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# PROBITAS 1492

*Annual Report & Accounts 2018*

# CONTENTS

# DIRECTORS AND ADMINISTRATION

## Managing Agent

### Managing agent

Capita Managing Agency Limited (CMA) is the managing agent of Probitas Syndicate 1492. CMA is a wholly owned subsidiary (indirectly held) of Capita plc and operates within the Group's Private Sector Partnerships.

### Directors

C Forbes – Non-Executive Director *(resigned 31 October 2018)*
C M Grint - Chief Executive Officer *(resigned 25 September 2018)*
D E Hope - Non-Executive Director
J B King - Chief Operations Officer
P Koslover - Chief Risk Officer
P M Laws – Compliance Director *(appointed 30 October 2018)*
M Petzold - Director of Underwriting
W Scott - Finance Director and interim Chief Executive Officer
E S Stobart - Chairman, Non-Executive
S M Wilton - Non-Executive Director

### Company secretary

Capita Group Secretary Limited

### Managing agent's registered office

30 Berners Street
London
England
United Kingdom
W1T 3LR

### Managing agent's registered number

03935227

# DIRECTORS AND ADMINISTRATION (continued)

## Syndicate

**Active underwriter**
A Bathia

**Bankers**
Barclays Bank plc - London
Citibank NA - London and New York
RBC - Toronto

**Statutory auditor**
Deloitte LLP

**Statement of actuarial opinion signing actuary**
Deloitte LLP

# REPORT OF THE ACTIVE UNDERWRITER

## Overview

The Syndicate has completed its third full underwriting year, having launched during the middle of October 2015, and continues to focus on core classes of direct and facultative business: property; construction; general liability; and financial lines.

Considerable progress has been made over the past 3 years in building a high calibre and experienced front line underwriting and support team, together with a high profile executive team with a proven track record of managing and building highly successful businesses. This is complemented by our applied use of market leading analytics and an actuarial capability which sits in the front and centre of the business. The business is underpinned by a robust regulatory governance and compliance framework provided by our Managing Agent, Capita.

In my report last year, I made reference to the prevailing challenging market conditions but with some very early signs of resilience on the back of over a decade of 'soft-market' cycle. We have indeed witnessed a material and positive shift in the market conditions, particularly in the second half of the year. This has been in my view helped considerably by the strong market message from the Lloyd's Franchise Directorate for the need to significantly improve underwriting performance.

Probitas has been absolutely focussed on and resolved to deliver a strong underwriting result in 2018 and at the very outset formulated a clear remediation and underwriting strategy to achieve this. I am pleased to report that this was robustly executed and, even at this early stage, is borne out by some positive Key Performance Indicators which I will expand on later in my report.

# REPORT OF THE ACTIVE UNDERWRITER (continued)

## Core Strategy

The Syndicate has continued to focus on its vision and strategy to build a scalable, sustainable and profitable business underpinned by some core principles:

- delivering new and accretive business to the Lloyd's market;
- developing in emerging and high growth markets;
- avoiding mainland USA exposures;
- emphasis on SME and mid-market business identifying cross-class solutions as a key differentiator;
- embedding technology and analytics at the front and centre of the business; and
- building long-terms relationships with select distribution partners and going to the origination of the business.

## 2018 Update

As I reported last year, 2017 was a challenging year both for the market and for the Syndicate; impacted by unprecedented catastrophe events and above normal large and attritional losses. As referred to earlier in my report the Syndicate formulated a detailed plan to significantly improve bottom line performance. The particular classes of business under focus were International Property D&F; Financial Institutions and Construction/Engineering. The Syndicate also introduced enhanced and more frequent performance management and monitoring framework which are now fully embedded in the business. The Syndicate achieved average Risk Adjusted Rate Change of 11.5% across the business and Price Adequacy of 134% of SBF benchmark on new business. The Syndicate also did not incur any material losses from the several catastrophe events being: Typhoon Jebi; Hurricane Florence; Hurricane Michael; Typhoon Mangkhut; Typhoon Trami; Hurricane Rosa; Indonesian Earthquake and the ensuing tsunami; Typhoon Kong-ray nor from the Californian Fires.

I am, therefore, pleased to report that the early indications are highly positive and encouraging. For the 2018 year of account the Syndicate currently forecasts to write approximately £127m of gross written premiums, split Casualty Classes £67m and Property and Construction £60m against SBF of £133m while being fully in line with the Probitas management plan. The current forecast ultimate overall net operating ratio for the 2018 pure year of account is forecast at 90.4% after forecast investment return and realised foreign exchange gains and losses.

# REPORT OF THE ACTIVE UNDERWRITER (continued)

## 2019 High Level Syndicate Business Plan

The Syndicate expects to see continued improvement in market conditions on all its core classes of business throughout 2019 and will remain focussed on further performance improvement and robust performance management. The 2019 year of account SBF was approved at £115.7m gross written premium. All the existing classes of business were approved but with lower emphasis on Construction and Financial Institution business until we see further improvement in those classes. The portfolio will be broadly split 46% short tail and 54% long tail classes. The Probitas management planned ultimate overall net operating ratio is 92.3% after forecast investment return.

### 1. GEOGRAPHICAL SPLIT

| 2019 Syndicate Business Plan by Region | Gross Written Premium £000 | Percentage Split % |
|---|---|---|
| Latin America & Caribbean | 31,908 | 27.5 |
| UK | 29,729 | 25.7 |
| Asia Pacific | 19,116 | 16.5 |
| W Europe (ex UK) | 10,926 | 9.4 |
| Middle East & North Africa | 5,385 | 4.7 |
| CEE | 2,962 | 2.6 |
| Rest of the World | 15,688 | 13.6 |
| Total | 115,714 | 100.0 |

### 2. THE IMPACT OF BREXIT

The Syndicate is confident of retaining its book of business from the EEA countries supported the Lloyd’s Brussels platform.

### 3. OGDEN IMPACT

The Syndicate underwrites certain UK liability risks but notably excluding UK motor. For reporting purposes, as at 31 December 2018, I can advise that the reduction in the Ogden rate has no impact on Syndicate 1492’s reserves. It is, however, possible that there may be an impact if there were ever to be a claim arising from this book of business, and which potentially was subject to a periodic payment order (PPO).

# REPORT OF THE ACTIVE UNDERWRITER (continued)

### 4. LATIN AMERICA / MIDDLE EAST

Our regional underwriting hub was successfully launched at the beginning of the year with us being the first Lloyd's syndicate on the Lloyd's Mexico platform, supported by the recruitment of three senior and experienced local underwriters to assist us writing property and casualty facultative business. We are cautiously and diligently building the Syndicate's profile and business in the region. This is a long term, strategic play for Probitas and underlines our commitment to the region.

In 2019 the Syndicate we should like to explore the opportunity to potentially set up a local underwriting presence in Dubai on the Lloyd's platform and in collaboration with our core equity partner, Saudi Re.

### 5. REINSURANCE

The Syndicate's gross exposure is protected by an effective and efficient treaty reinsurance program which provides significant levels of both vertical and sideways coverage with high quality security (minimum A-rated S&P or Best). This is further complemented by specific reinsurance protection to significantly de-risk the Syndicate's net exposure to Atlantic and Pacific Wind.

### 6. CAPITAL SUPPORT

The syndicate continues to receive strong support from a high quality and diverse investor base underpinned by significant support from its cornerstone equity partner. Once again, I would like to take this opportunity to thank all participating capital partners for their continued support and sponsorship of Probitas.

## SUMMARY

I am delighted that the Syndicate is on track to deliver a bottom line profit in its third full year of underwriting. It is a testament to the hard work, discipline and resolve of the Probitas team. The Syndicate is looking ahead to further build on these strong foundations and deliver another positive performance in 2019.

Ash Bathia
Active Underwriter
Syndicate 1492
15 February 2019

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of Capita Managing Agency Limited (CMA), the managing agent, present their report for Syndicate 1492 ('the Syndicate') for the year ended 31 December 2018. This report includes the strategic report.

## Basis of Preparation

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 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

## The Syndicate

On 30 September 2015, Lloyd's confirmed its approval for Probitas Syndicate 1492 to commence underwriting effective 1 October 2015. Probitas Syndicate 1492 has been formed as an exclusively Lloyd's based business, writing Property and Casualty insurance and reinsurance business, including underwriting business from the world's emerging markets. The Syndicate is backed by a broad mix of corporate member capital.

## Results

The amounts disclosed for UK GAAP reporting effectively represent the combination of the movements in the calendar year for all underwriting years of account, which in the case of Syndicate 1492 comprise: 2015, 2016, 2017 and 2018.

The result for Syndicate 1492 for the year ended 31 December 2018 is a profit of £1,570,000 (2017: £27,821,000 loss), of which a loss of £3,735,000 is attributable to the 2018 year of account, a profit of £3,930,000 is attributable to the 2017 year of account and a profit of £1,375,000 is attributable to the 2016 and prior years of account.

