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after initial recognition of an asset, and that the loss event has an impact of the future cash flows on the asset that can be estimated reliably.

All impairment losses are recognised in full in the profit and loss.

Offsetting
Financial assets and liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

j. Investment return

Investment return comprises investment income, and realised investment gains and losses, net of investment expenses and charges.

Realised gains and losses on investments are calculated as the difference between sale proceeds and the purchase price.

Investment return is initially recorded in the non-technical account. The investment return relating to the profits on closed years retained within the Syndicate is allocated to the non-technical account. The balance of the investment return is allocated to the technical account.

Movements in unrealised gains and losses on investments are reported in the statement of comprehensive income. They represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, as well as the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

k. Overseas deposits

Overseas deposits are stated at the market value ruling at the balance sheet date. US situs trust funds are classified as investments.

l. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are subject to insignificant risk of changes in valuation and are used by the Syndicate in the management of its short-term commitments.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income, including capital appreciation, of syndicates.

It remains the responsibility of members to agree their corporation tax liabilities with HM Revenue & Customs.

No provision has been made for any United States Federal Income Tax or Canadian Federal Income Tax payable on underwriting results and investment income. The Syndicate is required to fund on account assessments of US dollar and Canadian dollar source income and these amounts are then recovered by reimbursements from the Members Services Unit. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Other debtors.'

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

n. Syndicate operating expenses

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

o. Pension costs

Travelers Management Limited, a service company and fellow group subsidiary, operates a group personal pension plan. Pension contributions relating to syndicate staff are charged to the Syndicate and included within net operating expenses or, where applicable, as claims handling costs within gross claims paid.

4. RISK AND CAPITAL MANAGEMENT

Introduction and overview

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed and the Managing Agent's objectives, policies and processes for measuring and managing these risks and for managing the Syndicate's capital.

Risk Management Framework

As described in the Strategic Report of the Directors of the Managing Agent, the Board of Directors has overall responsibility for the establishment and oversight of the Syndicate's risk management framework.

Risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Insurance Risk

Management of insurance risk

A key component of the management of underwriting risk for the Syndicate is a disciplined underwriting strategy that is focused on writing quality business and not writing for volume. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes underwriting limits on the Syndicate's total exposure to specific risks and classes of business, together with limits on geographical and industry exposures. The aim is to ensure that a well-diversified book is maintained with no over exposure in any one geographical region, class or industry.

NOTES TO THE FINANCIAL STATEMENTS

4 RISK AND CAPITAL MANAGEMENT (continued)

Insurance risk (continued)

Contracts can contain a number of features which help to manage the underwriting risk, such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements).

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one risk or event, including excess of loss, quota share and catastrophe reinsurance. Where an individual exposure is deemed to be in excess of the Syndicate's appetite additional facultative reinsurance is also purchased.

The Underwriting Committee oversees the management of insurance risk, whilst the Finance Committee oversees reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the quarterly reviews of claims development are all instrumental in mitigating reserving risk.

The Managing Agent's in-house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The Finance Committee performs a review of the results from the reserving analysis, both gross and net of reinsurance. On an annual basis, reserves are reviewed by an independent consulting actuary and a report is made to the Board.

Following the quarterly reviews the Finance Committee makes recommendations to the Managing Agent's Board of Directors of the claims provisions to be established. In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate to reduce the probability of adverse run-off deviation.

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its gross written premiums.

	2017	*2016*
	£'000	*£'000*
Risks located in UK	97,305	78,014
Risks located in other member states of the EU	29,082	24,605
Risks located in other countries	235,365	197,847
	361,752	300,466

The liabilities established as at 31 December 2017 could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserves for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be reasonably possible at the reporting date.

A five per cent increase or decrease in total net claims liabilities would have the following effect on the Syndicate's result and financial position:

	2017	*2016*
	£'000	*£'000*
	5% change	5% change
Accident and health	1,093	1,365
Marine, aviation and transport	3,361	2,707
Fire and other damage to property	4,035	3,291
Third party liability	4,395	2,568
Energy	945	985
Other	744	307
Reinsurance	3,472	3,800
	18,045	15,023

4. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- debt securities
- reinsurers' share of insurance liabilities;
- amounts due from intermediaries;
- amounts due from reinsurers in respect of settled claims;
- cash and cash equivalents; and
- other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies. The Syndicate has a policy of investing only in high quality government and corporate fixed income securities. The Syndicate targets an average portfolio credit quality of AA+.

