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**The Channel Managing Agency**

The Channel Syndicate 2015

Annual Report and Accounts

31 December 2018



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## Directors and Administration

### Managing Agent

The Channel Managing Agency (TCMA)

MANAGING AGENT:

### Directors

BJG Hilton (Chairman)\*

S McMurdo (CEO) appointed 1 September 2018

P A Chubb (CFO)

V V V Mistry (CRO)

T R C Corfield (CUO)

T J Hayday\*

D J Hindley\*

V Y Peignet\*

B Gentsch\* resigned 29 March 2018

L Rousseau\* appointed 9 May 2018

D M Reed\* resigned Executive 1 September 2018, appointed Non Executive 1 September 2018

Non Executive Directors\*

### Managing Agent's Registered Office

10 Lime Street

London

EC3M 7AA

### Managing Agent's Registered Number

08614385

SYNDICATE:

### Active Underwriter

T R C Corfield

### Bankers

Lloyds Bank plc

Citibank NA

RBC Dexia

### Auditor

Mazars LLP

London



## Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report in respect of Syndicate 2015 for the year ended 31 December 2018.

This annual report is prepared using the annual basis of accounting as required by Regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

### Results

The result for calendar year 2018 is a loss of £53,809,000 (2017: loss of £46,920,000).

### Principal Activity and Review of the Business

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

The Syndicate wrote a range of business that comprises traditional Lloyd's classes, including Accident & Health, Property, Marine, Financial Institutions and Professional Liability and specialty classes, including Political and Credit Risk (PCR), Legal Indemnities (LI), Warranties & Indemnities (W&I), Environmental Impairment Liability (EIL), Fine Art and Technology Errors & Omissions.

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Accident & Health	17,760	8,484
Property	161,395	133,162
Marine	17,966	20,942
Credit & Political Risk	39,212	24,703
Liability	76,651	75,207
	<u>312,984</u>	<u>262,498</u>

2018 Accident & Health gross written premium includes Legal Indemnities £8,907,000 (2017: Nil).

### Key Performance Indicators

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

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Gross Written Premiums	312,984	262,498
Loss for the financial year	(53,809)	(46,920)
Claims ratio	76%	77%
Expense ratio	50%	50%
Combined ratio	126%	127%

The claims ratio is the ratio of claims incurred net of reinsurance to earned premiums net of reinsurance. The expense ratio is the ratio of net operating expenses to earned premiums net of reinsurance.



## Report of the Directors of the Managing Agent (continued)

Following on from the series of large natural catastrophe losses during 2017, calendar year 2018 has also experienced a high frequency of catastrophe losses with global reinsurers reporting that 2018 was the fourth costliest year since 1980 with Hurricanes Michael and Florence in the Atlantic and Typhoons Jebi, Mangkhut and Trami in the Pacific. In addition, there were significant losses arising from wildfire losses in California and the impact of the drought in Australia. This has led to a significant loss for our Property portfolio in 2018.

Our Professional Liability account also produced a significant loss, with additional information leading to increases in a number of large claims together with further attritional deterioration resulting in a significant strengthening of our prior year reserves. This historic deterioration also led us to increase our expected loss ratios for the business written in 2018 as we believe it is too early to take credit for the remediation work that was undertaken on this account.

Our specialty classes comprising PCR, EIL, W&I, LI and Fine Art all delivered a profit for 2018 and we are continuing to invest in and further develop these accounts.

Across all classes combined, we had a net reserve strengthening of £6.7m. In 2017 we had a net reserve release of £0.8m. The principal driver of this strengthening related to Professional Liability and Financial Institutions accounts as noted above. As stated previously we are withdrawing from these classes. This deterioration was partially offset by releases from our Property account where net losses settled within our original estimates.

### Cash call

In May 2018, we agreed with our capital provider SCOR Underwriting Ltd (SUL) that we would make further cash calls of £33m (\$46m) combined across the 2016 and 2017 years of account to maintain the support for our working capital position as we continue to fund the requirements arising from the catastrophe losses incurred in 2017. In 2017, there was a combined cash call of £37m (\$50m) also across the 2017 and 2016 years of account.

The 2016 Year of Account cash call during 2018 represents 9.39% of Syndicate Capacity and the 2017 Year of Account cash call during 2018 represents 7.02% of Syndicate Capacity.



## Report of the Directors of the Managing Agent (continued)

### Operating Expenses

Net operating expenses for the year are set out below:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition Costs	106,150	85,980
Change in Deferred Acquisition Costs	(15,693)	(5,495)
Reinsurance Commissions	(1,779)	(1,402)
Managing Agency Fee	1,688	1,695
Other Personal Expenses	2,330	2,278
Other Administration Expenses	12,406	11,928
Net Operating Expenses	<u>105,102</u>	<u>94,984</u>

Total Net Operating Expenses have increased this year in line with expectations. Other administration costs during 2018 of 4.7% of gross earned premium are consistent with 2017 at 4.7%.