The 2018 year of account loss arising in the year includes all administrative and operating expenses, including Names personal expenses, incurred during the year with no deferral of any underwriter or marketing expenses; only brokerage, commissions and other acquisition costs are deferred in the ordinary course of business and in accordance with UK GAAP. The profits arising from the 2016 and 2017 years of account in their third and second years of development respectively result from the underwriting.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Results (continued)

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

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Gross premiums written | **129,939** | 88,310 |
| Gross premiums earned | **113,580** | 66,125 |
| Net premiums earned | **93,217** | 49,330 |
| Net claims incurred | **(50,382)** | (50,320) |
| Profit/ (loss) for the financial year | **1,570** | (27,821) |
| Net Incurred Loss Ratio | **54.05%** | 102.01% |
| SBF Net Loss Ratio | **46.40%** | 54.30% |

The syndicate business forecast (SBF) loss ratio is based on the 12 months forecast for the youngest year of account.

## Principal Activities

The principal activity of Syndicate 1492 is the transaction of general insurance and reinsurance business. The Syndicate underwrites a range of classes of business concentrating initially on Property and Casualty business written on both a direct and reinsurance basis.

| | **Gross Written Premium** | | Gross Written Premium | |
|---|---|---|---|---|
| | **2018** | **2018** | 2017 | 2017 |
| | **£000** | **%** | £000 | % |
| Property | **44,873** | **34.5** | 39,525 | 44.8 |
| Contractor All Risks | **9,590** | **7.4** | 7,505 | 8.5 |
| Property D & F | **54,463** | **41.9** | 47,030 | 53.3 |
| Financial Lines | **26,449** | **20.3** | 15,723 | 17.8 |
| Casualty UK | **27,131** | **20.9** | 14,862 | 16.8 |
| Casualty International | **21,896** | **16.9** | 10,695 | 12.1 |
| Casualty | **75,476** | **58.1** | 41,280 | 46.7 |
| Total | **129,939** | **100.0** | 88,310 | 100.0 |

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Review of the Business (continued)

Probitas Syndicate 1492 declared a UK GAAP profit for the year amounting to £1,570,000 (2017: £27,821,000 loss). The main elements in arriving at this result included:

| | **2018** | 2017 |
|---|---|---|
| | **£000** | £000 |
| Earned premiums, net of reinsurance | **93,217** | 49,330 |
| Claims incurred net of reinsurance | **(50,382)** | (50,320) |
| Net technical result | **42,835** | (990) |
| Net acquisition costs | **(22,964)** | (13,152) |
| Administration expenses | **(16,096)** | (12,697) |
| Syndicate operating expenses | **(39,060)** | (25,849) |
| Investment return | **471** | 93 |
| Foreign exchange (loss)/gain | **(973)** | 989 |
| Result before personal expenses | **3,273** | (25,757) |
| Personal expenses | **(1,703)** | (2,064) |
| Total | **1,570** | (27,821) |

Earned reserves are assessed to reflect the experience to date.

The calendar year has been benign with no major loss activity to date. The 2018 year of account has run very favourably to date with Property Gross Earned Loss ratio at 27% and, for all other classes, loss reserve assumptions have been held at planned levels following consideration of the experience in the year.

The level of actual acquisition costs relating to gross written premium and charged in the reporting period were lower than expected when compared to that envisaged within the Syndicate business plans due to fewer facilities being written in the year.

The net cash inflow during the reporting period was £21,421,000 from all operations (2017: £16,942,000 cash inflow). Cash and cash equivalents include £4,127,000 (2017: £10,821,000) of overdrafts as they form an integral part of the Syndicate's cash management.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Review of the Business (continued)

As the Syndicate develops, any surplus funds are held in interest bearing current bank accounts or short term deposits, providing the Syndicate with ready access to working capital. The Syndicate does not hold any off-balance sheet arrangements.

It is planned that the developing underwriting portfolio will continue to be focused on Property and Casualty classes of business. Set out below is an indication as to how the portfolio is planned to develop for the 2019 year of account:

| Indicative split by Class of Business: | Gross Written Premium £000 | Percentage Split % |
|---|---|---|
| Property D&F | 49,293 | 42.6 |
| Casualty International | 19,903 | 17.2 |
| Casualty UK | 17,936 | 15.5 |
| Professional Indemnity | 10,993 | 9.5 |
| Management Liability | 9,257 | 8.0 |
| Financial Institutions | 4,513 | 3.9 |
| Contractor All Risks | 3,819 | 3.3 |
| **Total by Class of Business** | **115,714** | **100.0** |

| Indicative split by Risk location: | Gross Written Premium £000 | Percentage Split % |
|---|---|---|
| **Latin America & Caribbean** | 31,908 | 27.5 |
| **UK** | 29,729 | 25.7 |
| **Asia Pacific** | 19,116 | 16.5 |
| **W Europe (ex UK)** | 10,926 | 9.4 |
| **Middle East & North Africa** | 5,385 | 4.7 |
| **CEE** | 2,962 | 2.6 |
| **Rest of the World** | 15,688 | 13.6 |
| **Total by Risk location** | **115,714** | **100.0** |

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Review of the Business (continued)

## Principal Risks and Uncertainties

The major risks and uncertainties that the Syndicate faces are presented below.

**Insurance Risk:**

Insurance risk can be viewed as comprising three main elements: underwriting, claims and reserving. Each of these can be defined as:

**Underwriting Risk:**

An insurance risk includes the risk that an insurance policy might be written for insufficient premium and/or provide inappropriate cover.

The Syndicate's underwriting models, aggregation tools and policy wordings do not of themselves prevent unplanned concentrations of risk, either in geographical regions or types of policy. Consequently, various risk management and loss mitigation techniques have been developed to manage and reduce this risk.

The Syndicate competes against major international groups and there will be occasions when some of these groups may choose to underwrite for cash flow or market share purposes and at prices that sometimes fall short of the Syndicate's minimum acceptable technical price. In common with all insurers, the Syndicate is exposed to this potential price volatility. Any extended periods of low premium rating levels and/or high levels of competition in the insurance markets are likely to have a negative impact on the Syndicate's ability to write business profitably and consequently its financial performance. Therefore, the Syndicate monitors pricing levels and is committed to rejecting any business that is unlikely to generate a positive underwriting result.

**Claims Risk:**

Claims risk includes the risk that the frequency and/or severity of insured events might be higher than expected.

**Reserving Risk:**

Reserving risk includes the risk that the estimates of claims might subsequently prove to be insufficient. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that the Syndicate's reserves, at any given time, might prove to be inadequate.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Principal Risks and Uncertainties (continued)

**Operational Risk:**

This is the risk that errors caused by people, processes and/or systems might lead to financial losses to the Syndicate. CMA manages this risk by reference to and use of a risk register, including a regular review process with those executives who have authority and responsibility for identifying, assessing and controlling operational risks effectively.

CMA has developed and implemented a risk reporting and risk governance system to ensure that effective risk management of operational risk is embedded. Management receives regular operational risk updates and the Audit & Risk Committee reviews the operational risk dash-board at least on a quarterly basis.

CMA has entered into a number of outsourcing arrangements, the performance of which are overseen by the Outsource Committee.

It is critical for the Syndicate that the key resources required to support its underwriting and other essential business activities continue to be available. A number of contingency plans are in place to mitigate against any loss of key resources from disrupting the ongoing operations of the Syndicate.

**Market Risk (including interest rate and currency):**

This is the risk of financial loss which arises from any fluctuations in market factors, including:

1. The value of investment holdings themselves
2. Movements in interest rates
3. Movements in foreign exchange rates

As the Syndicate develops, its exposure is likely to increase in respect of each of the above. CMA will seek to mitigate any such exposure and therefore reduce any associated risk by reviewing as and when appropriate investment performance and seeking to reduce as far as is practicable any currency assets / liabilities mismatches which might arise.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Principal Risks and Uncertainties (continued)

**Credit Risk:**

This is the risk of financial loss if another party fails to honour its financial obligations, including failing to meet them in a timely manner. Credit risk can arise from the failure to receive inwards premium and the failure to collect outwards reinsurance claims recoveries. All Syndicate premium receivable balances are reported on an ongoing basis to enable the Syndicate Monitoring Committee to assess their recoverability.

The Syndicate purchases reinsurance protection to contain exposure from single claims and the aggregation of claims from catastrophic events. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore regularly reviewed throughout the year. The Syndicate currently has no actual or direct experience of bad debt losses arising from its reinsurance arrangements. The Syndicate makes active use of CMA's 'Broker Vetting & Reinsurance Security Group' (BVRSG).

Other areas of exposure to credit risk include:

1. Amounts due from insurance intermediaries; and
2. Counterparty risk with respect to investments and other deposits.

CMA seeks to actively manage and reduce the Syndicate's exposure to this risk by introducing limits on its exposure to either a single counterparty, or groups of counterparties, and to geographical and industry segments wherever practicable or considered appropriate. Such limits will be subject to an annual or more frequent review as appropriate. It is considered that the current levels of concentration of credit risk are acceptable given the Syndicate's short period of operation. This area of risk will continue to be monitored closely.