The Syndicate limits the amount of cash and cash equivalents that can be deposited with a single counterparty, and maintains an authorised list of acceptable counterparties.

The Syndicate's exposure to intermediaries is monitored as part of its credit control processes.

All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed and managed accordingly. The Syndicate only uses reinsurers that have been pre-approved by its internal credit processes.

Exposure to credit risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk (continued)

The following table analyses counterparty credit exposure by credit rating:

31 December 2017	AAA £'000	AA £'000	A £'000	BBB & Less £'000	Not rated £'000	Total £'000
Financial Investments						
Debt securities and other fixed income securities	222,744	129,268	77,587	-	-	429,599
Overseas deposits as investments	-	-	-	278	12,182	12,460
Deposits with credit institutions	-	-	766	-	-	766
	222,744	129,268	78,353	278	12,182	442,825
Reinsurers' share of technical provisions	-	26,418	34,467	-	4,024	64,909
Debtors arising out of direct insurance operations	-	-	-	-	109,343	109,343
Debtors arising out of reinsurance operations	-	3,006	3,922	-	457	7,385
Overseas deposits as other assets	1,459	1,526	6,677	1,158	8	10,828
Cash and cash equivalents	-	-	14,538	-	-	14,538
Other debtors and accrued interest	-	-	-	-	9,680	9,680
Total	224,203	160,218	137,957	1,436	135,694	659,508

31 December 2016	AAA £'000	AA £'000	A £'000	BBB & Less £'000	Not rated £'000	Total £'000
Financial Investments						
Debt securities and other fixed income securities	225,177	128,805	77,797	810	-	432,589
Overseas deposits as investments	-	-	365	-	11,563	11,928
Deposits with credit institutions	-	-	851	-	-	851
	225,177	128,805	79,013	810	11,563	445,368
Reinsurers' share of technical provisions	-	22,416	22,365	-	4,920	49,701
Debtors arising out of direct insurance operations	-	-	-	-	125,426	125,426
Debtors arising out of reinsurance operations	-	5,755	5,743	-	1,263	12,761
Overseas deposits as other assets	8,362	2,125	1,638	1,166	13	13,304
Cash and cash equivalents	-	-	23,088	-	-	23,088
Other debtors and accrued interest	-	-	-	-	7,750	7,750
Total	233,539	159,101	131,847	1,976	150,935	677,398

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Credit risk (continued)

At 31 December 2017 and 2016 the largest concentration of risk within its investment portfolio was to the US government and amounted to £58.4m (2016: £43.9m). The Syndicate has no holding in the government bonds of Greece, Italy, Spain or Portugal, nor any corporate bonds based in these countries.

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate does not consider these debtors to be impaired.

An analysis of the carrying amounts of past due debtors as at 31 December is presented in the table below:

	2017		2016	
	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets: Past due by:				
up to 90 days	9,327	-	8,238	10
91 to 180 days	2,439	-	4,090	81
More than 180 days	3,260	1,233	6,732	1,006
Past due but not impaired financial assets	15,026	1,233	19,060	1,097
Neither past due nor impaired financial assets	94,317	6,152	106,366	11,664
Net carrying value	**109,343**	**7,385**	**125,426**	**12,761**

Liquidity Risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources, mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts

Liquidity risk is not considered to be a principal risk to the Syndicate and therefore is not specifically quantified within these accounts.