### Investment Return

The return on Syndicate funds by currency is shown below:

	<b>Currency</b>	<b>2018</b>	<b>2017</b>
		<b>'000</b>	<b>'000</b>
Average Syndicate funds available	Combined Sterling	191,315	169,815
	Sterling	24,979	26,017
	Euro	35,794	39,198
	US Dollars	134,277	117,149
	Canadian Dollars	49,346	37,965
Investment return for the year	Combined Sterling	2,556	1,277
	Sterling	394	234
	Euro	(3)	2
	US Dollars	2,246	1,150
	Canadian Dollars	845	249
Calendar year investment return %	Combined Sterling	1.34%	0.75%
	Sterling	1.58%	0.90%
	Euro	(0.01%)	0.01%
	US Dollars	1.67%	0.98%
	Canadian Dollars	1.71%	0.66%

US Dollar surplus funds are on a daily sweep to the Western Asset Management Cash Mutual. In June 2018 the Syndicate liquidated the Euro trust fund fixed income portfolio.

Investment returns for 2018 were 1.34% (2017: 0.75%). The Syndicate's investment strategy is to preserve capital and have a prudent approach to managing investment risk.

The investment return is calculated using all funds including cash and overseas deposits.



## Report of the Directors of the Managing Agent (continued)

### Financial Investments

The Syndicate's investment guidelines do not allow for the holding of equities or stock lending transactions. At 31 December 2018 the portfolio composition was as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Liquid funds	22,938	21,050
Fixed income securities	112,732	103,832
	<u>135,670</u>	<u>124,882</u>

### Principal Risks and Uncertainties

The TCMA Board, ("the Board") sets its risk appetite annually and it is aligned with the Syndicate's business planning process. The Board has established a Risk and Capital Committee which meets quarterly to review and update the risk register and to monitor performance against risk appetite using a series of key risk indicators and portfolio monitoring. The principal risks and uncertainties facing the Syndicate are outlined below and, where appropriate, further detail is included in note 17.

#### United Kingdom's prospective withdrawal from the European Union (EU) - Brexit

We continue to assess the impact of the result of the UK referendum to leave the EU in conjunction with our colleagues in the SCOR group. At the time of writing the precise mechanism, or potentially even timing, of the UK's exit from the EU means that considerable uncertainty remains. Both Lloyd's and the SCOR Group are maintaining regular contact with both the UK and appropriate EU regulators to manage the current uncertainty with the least possible disruption to all concerned. Lloyd's has established the Lloyd's Insurance Company (LIC) based in Brussels for accessing EU business which will in turn reinsure this business back to the Syndicate. Renewals of EU business are currently being switched to the LIC and discussions continue with the principal UK and Belgian regulators as to the exact shape and timing of any necessary transfers of live in-force policies to the LIC in order to comply with the change in regulatory requirements. Due to the uncertainty of the nature and timing of any Withdrawal Agreement, including any potential transition period, the exact format of this action is not currently known. As a result of these uncertainties we continue to assess the impact of a range of possible outcomes and the Directors do not consider that even the most conservative outcome would threaten the ability of the Syndicate to continue to operate. We expect that less than 10% of 2019 gross written premium will be from the EU.

#### Insurance Risk

Insurance risk includes the risk that underwriting results vary from their expected amounts, including the risk that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient. The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the business plan throughout the year. The syndicate uses catastrophe modelling software to model potential losses from catastrophe-exposed business and non catastrophe-modelled risks are explicitly allowed for within pricing and capital models. Reserve adequacy is monitored through quarterly review by the in-house actuarial team and further reviewed and approved by the Reserving Committee. It is also reviewed annually by an independent firm of external actuaries.





## Report of the Directors of the Managing Agent (continued)

### **Credit Risk**

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. The Board's policy is that the Syndicate will usually only use reinsurers rated in the A range or higher by recognised third-party rating agencies. The Reinsurance and Intermediaries Security Committee is required to assess and approve all new reinsurers before business is placed with them. The Syndicate also notes and monitors credit risk that may arise through brokers and business written via delegated underwriting authority.

### **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial investment or insurance contract will fluctuate. Market risk comprises three types of risk: interest rate risk, currency risk and equity price risk. Interest rate risk arises primarily from the Syndicate's financial investments, cash, and overseas deposits. The risk of changes in the fair value of these assets is managed by investing primarily in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis. The Syndicate maintains four settlement currencies being Sterling, Euro, Canadian Dollar, and US Dollar and is therefore, exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies. The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to mitigate the currency risk inherent in these contracts. The Syndicate holds no equities within its portfolio.