**Liquidity Risk:**

Liquidity risk arises where cash may not be available to enable the Syndicate to pay its obligations as they fall due and at a reasonable cost. The Syndicate is exposed to daily cash demands on its available cash resources, including the settlement of claims, the payment of reinsurance premiums and also various operating and Names' personal expenses. The current approach is to hold cash at either no or short notice thereby minimising any risk of significant capital loss. These funds are monitored by management on a regular basis. The directors do not consider that there is a significant risk of a material loss arising from liquidity risk.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Principal Risks and Uncertainties (continued)

**Regulatory and Compliance Risk:**

This is the risk of there being a financial loss owing to a breach of regulatory requirements and/or a failure to respond to a regulatory change. Management receives frequent regulatory and compliance risk updates and the Audit & Risk Committee reviews and monitors these risks on a quarterly basis.

The Syndicate is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US and Canadian Situs business.

## Future Developments

Probitas Syndicate 1492 has been managed by CMA since its inception under what is known as a 'turnkey arrangement'. Consistent with the ambitions of all connected parties, it is planned, and subject to final agreement with Lloyd's, that the management of Syndicate 1492 will transfer from CMA to Probitas' Lloyd's managing agency at a future date.

Syndicate 1492 continues to be supported by a diverse underwriting capital base.

## Rating Agencies

Syndicate 1492 does not have its own security rating; however, it does benefit from the Lloyd's global A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard and Poor's and AA- (Very Strong) from Fitch. Ratings were taken as at January 2019.

## Working Capital

CMA closely monitors the Syndicate's actual cash flow against forecast and uses these data to assist in any discussions held with the Syndicate's sterling bankers concerning working capital requirements. CMA will provide advance notice to all relevant parties if ever it might be necessary to make a cash call on members in order to improve the Syndicate's working capital position.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Directors

The directors set out in the table below have held office for the whole period from 1 January 2018 to the date of this report unless stated otherwise.

C Forbes – Non-Executive Director *(resigned 31 October 2018)*
C M Grint - Chief Executive Officer *(resigned 25 September 2018)*
D E Hope - Non-Executive Director
J B King - Chief Operations Officer
P Koslover - Chief Risk Officer
P M Laws – Compliance Director *(appointed 30 October 2018)*
M Petzold - Director of Underwriting
W Scott - Finance Director and interim Chief Executive Officer
E S Stobart - Chairman, Non-Executive
S M Wilton - Non-Executive Director

J Hummerston has been appointed to the role of Director of Underwriting with effect 1 February 2019. Her appointment to the board of directors will take place after having received all necessary regulatory approvals. Matthew Petzold remains as a director of the board.

## London Market Target Operating Model (LM TOM)

The LM TOM is one of four programmes of work led by the London Market Group ('LMG'), designed to drive growth and modernisation across the London market. The LM TOM aims to make it easier to do business with the London Market, by making it accessible, efficiently run and relevant to the needs of customers.

During 2018 LM TOM has introduced and further developed several business applications anticipated to be integral in market modernisation, including: Placing Platform Limited ("PPL"); Structured Data Capture ("SDC"); and Delegated Authority System ("DASATS"). CMA and Probitas 1492 have been actively involved in the LM TOM project, and have worked seamlessly to integrate systems and onboard the Syndicate Underwriters onto these applications. Further to this, the Syndicate has exceeded all the Lloyd's mandated PPL targets in 2018, and will be receiving an incentive against Lloyd's Fees in recognition of the achievement.

## Ogden Rate

The Managing Agent's actuaries have conducted analyses regarding the potential impact of the recent change in the Ogden rate to (0.75)% and any further amendments to the discount rate anticipated in 2018 and have concluded that the impact to the Syndicate's reserves as at this year end are negligible.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Brexit

Following the UK's decision in the Referendum of 23 June 2016 to leave the European Union, Lloyd's has given much thought to and has developed a solution allowing Syndicates to continue to trade beyond 29 March 2019.

The solution referred to is Lloyd's Brussels (Lloyd's Insurance Company S.A). This is Lloyd's first Europe wide operation and has been constructed specifically to ensure that Lloyd's Syndicates, intermediaries and policy holders can continue to access the market's underwriting expertise and financial security across Continental Europe.

Lloyd's Brussels is governed by a Brussels based executive committee and operates via 19 branches located throughout Europe, including in the UK.

Lloyd's Brussels is authorised and regulated by the National Bank of Belgium and capitalised according to European Insurance and Occupational Pensions Authority's (EIOPA) Solvency II rules.
EIOPA is a European Union financial regulatory institution

CMA and Probitas Syndicate 1492 have actively engaged with the Lloyd's Brexit Project and have succeeded in transacting business via the Lloyd's Brussels platform effective from 1 January 2019. For underwriting matters concerning Lloyd's Brussels we have and shall continue to comply with the guidance provided under the London Market Group's Market Reform Contract as well as the Lloyd's Brexit team.

Depending upon whether or not an underwriting risk is classified as being: EEA; non – EEA or EEA & non - EEA the Syndicate will use either a Lloyd's Brussels stamp; a Syndicate stamp or both a Lloyd's Brussels stamp and a Syndicate stamp respectively.

The Syndicate has amended the original duration of certain delegated underwriting authorities through which such business attaches. This has been done to ensure that the inception of risks commencing 1 January 2019 are aligned with the operation of Lloyd's Brussels.

We expect to handle any claims emanating from EEA business in a manner consistent with that previously.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

An estimate of the known impact of having used the Lloyd's Brussels platform effective 1 January 2019, regardless of the final outcome of the Brexit negotiations, is that the 2018 pure underwriting year of account forecast ultimate gross written premium income is approximately £2.9m lower than it might otherwise have been.

The likely impact on the 2019 year of account is less clear. The Syndicate has already taken the decision not to renew certain EEA policies which it might have continued with had Brexit not arisen. Further, there is anecdotal evidence of clients not wanting to renew with Lloyd's because of perceived complications associated with the Lloyd's Brussels platform. While such might represent a loss of business it is in our view not significant. The Syndicate's planned gross written income for 2019 emanating from the EEA is some £9.5m and it is confident that this amount will be achieved by making effective use of the Lloyd's Brussels platform.

While the Syndicate enters its fifth underwriting year it has effectively only been trading for just over three years. As working capital continues to grow, premiums trust fund monies are held in interest bearing bank or cash sweep accounts. Premiums trust funds are held in five Lloyd's settlement currencies: Sterling; US dollars; Canada dollars; Australian dollars and Euros. The Syndicate does not hold any Euro denominated investments and therefore the main exposure relates to any additional foreign exchange rate volatility which might arise depending upon what sort of Brexit finally ensues.

## General Data Protection Regulation (GDPR)

The General Data Protection Regulation came into effect on 25 May 2018. As an EU Regulation, it has direct effect in UK law and applied automatically in the UK from that date. After Brexit, or at the end of any transition period that may be agreed, it will form part of UK law under the European Union (Withdrawal) Act 2019, with some technical changes to make it work effectively in a UK context. The new Data Protection Act 2018 sits alongside the GDPR and tailors how the GDPR applies in the UK. CMA and Probitas jointly took the steps necessary to assess the effects of the GDPR on the Syndicate's business and to prepare for compliance. This preparation is believed to have been effective, in the context of a business that does not process significant numbers of personal data.

## Syndicate Annual General Meeting

Capita Managing Agency Limited (CMA) does not propose to hold an annual general meeting of members of the Syndicate. Members are asked to note that any objections to this proposal should be submitted, in writing, to the CMA Compliance Officer within 21 days of this notice.

# REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

## Related Party Transactions

The Syndicate did not enter into any related party transactions which were not concluded under normal market conditions.  For a full listing of related party transactions please refer to note 22 of the accounts.

## Disclosure of Information to the Auditor

The directors of the managing agent who held office at the date of approval of this managing agent's 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

The managing agent proposes the re-appointment of Deloitte LLP as the Syndicate auditor.

Approved by the Board of Directors

W Scott
Director
15 February 2019

# STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare Syndicate annual accounts for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law 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 result or loss of the Syndicate for that period.

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

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume the Syndicate will do so.

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492

## Report on the audit of the syndicate annual financial statements

### Opinion

In our opinion the syndicate annual financial statements of Syndicate 1492 (the 'syndicate'):

- give a true and fair view of the state of the syndicate's affairs as at 31st December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in members' balances;
- the statement of cash flows; and
- the related notes 1 to 23.

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

### 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 financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (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.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

### Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the managing agent's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the managing agent has not disclosed in the syndicate annual financial statements 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 financial statements are authorised for issue.

We have nothing to report in respect of these matters.

### Other information

The managing agent is responsible for the other information. The other information comprises the information included in the annual report and accounts, other than the syndicate annual financial statements and our auditor's report thereon. Our opinion on the syndicate annual financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual financial statements 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 financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

### Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements 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 syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

### Responsibilities of managing agent (continued)

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

### Auditor's responsibilities for the audit of the syndicate annual financial statements

Our objectives are to obtain reasonable assurance about whether the syndicate annual financial statements 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 financial statements.

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

### Report on other legal and regulatory requirements

### Opinions on other matters 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 Strategic Report and the Report of the Directors of the Managing Agent for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the report of the Strategic Report and the Report of the Directors of the Managing Agent have been prepared in accordance with applicable legal requirements.