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Liquidity Risk (continued)

2017	Total £'000	0-1 year £'000	2-5 years £'000	More than 5 years £'000
Gross Technical Provisions	425,796	212,898	191,608	21,290
Creditors	58,662	58,662	-	-
	484,458	271,560	191,608	21,290

2016	Total £'000	0-1 year £'000	2-5 years £'000	More than 5 years £'000
Gross Technical Provisions	350,170	175,085	175,085	-
Creditors	55,858	55,858	-	-
	406,028	230,943	175,085	-

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument, or insurance contract, will fluctuate because of changes in market prices. Market risk for the Syndicate comprises two principal types of risk: interest rate risk and currency risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate's exposure to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risk

For each of the major components of market risk the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of market risk and the exposure of the Syndicate at the reporting date to each of these major components are addressed below.

Interest rate risk

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Finance Committee monitors the duration of these assets on a regular basis and ensures the asset duration matches the duration of the underlying liabilities.

Currency risk

The Syndicate primarily writes business in Sterling, Euro, Canadian dollar and US dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to hedge the currency risk inherent in these contracts. Any surplus assets are held in US dollars. The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date:

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Currency risk (continued)

2017	**Sterling £'000**	**Euro £'000**	**US dollar £'000**	**Other £'000**	**Total £'000**
Financial investments	73,523	33,107	307,461	28,734	442,825
Reinsurers' share of technical provisions	15,065	6,660	60,722	492	82,939
Debtors	7,573	3,511	111,312	357	122,753
Cash and cash equivalents (incl Overseas deposits)	3,270	2,058	10,741	9,297	25,366
Other assets	6,087	4,810	40,956	649	52,502
Total assets	105,518	50,146	531,192	39,529	726,385
Technical provisions	(100,077)	(43,416)	(471,907)	(9,647)	(625,047)
Insurance and reinsurance payables	(4,586)	(3,659)	(40,332)	(377)	(48,954)
Creditors	(6,540)	(1,857)	(2,546)	(600)	(11,543)
Total liabilities	(111,203)	(48,932)	(514,785)	(10,624)	(685,544)
Net assets	(5,685)	1,214	16,407	28,905	40,841

2016	**Sterling £'000**	**Euro £'000**	**US dollar £'000**	**Other £'000**	**Total £'000**
Financial investments					
Debt securities and other fixed income securities	79,141	26,280	313,268	26,679	445,368
Reinsurers' share of technical provisions	11,629	4,728	50,433	1,217	68,007
Debtors	11,410	7,217	124,023	(312)	142,338
Other assets	5,968	3,914	40,010	637	50,529
Cash and cash equivalents (incl Overseas deposits)	9,587	2,011	13,332	11,462	36,392
Total assets	117,735	44,150	541,066	39,683	742,634
Technical provisions	(80,157)	(43,309)	(408,173)	(12,419)	(544,058)
Insurance and reinsurance payables	(388)	(1,537)	(44,280)	(395)	(46,600)
Creditors	(6,723)	(799)	(4,528)	(524)	(12,574)
Total liabilities	(87,268)	(45,645)	(456,981)	(13,338)	(603,232)
Net assets	30,467	(1,495)	84,085	26,345	139,402

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Sensitivity analysis to market risks

An analysis of the Syndicate's sensitivity to interest rate and currency price risk is presented in the table below. The table shows the effect on the result and net assets of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

	2017	*2016*
	£'000	*£'000*
Interest rate risk		
Impact of 50 basis point increase on result and net assets	(4,464)	(4,639)
Impact of 50 basis point decrease on result and net assets	4,546	4,722
Currency risk		
Impact of 10% strengthening in sterling on results and net	3,370	(10,894)
Impact of 10% weakening in sterling on results and net	(3,064)	9,903

A 10% increase (or decrease) in exchange rates and a 50 basis point decrease in yield curves have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

Capital Management

Capital Framework at Lloyd's

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

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with the Solvency II 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, not at syndicate level, accordingly, the capital requirement in respect of Syndicate 5000 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.

NOTES TO THE FINANCIAL STATEMENTS

4. RISK AND CAPITAL MANAGEMENT (continued)

Capital Management (continued)

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 syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements 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 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.

In the case of Syndicate 5000 the Funds at Lloyd's ("FAL") is wholly provided by Aprilgrange Limited and F&G UK Underwriters Limited, which are both wholly owned subsidiaries of The Travelers Companies, Inc.