### **Liquidity Risk**

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

### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or from external events that have an adverse impact on the business. The Syndicate manages these risks through qualitative and quantitative measures and setting tolerances which provide guidance in the management of operational risk. This includes the use of detailed procedure manuals, risk identification, assessment, monitoring and reporting by the Risk Management function and a structured programme of audit review and testing by the Internal Audit function. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

### **Regulatory Risk**

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the FCA, the PRA and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a Compliance Officer who is responsible for compliance and monitors regulatory developments and assesses the impact on Agency policy.

### **Solvency II**

The business operates under the requirements of the Solvency II regime and maintains its own fully operational Internal Model, which is reviewed at least annually by Lloyd's. This includes evidencing that the Agency meets the tests and standards required by the Solvency II Directive.



## Report of the Directors of the Managing Agent (continued)

### Future Developments

As the Syndicate matures we continue to assess our portfolio mix and are reducing our exposure to a number of the traditional Lloyd's classes whilst increasing our exposure to specialty classes in accordance with the *SCOR Vision in Action* three year strategic plan. During 2018 and into 2019 we are moving out of the Accident & Health, Marine, Financial Institutions and Professional Liability business. In addition to expanding our existing specialty classes we also commenced writing Legal Indemnities business during 2018.

The total Syndicate capacity for the 2019 year of account is £205m compared with £225m in 2018. The reduction follows the changes to our portfolio outlined above and should suitable opportunities develop we will consider requesting Lloyd's to increase our capacity in the later part of 2019.

Following the losses in 2017 and 2018 there continues to be improvements in a number of areas, in particular those most affected by the catastrophe losses. However there still remains work to be done and we continue to review our existing portfolio and will decline business that does not meet our requirements as we continue our focus on returning the Syndicate to profitability.

### Directors Serving in the Year

The Directors of the Managing Agency, TCMA, who served during the year ended 31 December 2018 were as follows:

B J G Hilton (Chairman)

S McMurdo (CEO)

P A Chubb (CFO)

V V V Mistry (CRO)

T R C Corfield (CUO)

B Gentsch

T J Hayday

D J Hindley

V Y Peignet

D M Reed

L Rousseau

### Disclosure of Information to the Auditor

So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow Directors of the Agency and the Syndicate's auditor, each Director has taken all the steps that he or she is obliged to take as a Director in order to make himself or herself aware of any relevant audit information and to establish that the auditor is aware of that information.



## **Report of the Directors of the Managing Agent (continued)**

### **Syndicate Annual General Meeting**

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; the Managing Agent also intends to reappoint the auditor, Mazars LLP, for a further 12 months. Should the Syndicate Member object to either of these proposals, the Managing Agent should be advised before 25 April 2019.

On behalf of the Board

Stuart McMurdo  
CEO  
18 March 2019

Paul Chubb  
CFO  
18 March 2019



## Statement of Managing Agent's Responsibilities

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

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

In preparing the Syndicate annual accounts, the Managing Agent is required to:

1. Select suitable accounting policies and then apply them consistently;
2. Make judgements and estimates that are reasonable and prudent;
3. State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
4. Prepare the annual accounts on the basis that the Syndicate will continue in operation unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping adequate accounting records that are sufficient to 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. The Managing Agent is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Managing Agent confirms that it has complied with the above requirements in preparing the Syndicate annual accounts.



## Independent Auditor's Report to the Member of Syndicate 2015

### Opinion

We have audited the annual financial statements of Syndicate 2015 (the "Syndicate") for the year ended 31 December 2018 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Member's Balance, the Statement of Cash Flows and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the annual financial statements:

- give a true and fair view of the state of affairs of Syndicate 2015 as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the 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 financial statements in the UK, including the Financial Reporting Council'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.

### The impact of uncertainties due to United Kingdom exiting the European Union on our audit

The managing agent's view on the impact of Brexit is disclosed on page 6. The terms on which the United Kingdom may withdraw from the European Union, currently due to occur on 29 March 2019, are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Syndicate's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Syndicate as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Syndicate's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Syndicate and this is particularly the case in relation to Brexit.

### Conclusions relating to going concern

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

- the managing agent's use of the going concern basis of accounting in the preparation of the annual financial statements is not appropriate; or
- the managing agent has not disclosed in the annual financial statements any identified material uncertainties that may cast significant doubt on the Syndicate's ability to continue to operate for



## **Independent Auditor's Report to the Member of Syndicate 2015 (continued)**

a period of at least twelve months from the date when the annual financial statements are authorised for issue.