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 any material misstatements in Strategic Report or the Report of the Directors of the Managing Agent.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

### 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 in respect of the following matters if, in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

### Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of 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's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Downes ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK
15 February 2019

# INCOME STATEMENT
# TECHNICAL ACCOUNT – GENERAL BUSINESS
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 £000 | 2017 £000 |
|---|---|---|---|
| Gross premiums written | 2 | **129,939** | 88,310 |
| Outward reinsurance premiums | | **(18,231)** | (27,409) |
| Net premiums written | | **111,708** | 60,901 |
| Change in the provision for unearned premiums: | | | |
| Gross amount | | **(16,359)** | (22,185) |
| Reinsurers' share | | **(2,132)** | 10,614 |
| Change in the net provision for unearned premiums | | **(18,491)** | (11,571) |
| Earned premiums, net of reinsurance | | **93,217** | 49,330 |
| Allocated investment return transferred from the non-technical account | | **471** | 93 |
| Claims paid: | | | |
| Gross amount | | **(55,978)** | (18,890) |
| Reinsurers' share | | **28,561** | 1,342 |
| Net claims paid | | **(27,417)** | (17,548) |
| Change in claims outstanding: | | | |
| Gross amount | | **(18,073)** | (64,876) |
| Reinsurers' share | | **(4,892)** | 32,104 |
| Change in the net provision for claims | 3 | **(22,965)** | (32,772) |
| Claims incurred net of reinsurance | | **(50,382)** | (50,320) |
| Net Syndicate operating expenses | 4 | **(39,060)** | (25,849) |
| Member's personal expenses | 8 | **(1,703)** | (2,064) |
| **Balance on the technical account for general business** | | **2,543** | (28,810) |

# INCOME STATEMENT
# NON-TECHNICAL ACCOUNT – GENERAL BUSINESS
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 £000 | 2017 £000 |
|---|---|---|---|
| Balance on the technical account – general business | | **2,543** | (28,810) |
| Investment income | | **471** | 93 |
| Allocated investment return transferred to general business technical account | | **(471)** | (93) |
| Exchange (losses)/gains | | **(973)** | 989 |
| **Profit/(loss) for the financial period** | | **1,570** | (27,821) |

All operations relate to continuing activities.  There is no other comprehensive income.

# STATEMENT OF FINANCIAL POSITION – ASSETS
## AS AT 31 DECEMBER 2018

| | Notes | 2018 £000 | 2017 £000 |
|---|---|---|---|
| **Investments** | | | |
| Other financial investments | | **20,977** | 4,918 |
| **Reinsurers' share of technical provisions** | | | |
| Claims outstanding | | **27,906** | 31,887 |
| Provision for unearned premium | | **16,226** | 17,544 |
| | | **44,132** | 49,431 |
| **Debtors** | | | |
| Debtors arising out of direct insurance operations | 12 | **29,213** | 22,711 |
| Debtors arising out of reinsurance operations | 13 | **8,175** | 9,123 |
| Other debtors | 14 | **469** | 583 |
| | | **37,857** | 32,417 |
| **Other assets** | | | |
| Cash and cash equivalents | | **16,663** | 13,438 |
| Overseas deposits | | **9,198** | 2,670 |
| | | **25,861** | 16,108 |
| **Prepayments and accrued income** | | | |
| Deferred acquisition costs | | **11,938** | 9,363 |
| Other prepayments and accrued income | | **1,576** | 1,505 |
| | | **13,514** | 10,868 |
| **Total assets** | | **142,341** | 113,742 |

The notes on pages 31 to 70 form an integral part of these financial statements.

# STATEMENT OF FINANCIAL POSITION – MEMBERS' BALANCES & LIABILITIES
## AS AT 31 DECEMBER 2018

| | Notes | 2018 £000 | 2017 £000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Total members' balances | | **(37,143)** | (42,344) |
| **Technical provisions** | | | |
| Provision for unearned premium | | **64,596** | 47,340 |
| Claims outstanding | | **95,568** | 74,985 |
| | | **160,164** | 122,325 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | | **81** | 340 |
| Creditors arising out of reinsurance operations | 15 | **13,231** | 20,491 |
| Amounts owed to credit institutions | 16 | **4,127** | 10,821 |
| Other creditors | | **266** | 586 |
| | | **17,705** | 32,238 |
| **Accruals and deferred income** | 17 | **1,615** | 1,523 |
| **Total members' balances & liabilities** | | **142,341** | 113,742 |

The financial statements on pages 25 to 70 were approved by the board of Capita Managing Agency Limited on 13 February 2019 and were signed on its behalf by:

W Scott
Director
15 February 2019

# STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | Notes | 2018 £000 | 2017 £000 |
|---|---|---|---|
| **Operating Activities** | | | |
| Profit/ (loss) for the financial year | | **1,570** | (27,821) |
| Adjustments for: | | | |
| Increase in gross technical provisions | | **37,839** | 83,263 |
| Decrease/(increase) reinsurers share of gross technical provisions | | **5,298** | (40,639) |
| (Increase) in debtors | | **(5,440)** | (13,970) |
| (Decrease)/increase in creditors | | **(7,746)** | 21,167 |
| Movement in other assets/liabilities | | **(9,153)** | (5,198) |
| Investment return | | **(471)** | (93) |
| Foreign Exchange | | **(476)** | 233 |
| **Net cash flow from operating activities** | | **21,421** | 16,942 |
| **Cash flow from investing activities** | | | |
| Purchase of debt instruments | | **(16,019)** | (3,616) |
| Sale of debt instruments | | **-** | 2,768 |
| Investment income received | | **471** | 93 |
| **Net cash flow from investing activities** | | **(15,548)** | (755) |
| **Cash flow from Financing activities** | | | |
| Transfer from Members in respect of underwriting participations | | **3,632** | - |
| **Net cash flow from financing activities** | | **3,632** | - |
| **Net increase in cash and cash equivalents** | | **9,505** | 16,187 |
| **Cash and cash equivalents at beginning of period** | | **2,618** | (13,610) |
| Realised foreign exchange gains | | **443** | 40 |
| **Cash and cash equivalents at the end of the period** | | **12,566** | 2,617 |
| **Cash and cash equivalents consists of:** | | | |
| Cash at bank and in hand | | **16,663** | 13,438 |
| Short term deposits with credit institutions | | **30** | - |
| Overdraft facilities | 16 & 18 | **(4,127)** | (10,821) |
| **Cash and cash equivalents at end of period** | | **12,566** | 2,617 |

# STATEMENT OF CHANGES IN MEMBERS' BALANCES
## FOR THE YEAR ENDED 31 DECEMBER 2018

| | 2018<br>£000 | 2017<br>£000 |
|---|---|---|
| **Members' balances brought forward** | **(42,344)** | (14,523) |
| Profit/ (loss) for the period | **1,570** | (27,821) |
| Payment of loss from Members' personal reserve funds | **3,631** | - |
| **Members' balances carried forward** | **(37,143)** | (42,344) |

# NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2018

## 1. Accounting Policies

### 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.

### Basis of preparation

The financial statements for the year ended 31 December 2018 were approved by the Board of Directors on 13 February 2019.

The financial statements are prepared in £ Sterling which is the functional and presentational currency of the Syndicate and rounded to the nearest £000.

Having considered the risks and uncertainties and the performance of the Syndicate as disclosed in the report of the directors and making enquiries, the managing agent has a reasonable expectation that the Syndicate will continue to write business for the foreseeable future. Moreover, the managing agent expects that continued capital support will be in place to do so. Accordingly, the financial statements have been prepared on the going concern basis.

### Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the carry value of assets and liabilities that are not readily available from other sources. Estimates and underlying assumptions are regularly reviewed and revisions to these are recognised in the period in which the change in estimate is recognised and all future periods affected. The following are the Syndicate's key sources of estimation uncertainty, where a risk of causing material misstatement to the carrying value of assets and liabilities within the next financial year may exist.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

### Judgements and key sources of estimation uncertainty (continued)

*Insurance contract*

For insurance contracts, estimates are made both for the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported (IBNR), at the reporting date. It can take a significant period before the ultimate claims cost can be established with certainty and, for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder method and Bornhuetter-Ferguson methods.

The main assumption underlying these standard actuarial claims projection techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the balance sheet date based on statistical methods.

These methods 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. 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. Managerial judgement is applied when setting the initial expected loss ratio, gross claims' development patterns and the proportion of reinsurance recoverable thereon. These judgements are based on a combination of syndicate specific and market benchmarks where available. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

*Estimates of future premiums*

For contracts written under binding authorities, premium is initially recognised based on estimates of ultimate premiums. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## AS AT 31 DECEMBER 2018

### 1. Accounting Policies (continued)

**Judgements and key sources of estimation uncertainty (continued)**

*Fair value of financial assets and derivatives determined using valuation techniques*

Syndicate 1492 does not have any financial assets or liabilities recorded on the statement of financial position whose fair values cannot be sourced from active markets. Syndicate 1492 has no need to use any valuation techniques to determine fair value.

*Recoverability of reinsurance assets*

Impairment testing of reinsurance assets is covered under *significant accounting policies.* The Managing Agent considers that, if there is objective evidence to suggest that it is probable the Syndicate will not be able to collect any full amount due from a reinsurer, the reinsurance asset would be impaired and the extent of the impairment would be considered a critical judgement. At this date the Syndicate has no impaired reinsurance assets.