NOTES TO THE FINANCIAL STATEMENTS

5. ANALYSIS OF UNDERWRITING RESULT

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

2017	Gross Premiums Written £'000	Gross Premium Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total	Net Technical Provisions £'000
Direct Insurance							
Accident & Health	40,849	34,594	(17,133)	(14,421)	(212)	2,828	(32,829)
Marine, Aviation & Transport	76,955	68,185	(56,969)	(26,158)	(8,557)	(23,499)	(100,974)
Fire & Other Damage to Property	103,431	99,075	(94,071)	(35,921)	(3,030)	(33,947)	(121,222)
Third Party Liability	47,844	46,503	(55,182)	(18,777)	9,919	(17,537)	(132,025)
Energy	23,930	21,202	(14,499)	(8,134)	(2,661)	(4,092)	(28,399)
Other	4,308	3,944	(7,162)	(1,513)	3,966	(765)	(22,356)
	297,317	273,503	(245,016)	(104,924)	(575)	(77,012)	(437,805)
Reinsurance	64,435	69,534	(59,047)	(26,675)	101	(16,087)	(104,303)
	361,752	343,037	(304,063)	(131,599)	(474)	(93,099)	(542,108)

2016	Gross Premiums Written £'000	Gross Premium Earned £'000	Gross Claims Incurred £'000	Gross Operating Expenses £'000	Reinsurance Balance £'000	Total	Net Technical Provisions £'000
Direct Insurance							
Accident & Health	34,469	32,030	(14,282)	(14,446)	(474)	2,828	(43,269)
Marine, Aviation & Transport	53,128	48,838	(24,719)	(19,860)	1,181	5,440	(85,761)
Fire & Other Damage to Property	99,806	93,805	(50,026)	(37,689)	(2,730)	3,360	(104,294)
Third Party Liability	38,100	35,404	(12,990)	(12,614)	193	9,993	(81,364)
Energy	16,245	14,564	(8,354)	(5,809)	(259)	142	(31,227)
Other	2,422	2,251	(1,030)	(1,029)	(28)	164	(9,739)
	244,170	226,892	(111,401)	(91,447)	(2,117)	21,927	(355,654)
Reinsurance	56,296	63,788	(29,573)	(28,614)	(7,822)	(2,221)	(120,397)
	300,466	290,680	(140,974)	(120,061)	(9,939)	19,706	(476,051)

NOTES TO THE FINANCIAL STATEMENTS

6 CLAIMS OUTSTANDING

The (deficit)/surplus following the reassessment of claims outstanding, net of expected reinsurance recoveries, held at the end of the previous year are as set out below:

	2017 *£'000*	*2016* *£'000*
Accident & health	-	(1,261)
Marine, aviation and transport	(5,601)	2,421
Fire and other damage to property	742	2,233
Third party liability	(17,164)	8,003
Energy	(1,546)	248
Other	(805)	261
Total direct	(24,374)	11,905
Reinsurance acceptances	(4,061)	4,233
	(28,435)	16,138

7 NET OPERATING EXPENSES

	2017 *£'000*	2016 *£'000*
Acquisition costs - commissions	91,089	71,895
Change in deferred acquisition costs	(5,550)	214
Administrative expenses	46,060	47,952
	131,599	120,061

Included in acquisition costs are £68,225,320 (2016: £50,520,109) in relation to commissions on direct business.

8 ADMINISTRATIVE EXPENSES

Administrative expenses for the year ended 31 December include:

Auditor remuneration:	*2017* *£'000*	*2016* *£'000*
Fees payable to the Syndicate's auditor for the audit of these financial statements	162	163
Fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	239	237
	401	400
Members' standard personal expenses	2,459	2,656

NOTES TO THE FINANCIAL STATEMENTS

9 STAFF NUMBERS AND COSTS

All staff are employed by Travelers Management Limited. All staff numbers and cost disclosures are made in that company's financial statements.

10 KEY MANAGEMENT PERSONNEL COMPENSATION

The Directors of Travelers Syndicate Management Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses for the years ended 31 December:

	2017	*2016*
	£'000	*£'000*
Fees	115	115
Emoluments	957	1,244
	1,072	1,359

The Active Underwriter who resigned on 4th September 2017 received remuneration during the year of £327,383 (2016: £669,405). The remuneration of the new Active Underwriter from 4th September 2017 to the end of the year was £224,923. These amounts were charged to the Syndicate and, in respect of the Active Underwriter who resigned on 4 September, are included within the Directors' emoluments disclosed above.

11 FINANCIAL INVESTMENTS

	Market Value		**Cost**	
	2017	*2016*	*2017*	*2016*
	£'000	*£'000*	*£'000*	*£'000*
Debt securities and other fixed income securities	429,599	432,589	431,661	432,467
Deposits with credit institutions	766	851	766	851
Overseas Deposits	12,460	11,928	12,459	11,934
	442,825	445,368	444,886	444,252

NOTES TO THE FINANCIAL STATEMENTS

11 FINANCIAL INVESTMENTS (continued)

The Syndicate's estimates of fair value for investments are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The disclosure of fair estimates in the fair value accounting guidance hierarchy is based on whether the significant inputs into the valuation are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Syndicate's significant market assumptions. The level in the fair value hierarchy within which the fair value measurement is reported is based on the lowest level input that is significant to the measurement of its entirety. The three levels of the hierarchy are as follows:

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

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

Level 3 – Inputs are unobservable (ie for which market data is unavailable) for the asset or liability and therefore, prices are determined using a valuation technique.

The Syndicate utilized a pricing service to estimate the fair value of its investments at both 31 December 2017 and 31 December 2016.

The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in an orderly transaction between knowledgeable, unrelated, willing parties, i.e. not in a forced transaction. The estimated fair value of a financial instrument may differ from the amount that could be realised if the security was sold in an immediate sale, e.g. a forced transaction. Additionally, the valuation of investments is more subjective when markets are less liquid due to the lack of market based inputs, which may increase the potential that the estimated fair value of an investment is not reflective of the price at which an actual transaction would occur.

For investments that have quoted market prices in active markets, the Syndicate uses the unadjusted quoted market prices as fair value and includes these prices in the amounts disclosed in Level 1 of the hierarchy. The Syndicate receives the quoted market prices from third party, nationally recognized, pricing services. When quoted market prices are unavailable, the Syndicate utilises these pricing services to determine an estimate of fair value. The fair value estimates provided from these pricing services are included in the amount disclosed in Level 2 of the hierarchy. If quoted market prices and an estimate from a pricing service are unavailable, the Syndicate produces an estimate of fair value based on internally developed valuation techniques, which, depending on the level of observable market inputs, will render the fair value estimate as Level 2 or Level 3. The Syndicate bases all of its estimates of fair value for assets on the bid price as it represents what a third-party market participant would be willing to pay in an arm's length transaction.

NOTES TO THE FINANCIAL STATEMENTS

11 FINANCIAL INVESTMENTS (continued)

The following table presents the level within the fair value hierarchy at which the Syndicate's investments are categorised as at 31 December:

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Debt securities and other fixed income securities	58,449	371,150	-	429,599
Overseas deposits as investments	12,460	-	-	12,460
Deposits with credit institutions	-	766	-	766
Financial investments	70,909	371,916	-	442,825
Overseas deposits as other assets	1,475	9,353	-	10,828
	72,384	381,269	-	453,653

2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Debt securities and other fixed income securities	43,751	388,838	-	432,589
Overseas deposits as investments	11,928	-	-	11,928
Deposits with credit institutions	851	-	-	851
Financial investments	56,530	388,838	-	445,368
Overseas deposits as other assets	2,540	10,764	-	13,304
	59,070	399,602	-	458,672

12 DEBTORS

As at 31 December	*2017* *£'000*	*2016* *£'000*
Arising out of direct insurance operations		
Amounts due within one year	109,005	124,993
Amounts due after one year	338	433
Arising out of reinsurance operations		
Amounts due within one year	7,276	12,662
Amounts due after one year	109	99
	116,728	138,187
Other debtors	6,025	4,151
	122,753	142,338

NOTES TO THE FINANCIAL STATEMENTS

13 DEFERRED ACQUISITION COSTS

The table below shows changes in deferred acquisition costs assets from the beginning of the period to the end of the period.