**Significant accounting policies**

***Insurance contracts – Product classification***

Insurance contracts are those contracts when the Syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with IAS 39 unless the embedded derivative is itself an insurance contract (ie the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

***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. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or when the risk covered cannot be assessed accurately at the commencement of cover. When written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. When written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the cover-holder.

***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.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. When written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the policyholder.

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.

***Profit commission***

No Profit Commission is payable by any member of the Syndicate to the Managing Agent.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

***Reinstatement Premiums***

Reinstatement premiums may arise on both inwards and outwards policies when a loss has been incurred on a policy and there is a clause which requires the reinstatement of the policy with the payment of a further premium by the policyholder. These amounts are generally recognised as written and earned in full, at the date of the event giving rise to the reinstatement premium. Outwards reinstatement premiums payable, in the event of a claim being made, are generally charged to year of account in the same proportions as that to which the recovery is credited.

***Claims***

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

***Technical provisions***

Technical provisions comprise claims outstanding and provisions for unearned premiums.

***Claims outstanding***

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

***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.

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.

***Deferred acquisition costs***

Acquisition costs can comprise costs arising from the conclusion of insurance contracts, including direct costs, such as intermediary commissions and indirect costs, such as 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. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement. Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight-line basis over the term of the expected premiums payable.

***Reinsurance assets***

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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

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.

Insurance receivables are de-recognised when the de-recognition 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.

***Financial investments***

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

Purchases and sales of financial assets are recognised on the trade date, ie 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.

Financial assets at fair value through profit or loss has two sub categories, namely financial assets held for trading and those designated at fair value through the profit and loss at inception. All the Syndicate's financial assets are held for trading. 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.

***Derivative financial instruments***

The Syndicate does not use derivative financial instruments.

***Cash and cash equivalents***

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above. Overdrafts are reported separately in creditors.

***Fair value of financial assets***

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.

Analysis of the fair value of the Syndicate's investments is contained in note 23.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## AS AT 31 DECEMBER 2018

### 1. Accounting Policies (continued)

***Impairment of financial assets***

For financial assets not held at fair value through profit or loss, the Syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The Syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment. If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income in members' balance to the income statement. Impairment losses recognised in the income statement in respect of an equity instrument are not subsequently reversed through the income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the income statement, if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

***De-recognition of financial assets***

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- There is a currently enforceable legal right to offset the recognised amounts; and
- There is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

### *Financial liabilities*

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

### ***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 are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the Balance Sheet date and their valuation at the previous Balance Sheet date, or purchase price, if acquired during the financial year, together with the reversal of unrealised gains and losses recognised in earlier financial years in respect of investment disposals in the current financial year.

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

### *Foreign currencies*

The Syndicate's functional and also reporting currency is £ Sterling.

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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 1. Accounting Policies (continued)

***Exchange differences are recorded in the non-technical account.***

The following rates of exchange have been used in producing this annual report:

| | | US$ | Can$ | Euro | Au$ |
|---|---|---|---|---|---|
| **Closing rate of exchange** | **31 December 2018** | **1.27** | **1.74** | **1.11** | **1.81** |
| **Average rate of exchange** | **Calendar year 2018** | **1.34** | **1.73** | **1.13** | **1.79** |
| Closing rate of exchange | 31 December 2017 | 1.35 | 1.70 | 1.13 | - |
| Average rate of exchange | Calendar year 2017 | 1.29 | 1.67 | 1.14 | - |

***Taxation***

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate are included in the statement of financial position under the heading 'other debtors'. No provision has been made for any overseas tax payable by members on underwriting results.

***Pension costs***

No pension costs are directly borne by the Syndicate.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## AS AT 31 DECEMBER 2018

### 2. Segmental Analysis

An analysis of the underwriting result before investment return and foreign exchange gains and losses is set out below:

| **2018** | **Gross premiums written £000** | **Gross premiums earned £000** | **Gross claims incurred £000** | **Net operating expenses £000** | **Reinsurance balance £000** | **Total £000** |
|---|---|---|---|---|---|---|
| **Direct Insurance:** | | | | | | |
| **Energy** | **724** | **397** | **(57)** | **(187)** | **227** | **380** |
| **Fire and other damage to property** | **28,884** | **25,638** | **(21,182)** | **(9,226)** | **(4,269)** | **(9,039)** |
| **Third party liability** | **56,913** | **47,590** | **(30,338)** | **(19,268)** | **(1,898)** | **(3,914)** |
| | **86,521** | **73,625** | **(51,577)** | **(28,681)** | **(5,940)** | **(12,573)** |
| **Reinsurance** | **43,418** | **39,955** | **(22,474)** | **(12,082)** | **9,246** | **14,645** |
| **Total** | **129,939** | **113,580** | **(74,051)** | **(40,763)** | **3,306** | **2,072** |

| 2017 | Gross premiums written £000 | Gross premiums earned £000 | Gross claims incurred £000 | Net operating expenses £000 | Reinsurance balance £000 | Total £000 |
|---|---|---|---|---|---|---|
| Direct Insurance: | | | | | | |
| Energy | 351 | 305 | (181) | (99) | (62) | (37) |
| Fire and other damage to property | 20,485 | 13,664 | (28,300) | (6,827) | 7,996 | (13,467) |
| Third party liability | 35,137 | 21,203 | (13,865) | (11,768) | 2,914 | (1,516) |
| | 55,973 | 35,172 | (42,346) | (18,694) | 10,848 | (15,020) |
| Reinsurance | 32,337 | 30,953 | (41,420) | (9,219) | 5,803 | (13,883) |
| Total | 88,310 | 66,125 | (83,766) | (27,913) | 16,651 | (28,903) |

All the £129,939,000 gross premiums written were underwritten in the UK.

The geographical analysis of gross premiums written by location of risk is as follows:

| | **Gross Written Premium** | | | |
|---|---|---|---|---|
| | **2018 £000** | **2018 %** | 2017 £000 | 2017 % |
| UK | **28,014** | **21.6** | 15,577 | 17.6 |
| Asia Pacific | **26,128** | **20.1** | 14,810 | 16.8 |
| Latin America & Caribbean | **19,431** | **14.9** | 20,552 | 23.3 |
| W Europe (ex UK) | **19,247** | **14.8** | 16,418 | 18.6 |
| Middle East & North Africa | **8,074** | **6.2** | 12,934 | 14.6 |
| CEE | **7,086** | **5.5** | 2,302 | 2.6 |
| Rest of the World | **21,959** | **16.9** | 5,717 | 6.5 |
| **Total** | **129,939** | **100.0** | 88,310 | 100.0 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 3. Change in Net Provision for Claims

The change in net provision for claims is made up of the following:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Gross claims incurred | (17,226) | 64,837 |
| Provision for unallocated loss adjustment expenses | (847) | 39 |
| Reinsurers' share of claims incurred | (4,892) | (32,104) |
| Total | (22,965) | 32,772 |

## 4. Net Syndicate Operating Expenses

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Brokerage and commissions | 23,736 | 17,161 |
| Other acquisition costs | 1,648 | 1,193 |
| *Gross acquisition costs* | 25,384 | 18,354 |
| Change in deferred acquisition costs | (2,534) | (4,785) |
| *Earned acquisition costs* | 22,850 | 13,569 |
| Reinsurers' commissions and profit participations | 114 | (417) |
| *Net acquisition costs* | 22,964 | 13,152 |
| Administrative expenses – other | 17,799 | 14,761 |
| Total | 40,763 | 27,913 |

'Administrative expenses – other' include interest payable amounts of £206,000 (2017: £269,000) and members' standard expenses of £1,703,000 (2017: £2,064,000). Further analysis of members' standard expenses is contained within Note 8 to these financial statements. No interest was payable to any related party (2017: nil).

Brokerage and commissions in respect of gross earned premium, derived from direct & facultative business amounted to £15,780,000 (2017: £11,353,000)

| Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT) | 2018 £000 | 2017 £000 |
|---|---|---|
| An analysis of the auditor's remuneration is as follows: | | |
| Audit fees: | | |
| Fees payable to the Syndicate's auditor for the audit of these financial statements | 74 | 46 |
| Non-audit fees: | | |
| Other services pursuant to legislation | 71 | 58 |
| Statement of actuarial opinion | 77 | 70 |
| Total fees | 222 | 174 |

Other services pursuant to legislation include fees for the Syndicate year end audit of Solvency II balance sheet and Lloyd's half year reviews.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 5. Staff Numbers and Costs

The average number of employees employed by CMA and who worked either in part or whole for the Syndicate during the period was as follows:

| | **2018** | 2017 |
|---|---|---|
| Administration and Finance | **23** | 20 |
| Underwriting | **1** | 1 |
| Total | **24** | 21 |

The reference to Underwriting relates to the role of Director of Underwriting. This role is supported by staff with underwriting experience included within “Administrative and Finance”.

CMA received a Managing Agent’s fee of £814,000 (2017: £726,000) which was charged to the Syndicate. These amounts include estimated amounts for directors and staff related costs. No emoluments of the directors of CMA were directly charged to the Syndicate and consequently no meaningful disclosure can be made.