	2017 *£'000*	*2016* *£'000*
Balance at 1 January	46,930	39,392
Incurred costs deferred	91,089	71,895
Amortisation	(85,539)	(72,109)
Effect of movement in exchange rates	(3,633)	7,752
Balance at 31 December	48,847	46,930

NOTES TO THE FINANCIAL STATEMENTS

14 CLAIMS DEVELOPMENT

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. The Syndicate has taken advantage of the transitional arrangements incorporated in FRS103 and accordingly is presenting the data for the last seven underwriting years only, and not the full ten years normally required by FRS103. Balances have been translated at exchange rates prevailing at 31 December 2017.

Gross

Pure Underwriting Year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Estimate of ultimate Gross claims								
At end of underwriting year	114	92	83	91	80	73	132	132
One year later	249	171	178	156	175	205	0	205
Two years later	238	165	208	162	188	0	0	188
Three years later	224	160	185	172	0	0	0	172
Four years later	227	156	185	0	0	0	0	185
Five years later	228	157	0	0	0	0	0	157
Six years later	228	0	0	0	0	0	0	228
	228	157	185	172	188	205	132	1,267
Less Gross claims paid	(221)	(138)	(157)	(127)	(130)	(97)	(26)	(896)
Gross ultimate claims reserves 2011 to 2017	7	19	28	45	58	108	106	371
Gross ultimate claims reserves 2010 & prior								55
Gross claims reserves								426

Net

Pure Underwriting Year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Estimate of ultimate Net claims								
At end of underwriting year	104	84	75	84	74	81	120	120
One year later	229	158	160	147	153	193	0	193
Two years later	207	161	183	148	172	0	0	172
Three years later	199	156	169	156	0	0	0	156
Four years later	199	152	163	0	0	0	0	163
Five years later	199	148	0	0	0	0	0	148
Six years later	200	0	0	0	0	0	0	200
	200	148	163	156	172	193	120	1,152
Less Net claims paid	(191)	(136)	(144)	(123)	(121)	(97)	(26)	(838)
Net ultimate claims reserves 2011 to 2016	9	12	19	33	51	96	94	314
Net ultimate claims reserves 2010 & prior								47
Net claims reserves								361

NOTES TO THE FINANCIAL STATEMENTS

15 TECHNICAL PROVISIONS

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	2017			2016		
	Gross Provisions	Reinsurance assets	Net provisions	Gross Provisions	Reinsurance assets	Net provisions
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Claims Outstanding						
Balance at 1 January	350,170	(49,701)	300,469	341,743	(45,655)	296,088
Change in claims outstanding	98,310	(18,955)	79,355	(39,743)	1,982	(37,761)
Effect of movements in exchange rates	(22,684)	3,747	(18,937)	48,170	(6,028)	42,142
Balance at 31 December	425,796	(64,909)	360,887	350,170	(49,701)	300,469
Claims notified	271,631	(28,369)	243,262	247,328	(39,017)	(208,311)
Claims incurred but not reported	140,980	(36,540)	104,440	88,277	(10,684)	77,593
Unallocated loss adjustment expenses	13,185	-	13,185	14,565	-	14,565
Balance at 31 December	425,796	(64,909)	360,887	350,170	(49,701)	300,469
Unearned Premiums						
Balance at 1 January	193,888	(18,306)	175,582	157,323	(6,030)	151,293
Change in unearned premiums	18,715	(1,533)	17,182	9,786	(8,663)	1,123
Effect of movements in exchange rates	(13,352)	1,809	(11,543)	26,779	(3,613)	23,166
Balance at 31 December	199,251	(18,030)	181,221	193,888	(18,306)	175,582

NOTES TO THE FINANCIAL STATEMENTS

16 CASH AND CASH EQUIVALENTS

	2017 £'000	2016 £'000
Cash at bank	14,538	23,088
Deposits with credit institutions	766	851
Total cash and cash equivalents	15,304	23,939