CMA has also recharged various expenses which have been properly incurred on Syndicate 1492’s behalf; these amounted to £1,899,000 for the year ended 31 December 2018 (2017: £1,350,000).

## 6. Active Underwriter’s Emoluments

Ash Bathia, Syndicate 1492’s Active Underwriter, is engaged by way of a secondment deed between Capita Managing Agency Limited and Probitas 1492 Services Limited and himself. The amount recharged to the Syndicate in respect of his total emoluments for the year ended 31 December 2018 was £526,000 (2017: £526,000).

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 7. Investment Return

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Income from financial investments | **471** | 93 |

Average amount of funds available for investment during the year:

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Sterling | **(4,065)** | (12,187) |
| United States Dollars | **6,495** | 6,033 |
| Canadian Dollars | **12,876** | 4,951 |
| Euros | **6,008** | 3,164 |
| Australian Dollars | **2,165** | - |
| Mexican Pesos | **2** | - |
| Total | **27,546** | 1,961 |

| | 2018 % | 2017 % |
|---|---|---|
| Gross calendar year investment yield | **2.00** | 4.75 |

| Analysis of calendar year investment yield by fund | 2018 % | 2017 % |
|---|---|---|
| Sterling | **(4.20)** | (0.10) |
| United States Dollars | **1.69** | 0.93 |
| Canadian Dollars | **1.40** | 0.77 |
| Euros | **0.00** | 0.00 |
| Australian Dollars | **0.49** | - |
| Mexican Pesos | **0.00** | - |

In the year ended 31 December 2018 the Syndicate opened both Australian Dollar and Mexican Peso bank accounts, consistent with the growth strategy of the business. For the 2018 year of account, Sterling balances include the aggregate of all available funds held in currencies other than US Dollars, Canadian Dollars, Euros, Australian Dollars, Mexican Pesos and any associated overdraft facilities. For the 2017 and prior years of account, Australian Dollars and Mexican Pesos are aggregated under Sterling. The gross calendar year investment yield excluding overdraft facilities is 1.39% (2017: 0.62%). The quantum of the overdraft facility is disclosed in note 16 to the accounts "Amounts owed to credit institutions".

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 8. Member's Personal Expenses

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Managing agent's fee | **814** | 726 |
| Central Fund | **444** | 924 |
| Lloyd's Subscriptions | **445** | 414 |
| Total | **1,703** | 2,064 |

For 2018 Central Fund contributions are levied at 0.35% of Gross Written Premium (GWP) (2017: 0.35% or a higher rate of 1.4% for any new corporate members, wishing to access Lloyd's reputation and brand, for the first three years of trading). Members' subscriptions have been reduced to 0.36% of GWP (2017: 0.45%).

## 9. Financial Investments

| | Market value 2018 £000 | Cost 2018 £000 | Market value 2017 £000 | Cost 2017 £000 |
|---|---|---|---|---|
| Shares and other variable securities and units in unit trusts:<br>Designated at fair value through profit and loss | **20,977** | **20,977** | 4,918 | 4,918 |
| Total | **20,977** | **20,977** | 4,918 | 4,918 |

The difference between the preceding table and that contained within note 23, fair value estimation, is due to the inclusion of overseas deposits of £9,198,000 (2017: £2,670,000) and an overdraft of £4,127,000 (2017: £10,821,000). Definitions of the fair value levels are contained within note 1.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 10. Reconciliation of Insurance Balances

The reconciliation between the opening and closing balance of unearned premium is made up of the following:

| | 2018 Gross £000 | 2018 Reinsurers' Share £000 | 2017 Gross £000 | 2017 Reinsurers' share £000 |
|---|---|---|---|---|
| **Brought forward** | **47,340** | **(17,545)** | 26,456 | (7,993) |
| Premiums written | **129,939** | **(18,231)** | 88,310 | (27,552) |
| Premiums earned | **(113,580)** | **20,363** | 66,125 | (16,938) |
| **Premium provision movement** | **16,359** | **2,132** | 22,185 | (10,614) |
| Foreign exchange | **897** | **(813)** | (1,301) | 1,063 |
| **Carried forward** | **64,596** | **(16,226)** | 47,340 | (17,545) |

The reconciliation between the opening and closing balance of claims outstanding is made up of the following:

| | 2018 Gross £000 | 2018 Reinsurers' Share £000 | 2017 Gross £000 | 2017 Reinsurers' share £000 |
|---|---|---|---|---|
| **Brought forward** | **(74,985)** | **31,887** | (12,607) | 799 |
| Change in claims provision | **(17,226)** | **(4,892)** | (64,837) | 32,104 |
| Provision for unallocated loss adjustment expenses | **(847)** | **-** | (39) | - |
| | **(18,073)** | **(4,892)** | (64,876) | 32,104 |
| Foreign exchange | **(2,510)** | **911** | 2,498 | (1,016) |
| **Carried forward** | **(95,568)** | **27,906** | (74,985) | 31,887 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
## AS AT 31 DECEMBER 2018

### 11. Reconciliation of Deferred Acquisition Costs

The reconciliation between the opening and closing balance of claims outstanding is made up of the following:

| | 2018 Gross £000 | 2018 Reinsurers' Share £000 | 2017 Gross £000 | 2017 Reinsurers' share £000 |
|---|---|---|---|---|
| **Brought forward** | **9,363** | **(240)** | 4,866 | (278) |
| Change in deferred acquisition costs | **2,402** | **132** | 4,751 | 34 |
| | **11,765** | **(108)** | 9,617 | (244) |
| Foreign exchange | **173** | **-** | (254) | 4 |
| **Carried forward** | **11,938** | **(108)** | 9,363 | (240) |

### 12. Debtors Arising Out of Direct Insurance Operations

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Total Amounts due from policyholders - within one year | **29,213** | 22,711 |

### 13. Debtors Arising Out of Reinsurance Operations

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Amounts due from intermediaries - within one year | **8,175** | 9,123 |

### 14. Other Debtors

| | 2018 £000 | 2017 £000 |
|---|---|---|
| Amounts due - within one year | **469** | 583 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

### 15. Creditors Arising Out of Reinsurance Operations

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Amounts due to intermediaries - within one year | **13,231** | 20,491 |

### 16. Amounts Owed to Credit Institutions

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Amounts due within one year | **4,127** | 10,821 |

### 17. Accruals and Deferred Income

| | **2018 £000** | 2017 £000 |
|---|---|---|
| Amounts due within one year | **1,615** | 1,523 |

The balance above relates to various operating expenses.

### 18. Statement of Cash Flows

Cash inflows from overdrafts of £4,127,000 (2017: £10,821,000) are included in cash and cash equivalents as they form an integral part of the cash management of the Syndicate.

### 19. Ultimate Parent Company of the Managing Agent

Capita Managing Agency Limited (CMA), incorporated in England and Wales, is the Managing Agent for Syndicate 1492. The accounts of CMA are available from the registered office at 30 Berners Street, London, W1T 3LR. The company's immediate parent undertaking is Capita Insurance Services Holdings Limited, a company incorporated in England and Wales. The company's ultimate parent undertaking is Capita plc, a company incorporated in England and Wales. The accounts of Capita plc are available from the registered office at 30 Berners Street, London, W1T 3LR.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 20. 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 underwriting 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. Generally, 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. For its first three years of trading, the Syndicate's capital requirement has been determined by Lloyd's. 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 can make a call on the member's FAL to meet liquidity requirements or to settle losses.

## 21. Post Balance Sheet Events

The Syndicate has exposure on its Casualty International account to the loss arising from the Vale Dam on 25 January 2019. While the quantum of the loss arising from this event remain uncertain at this time, the Syndicate is confident that the gross exposure falls within its reinsurance protections. This is considered to be a non-adjusting post balance sheet event.

At this date, there have been no other post balance sheet events which require disclosure or an adjustment to the financial statements for the period 1 January to 31 December 2018.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 22. Related Parties

The following entities are referred to by their abbreviation throughout this note:

| | Entity's legal name | Abbreviation |
|---|---|---|
| Capita and subsidiaries: | | |
| **1** | Capita plc | Capita |
| **2** | Capita Insurance Services Holdings Limited | CISH |
| **3** | Capita Commercial Insurance Services Limited | CCIS |
| **4** | Capita Managing Agency Limited | CMA |
| Probitas and subsidiaries: | | |
| **5** | Probitas Corporate Capital Limited | Probitas Corporate |
| **6** | Probitas 1492 Services Limited | Probitas |
| **7** | Probitas Holdings (Bermuda) Limited | PHBL |
| **8** | Probitas Holdings (UK) Limited | PHUK |
| **9** | Probitas 1492 Services Mexico SA De CV | PMex |

**Interests of the Managing Agent**

CMA managed Syndicate 1492 during 2018. Syndicate 1492 has been managed by CMA since its inception under what is known as a ‘turnkey arrangement’. CMA has charged a managing agency fee of £813,000 to Syndicate 1492 during the reporting period (2017 £726,000).