17 FOREIGN EXCHANGE RATES

The following currency exchange rates have been used for principal foreign currency transactions:

	2017	2016
Rates ruling at 31 December:		
US dollars	1.35	1.23
Canadian dollar	1.70	1.66
Euro	1.13	1.17
Average rates applied for calendar year:		
US dollars	1.29	1.36
Canadian dollar	1.67	1.80
Euro	1.14	1.22

NOTES TO THE FINANCIAL STATEMENTS

18 CALENDAR YEAR INVESTMENT YIELD

(a) The average Syndicate funds available for investment during the year, including cash and overseas deposits, and the investment return and yield for the calendar year, were as follows:

	2017 *£'000*	*2016* *£'000*
Average amount of Syndicate funds available for investment during the year		
Sterling	97,552	78,511
US dollar	326,589	315,463
Canadian dollar	20,508	20,257
Euro	31,708	40,396
Total funds available for investment	476,357	454,627

	2017 *£'000*	*2016* *£'000*
Interest income and realised gains and losses	7,579	4,199
Unrealised investment (losses)/gains	(3,184)	1,727
Total investment return	4,395	5,926
Total annual investment yield	0.9%	1.3%

(b) Analysis of calendar year investment yield by currency:

	2017	*2016*
Sterling	0.2%	1.9%
US dollar	1.4%	1.3%
Canadian dollar	-0.1%	0.4%
Euro	-0.1%	0.8%

The above investment yields are calculated on total investment returns, including unrealised gains and losses, from all interest generating assets and include all income earned from investments, cash balances and overseas deposits.

NOTES TO THE FINANCIAL STATEMENTS

19 RELATED PARTY TRANSACTIONS

All related party transactions are entered into on arms-length terms.

The Syndicate is related to Travelers Underwriting Agency Limited (TUAL) by virtue of common control. TUAL acts as a coverholder to Lloyd's underwriters. During the year TUAL placed inwards premium income with the Syndicate on normal commercial terms. Brokerage and commissions paid by the Syndicate to TUAL in the year amounted to £0.4m (2016: £0.7m).

The Syndicate is related to The Travelers Indemnity Company (TIC) by virtue of common control. Investment Management fees paid by the Syndicate to TIC in the year amounted to £0.2m (2016: £0.3m). Intercompany reinsurance premiums payable to TIC amounted to £1.5m (2016: £2.4m).

The Syndicate is also related to Travelers Syndicate Management Limited (TSM) by virtue of common control. The agency fees charged to the Syndicate amounted to £0.1m (2016: £0.2m)

The Syndicate is also related to Travelers Management Limited (TML) by virtue of common control. The recharged expenses amounted to £39.5m (2016: £41.6m)

20 CONTINGENT LIABILITIES

At 31 December 2017 the Syndicate had no contingent liabilities (2016: £nil).

21 ULTIMATE CONTROLLING PARTY

The immediate and ultimate parent company of Travelers Syndicate Management Limited (TSM) is The Travelers Companies, Inc. (TRV), a company registered in the USA. Group accounts for TRV are available from the Company Secretary of TSM, Exchequer Court, 33 St. Mary Axe, London EC3A 8AG.

22 FUNDS AT LLOYDS

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 Regulatory Authority requirements and resource criteria. The determination of 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 Financial Statements by way of such capital resources. However, the Managing Agent is able to make a call on the Member's FAL to meet liquidity requirements or to settle losses.

23 PRIOR YEAR RESTATEMENT

Foreign exchange movements of £15.9m on Members' Funds in Syndicate (FIS) were incorrectly reported within 'Members' funds transferred to Funds in Syndicate (FIS)' in the Statement of Changes in Members' balances in 2016 when these amounts should have been included in other comprehensive income. This restatement resulted in a decrease of 'Members funds transferred to Funds in Syndicate (FIS)' from £45.7m to £29.8m and an increase of other comprehensive income from £10.6m to £26.5m. The impact on members' balances carried forward at 31 December 2016 is nil.