CMA has recharged various expenses which have been properly incurred on Syndicate 1492's behalf amounting to £1,899,000 during the reporting period (2017 £1,350,000). Amounts outstanding at each reporting period end were nil and £122,000 respectively.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 22. Related Parties (continued)

### Interests and Arrangements of Any Related Companies

Disclosed below are those transactions or arrangements entered into on behalf of, or otherwise concerning the member of, the Syndicate in which any related company of CMA has, directly or indirectly, a material interest:

CMA's immediate direct holding company is CISH. CMA and CCIS are wholly owned subsidiaries of Capita.

CMA entered into an agreement with CCIS on 5 October 2015 for the provision of outsourced underwriting support and other related administration services for Syndicate 1492. During the reporting period £2,021,000 was charged to Syndicate 1492 in respect of services provided by CCIS (2017: £1,540,000). Amounts outstanding at each reporting period end were nil and £422,000 respectively.

CMA entered into a Delegated Authority Agreement with Probitas on 5 October 2015 for the provision of underwriting and other related administration services for Probitas Syndicate 1492.

Ash Bathia is Syndicate 1492's Active Underwriter and is engaged by way of a secondment deed entered into between CMA, Probitas and himself on 5 October 2015.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management

### (a) Governance framework

The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Managing Agent has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors 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 business plan, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'. The Syndicate regularly undertakes a process known as 'Own Risk & Solvency Assessment' (ORSA) which is reviewed by the Audit & Risk Committee and finally approved by the board.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (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.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency I figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirement of the Syndicate, since this has been previously calculated based on Solvency II principles, as described below.

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 1492 is not disclosed in these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

**23. Risk management (continued)**

**(b) Capital management objectives, policies and approach (continued)**

***Lloyd's capital setting process***

Probitas Syndicate 1492 is a new entrant and Lloyd's has determined its underwriting capital requirements for the 2016, 2017 and 2018 years of account. For established Syndicates, 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 comprise 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 members' 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 and 2018 was 35% of the members' 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, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. 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 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. Reinsurance ceded may be placed on both a proportional and non–proportional basis. The majority of any proportional reinsurance which might be ceded is likely to be quota–share reinsurance which would be taken out to reduce the overall exposure to certain classes of business. Non–proportional reinsurance is primarily excess of loss reinsurance and is usually designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance will vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. 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.

The Syndicate principally issues the following types of general insurance contracts: Property and Casualty risks usually cover twelve months' duration.

The Syndicate's most significant risks arise from natural disasters. For longer tail casualty claims that take some years to settle, there is also inflation risk.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (c) Insurance risk (continued)

Variability in claims and hence profits is a significant risk to the Syndicate. This is mitigated by writing a diverse range of products including diversification by industry sector and geography. The Syndicate has an agreed maximum and normal line size for each underwriting team. It also has a reinsurance strategy and purchasing plan to mitigate the effects of individual large losses and events. The pricing of the business includes the consideration of inflation and other economic factors. Operational risk can also increase the volatility of profits. This risk is mitigated by strict claim handling procedures and frequent investigation of possible fraudulent claims.

The Syndicate has an overarching risk appetite expressed in terms of the Solvency Capital Requirement on an ultimate basis which is not to exceed this figure by more than 15% on an ongoing basis. (This is consistent with the definition of a 'major change' which would require an updated plan to be submitted and approved by Lloyd's). The Syndicate also has a subsidiary risk appetite for natural catastrophe exposure which is primarily to limit exhaustion of the reinsurance programme to be less than a 1 in 200 level on an occurrence basis.

The Syndicate uses commercially available proprietary 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 un-modelled event are greater than those arising from a modelled event.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (c) Insurance risk (continued)

The Property D&F account written during 2018 is exposed to catastrophe type major losses:

| **Major Loss** | **Estimated gross claims £000** | **Estimated net claims £000** |
|---|---|---|
| **31 December 2018:** | | |
| **Thomas Foods** | **5,745** | **874** |
| 31 December 2017: | | |
| Typhoon Meranti | 18 | 18 |
| Hurricane Nate | 109 | 109 |
| Tropical Cyclone Debbie | 765 | 765 |
| Peruvian floods | 1,399 | 1,399 |
| Mexican Earthquake 08/09 | 2,487 | 2,487 |
| Mexican Earthquake 19/09 | 4,444 | 3,822 |
| Hurricane Maria | 12,963 | 5,185 |
| Hurricane Irma | 17,778 | 6,478 |

Net claims estimates include reinstatement premiums.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (c) Insurance risk (continued)

Reserves have been assessed across the whole underwriting portfolio on an entirely assumed basis using the Lloyd's approved Syndicate business plan loss ratios. The geographical analysis of the risks underwritten shown below illustrates to how the claims might settle if the reserves were to crystallise and settle as actual claims in an equivalent manner.

| | Gross Claims Reserves | | | |
|---|---|---|---|---|
| | **2018 £000** | **2018 %** | 2017 £000 | 2017 % |
| UK | **19,330** | **20.2** | 2,453 | 3.3 |
| Latin America & Caribbean | **18,000** | **18.8** | 39,665 | 52.8 |
| Asia Pacific | **17,490** | **18.3** | 4,134 | 5.5 |
| W Europe (ex UK) | **14,246** | **14.9** | 5,103 | 6.8 |
| Middle East & North Africa | **6,714** | **7.0** | 3,655 | 4.9 |
| CEE | **5,691** | **6.0** | 2,452 | 3.3 |
| Rest of the World | **14,097** | **14.8** | 17,523 | 23.4 |
| Total | **95,568** | **100.0** | 74,985 | 100.0 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (c) Insurance risk (continued)

The following table sets out the concentration of outstanding claims liabilities by class:

| Class | 2018 £000 | 2018 % | 2017 £000 | 2017 % |
|---|---|---|---|---|
| Property | **32,644** | **34.57** | 49,956 | 66.9 |
| Contractor All Risks | **4,419** | **4.68** | 1,580 | 2.1 |
| Property D & F | **37,063** | **39.25** | 51,536 | 69.0 |
| Financial Lines | **20,260** | **21.45** | 10,165 | 13.6 |
| Casualty UK | **17,741** | **18.79** | 6,393 | 8.6 |
| Casualty International | **19,372** | **20.51** | 6,606 | 8.8 |
| Casualty | **57,373** | **60.75** | 23,164 | 31.0 |
| Total | **94,436** | **100.00** | 74,700 | 100.0 |

These data do not include ULAE.

### 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: one–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.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (c) Insurance risk (continued)

***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 Syndicate has limited historical experience on which to base statistical projections particularly in respect of the longer-tail lines of business. Benchmark data has therefore been used on a selective basis in the reserving process.

For illustrative purposes the following table indicates the impact of various percentage changes to the booked reserves. The calculations have been carried out on a linear basis and without any actuarial adjustments or application of expert judgement.

| Change in assumption + / (- ) % | Impact on Gross Liabilities £000 | Impact on Net Liabilities £000 | Impact on Loss £000 | Impact on Members' Balance £000 |
|---|---|---|---|---|
| **December 2018:** | | | | |
| **10 / (10)** | **9,557 / (9,557)** | **6,766 / (6,766)** | **6,766 / (6,766)** | **6,766 / (6,766)** |
| **50 / (50)** | **47,784 / (47,784)** | **33,831 / (33,831)** | **33,831 / (33,831)** | **33,831 / (33,831)** |
| **100 / (100)** | **95,568 / (95,568)** | **67,662 / (67,662)** | **67,662 / (67,662)** | **67,662 / (67,662)** |
| **200 / (200)** | **191,136 / 191,136)** | **135,324 / (135,324)** | **135,324 / (135,324)** | **135,324 / (135,324)** |
| December 2017: | | | | |
| 10 / (10) | 7,499 / (7,499) | 4,310 / (4,310) | 4,310 / (4,310) | 4,310 / (4,310) |
| 50 / (50) | 37,493 / (37,493) | 21,549 / (21,549) | 21,549 / (21,549) | 21,549 / (21,549) |
| 100 / (100) | 74,985 / (74,985) | 43,098 / (43,098) | 43,098 / (43,098) | 43,098 / (43,098) |
| 200 / (200) | 149,970 / (149,970) | 86,196 / (86,196) | 86,196 / (86,196) | 86,196 / (86,196) |

Positive changes to assumptions represent a decrease of the liability.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (c) Insurance risk (continued)

***Sensitivities***

***Claims development table***

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claim estimates and cumulative payments are translated to £ Sterling at the rate of exchange that applied at the end of the underwriting year. The impact of exchange differences is shown at the bottom of the table.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (c) Insurance risk (continued)

***Sensitivities***

***Claims development table***

Insurance contract outstanding claims provision by year of account as at 31 December 2018:

Analysis of claims development by year of account

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Estimate of cumulative gross claims incurred: | | | | |
| At end of underwriting year | 19,954 | 56,692 | 22,171 | 143 |
| After one year | - | 105,175 | 50,246 | 4,090 |
| After two years | - | - | 56,675 | 3,631 |
| After three years | - | - | - | 3,448 |
| After four years | - | - | - | - |
| After five years | - | - | - | - |
| Cumulative payments to date | 742 | 52,441 | 33,431 | 3,071 |
| Outstanding claims provision at 31 December 2018 | 19,212 | 52,734 | 23,244 | 378 |
| Estimate of cumulative net claims incurred: | | | | |
| At end of underwriting year | 15,032 | 29,259 | 9,441 | 143 |
| After one year | - | 62,325 | 31,105 | 4,086 |
| After two years | - | - | 33,385 | 3,630 |
| After three years | - | - | - | 3,448 |
| After four years | - | - | - | - |
| After five years | - | - | - | - |
| Cumulative payments to date | 705 | 25,023 | 17,730 | 3,071 |
| Outstanding claims provision at 31 December 2018 | 14,327 | 37,302 | 15,655 | 378 |

*All data are rebased to closing rates of exchange.*

### (d) Financial risk

**(1) 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 discharge an obligation. A credit risk policy describes the assessment and determination of what constitutes credit risk for the Syndicate. Compliance with the policy is monitored and exposures and any breaches are reported initially to the Syndicate Monitoring Committee. Emphasis is currently placed on reinsurer security premium receivable from intermediaries. The policy is reviewed at least annually.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (d) Financial risk (continued)

**(1) Credit risk**

Management performs an assessment of creditworthiness of both reinsurers and brokers and updates the reinsurance purchase strategy, while also considering suitable allowance for impairment.

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 that are set each year by CMA's 'Broker Vetting & Reinsurance Security Group' (BVRSG) and are subject to regular reviews.

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.

| | Neither past due nor impaired £000 | Past due £000 | Impaired £000 | Total £000 |
|---|---|---|---|---|
| **31 December 2018:** | | | | |
| **Shares and other variable yield securities and unit trusts** | **20,977** | **-** | **-** | **20,977** |
| **Overseas deposits** | **9,198** | **-** | **-** | **9,198** |
| **Reinsurer' share of claims outstanding** | **27,906** | **-** | **-** | **27,906** |
| **Reinsurance debtors** | **-** | **-** | **-** | **-** |
| **Cash at bank and in hand** | **16,663** | **-** | **-** | **16,663** |
| **Insurance debtors** | **22,097** | **7,117** | **-** | **29,214** |
| **Other debtors** | **37,363** | **1,021** | **-** | **38,383** |
| **Total credit risk** | **134,204** | **8,138** | **-** | **142,341** |
| 31 December 2017: | | | | |
| Shares and other variable yield securities and unit trusts | 4,918 | - | - | 4,918 |
| Overseas deposits | 2,670 | - | - | 2,670 |
| Reinsurer' share of claims outstanding | 31,887 | - | - | 31,887 |
| Reinsurance debtors | - | - | - | - |
| Cash at bank and in hand | 13,438 | - | - | 13,438 |
| Insurance debtors | 9,011 | 13,700 | - | 22,711 |
| Other debtors | 36,260 | 1,828 | - | 38,120 |
| Total credit risk | 98,214 | 15,528 | - | 113,744 |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (d) Financial risk (continued)

### (1) Credit risk

Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date. The table below provides information regarding the credit risk exposure of the Syndicate at 31 December by classifying assets per Standard & Poor's 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.

| | AAA £000 | AA £000 | A £000 | BBB £000 | Less than BBB £000 | Not rated £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **31 December 2018:** | | | | | | | |
| **Shares and other variable yield securities** | **630** | **-** | **19,880** | **-** | **-** | **467** | **20,977** |
| **Overseas deposits** | **5,605** | **1,383** | **707** | **392** | **599** | **512** | **9,198** |
| **Reinsurer' share of claims outstanding** | **-** | **5,859** | **22,047** | **-** | **-** | **-** | **27,906** |
| **Reinsurance debtors** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Cash & cash equivalents** | **-** | **-** | **16,663** | **-** | **-** | **-** | **16,663** |
| **Total credit risk** | **6,235** | **7,242** | **59,297** | **392** | **599** | **979** | **74,744** |
| 31 December 2017: | | | | | | | |
| Shares and other variable yield securities | 331 | - | 4,455 | - | - | 132 | 4,918 |
| Overseas deposits | 1,516 | 385 | 259 | 118 | 187 | 205 | 2,670 |
| Reinsurer' share of claims outstanding | - | 2,773 | 28,471 | - | - | 643 | 31,887 |
| Reinsurance debtors | - | - | - | - | - | - | - |
| Cash & cash equivalents | - | - | 13,438 | - | - | - | 13,438 |
| Total credit risk | 1,847 | 3,158 | 46,623 | 118 | 187 | 980 | 52,913 |

***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, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (d) Financial risk (continued)

**(2) Liquidity risk**

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy will be monitored as the Syndicate develops and any exposures and breaches which might arise will be reported to the Investment committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Maturity profiles

| | No maturity stated £000 | 0-1 year £000 | 1-3 year £000 | 3-5 year £000 | >5 year £000 | Total £000 |
|---|---|---|---|---|---|---|
| **31 December 2018:** | | | | | | |
| **Claims outstanding** | **-** | **25,443** | **33,554** | **18,989** | **17,582** | **95,568** |
| **Creditors** | **4,127** | **13,578** | **-** | **-** | **-** | **17,705** |
| **Total credit risk** | **4,127** | **39,021** | **33,554** | **18,989** | **17,582** | **113,273** |
| 31 December 2017: | | | | | | |
| Claims outstanding | - | 23,814 | 30,427 | 11,896 | 8,848 | 74,985 |
| Creditors | 10,821 | 21,078 | 339 | - | - | 32,238 |
| Total credit risk | 10,821 | 44,892 | 30,766 | 11,896 | 8,848 | 107,223 |

**(3) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes:

a. Currency risk

b. Interest rate risk

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (d) Financial risk (continued)

### (3) Market risk

*(a) Currency risk*

A market risk policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. As the Syndicate develops, compliance with the policy will be monitored and any exposures and breaches arising will be reported to the Investment committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

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 Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in US, Canadian and Australian Dollars and Euros. The Syndicate seeks to mitigate the risk by looking to match 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, by reporting currency, as follows**:**

| **Converted £000** | **UK £STG** | **US$** | **Euro €** | **Can$** | **Au$** | **Total CNV £** |
|---|---|---|---|---|---|---|
| **31 December 2018** | | | | | | |
| **Total assets** | **34,670** | **53,894** | **37,888** | **36,448** | **18,381** | **142,341** |
| **Total liabilities** | **(64,891)** | **(79,577)** | **(30,319)** | **(28,446)** | **(14,971)** | **(179,484)** |
| **Net assets /(liabilities)** | **(30,221)** | **(25,683)** | **7,569** | **8,002** | **3,410** | **(37,143)** |
| 31 December 2017 | | | | | | |
| Total assets | 29,305 | 75,827 | 23,864 | 12,153 | - | 113,742 |
| Total liabilities | (50,561) | (110,311) | (20,085) | (10,266) | - | (156,086) |
| Net assets /(liabilities) | (21,256) | (34,484) | 3,779 | 1,887 | - | (42,344) |

The non-Sterling denominated net assets of the Syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should Sterling strengthen against these currencies. Conversely, reported gains may arise should Sterling weaken.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (d) Financial risk (continued)

### (3) Market risk

*(a) Currency risk*

The Syndicate will match its currency position wherever practicable, and so 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 currencies.

| Illustrative impact on result and member's balances if, relative to the year-end rates: | **2018 £000** | 2017 £000 |
|---|---|---|
| Sterling were to strengthen against other settlement currencies by: | | |
| 5% | **330** | 1,372 |
| 10% | **629** | 2,620 |
| 20% | **1,154** | 4,803 |
| Sterling were to weaken against other settlement currencies by: | | |
| (5)% | **(364)** | (1,517) |
| (10)% | **(769)** | (3,202) |
| (20)% | **(1,731)** | (7,204) |

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (d) Financial risk (continued)

### (3) Market risk

*(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 holds no financial assets whose values might be impacted by a change in interest rates nor does it have any other significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

As a result of the Syndicate's current situation, no analysis has been disclosed to illustrate possible movements in interest rates with all other variables held constant, which would show the impact on the result and members' balance of the effects of changes in interest rates since the Syndicate has only immaterial financial assets and liabilities.

The Syndicate is not exposed to equity price risk.

*c) Fair value estimation*

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Managing Agent applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data; in some cases management estimates as well as observable market inputs are used within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker. These inputs and outputs are provided to us by our investment managers who derive them through a formal valuation committee.

# NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2018

## 23. Risk management (continued)

### (d) Financial risk (continued)

### (3) Market risk

*c) Fair value estimation (continued)*

The table below shows financial assets and liabilities carried at fair value through profit or loss (as disclosed in note 9) grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|---|---|---|---|
| **December 2018:** | | | | |
| **Shares and other variable securities and units in unit trusts** | **-** | **20,977** | - | **20,977** |
| **Overseas deposits** | **528** | **8,670** | - | **9,198** |
| **Borrowings** | **(4,127)** | **-** | - | **(4,127)** |
| **Total** | **(3,599)** | **29,647** | - | **26,048** |
| December 2017: | | | | |
| Shares and other variable securities and units in unit trusts | 4,918 | - | - | 4,918 |
| Overseas deposits | 222 | 2,448 | - | 2,670 |
| Borrowings | (10,821) | - | - | (10,821) |
| Total | (5,681) | 2,448 | - | (3,233) |

Definitions of the fair value levels are contained within note 1.