### **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 annual financial statements and our auditor's report thereon. Our opinion on the 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 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 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 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 this regard

### **Opinion on the 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 the Managing Agent's Report for the financial year for which the annual financial statements are prepared is consistent with those annual financial statements; and
- the Managing Agent's Report has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### **Matters on which we are required to report by exception**

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

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

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the annual financial statements are not in agreement with the accounting records; or
- certain disclosures relating to amounts recharged to the Syndicate in respect of the emoluments of the active underwriter and the directors of the managing agent are not made; or
- we have not received all the information and explanations we require for our audit.



## Independent Auditor's Report to the Member of Syndicate 2015 (continued)

### Responsibilities of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 10, the managing agent is responsible for the preparation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue 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 financial statements.

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

### Use of the audit report

This report is made solely to the Syndicate's member in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's member those matters we are required to state to it 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 member for our audit work, for this report, or for the opinions we have formed.

Steve Liddell (Senior Statutory Auditor)  
for and on behalf of Mazars LLP  
Chartered Accountants and Statutory Auditor  
Tower Bridge House  
St. Katharine's Way  
London E1W 1DD

18 March 2019



## Profit and Loss Account

### Technical Account

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	4	312,984	262,498
Outward reinsurance premiums		(63,768)	(64,429)
Net premiums written		<u>249,216</u>	<u>198,069</u>
<b>Change in the provision for unearned premiums</b>			
- Gross amount	19	(47,222)	(10,317)
- Reinsurers' share	19	9,509	1,903
Change in the net provision for unearned premiums		<u>(37,713)</u>	<u>(8,414)</u>
Earned premiums, net of reinsurance		211,503	189,655
Allocated investment return transferred from the non-technical account		2,556	1,277
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
- Gross amount		(197,811)	(144,265)
- Reinsurers' share		77,264	16,144
Net claims paid		<u>(120,547)</u>	<u>(128,121)</u>
<b>Change in the provision for claims</b>			
- Gross amount	19	(14,739)	(121,803)
- Reinsurers' share	19	(25,327)	104,308
Change in the net provision for claims		<u>(40,066)</u>	<u>(17,495)</u>
Claims incurred, net of reinsurance		<u>(160,613)</u>	<u>(145,616)</u>
Net operating expenses	5	<u>(105,102)</u>	<u>(94,984)</u>
<b>Balance on the technical account for general business</b>		<u><b>(51,656)</b></u>	<u><b>(49,668)</b></u>

All the amounts above are in respect of continuing operations.

### Non-Technical Account

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Balance on the general business technical account		(51,656)	(49,668)
Investment income	8	3,152	1,993
Unrealised losses on investments	8	(469)	(607)
Investment expenses	8	(127)	(109)
Allocated investment return transferred to general business technical account		(2,556)	(1,277)
Profit on foreign exchange		(2,153)	2,748
<b>Loss for the financial year</b>		<u><b>(53,809)</b></u>	<u><b>(46,920)</b></u>





## Balance Sheet

### Assets

At 31 December 2018

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
<b>Investments</b>					
Other financial investments	9		135,670		124,882
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums	19	48,619		36,636	
Claims outstanding	19	<u>125,664</u>		<u>146,177</u>	
			174,283		182,813
<b>Debtors</b>					
Debtors arising out of direct insurance operations	10	78,636		59,080	
Debtors arising out of reinsurance operations	11	46,985		30,200	
Other debtors		<u>301</u>		<u>209</u>	
			125,922		89,489
<b>Other assets</b>					
Cash and cash equivalents	12	30,391		29,885	
Overseas deposits	13	<u>29,507</u>		<u>25,881</u>	
			59,898		55,766
<b>Prepayments and accrued income</b>					
Deferred acquisition costs	14	69,066		51,865	
Accrued interest and rent		635		560	
Other prepayments and accrued income		<u>612</u>		<u>658</u>	
			70,313		53,083
<b>Total assets</b>			<u><b>566,086</b></u>		<u><b>506,033</b></u>



## Balance Sheet

### Liabilities

At 31 December 2018

	Notes	2018 £'000	2018 £'000	2017 £'000	2017 £'000
<b>Capital and reserves</b>					
Member's balance			(59,559)		(37,543)
<b>Technical provisions</b>					
Provision for unearned premiums	19	218,062		162,601	
Claims outstanding	19	<u>348,027</u>		<u>321,768</u>	
			566,089		484,369
<b>Creditors</b>					
Creditors arising out of direct insurance operations	15	2,974		2,765	
Creditors arising out of reinsurance operations	16	52,533		51,830	
Other creditors including taxation and social security		<u>291</u>		<u>896</u>	
			55,798		55,491
<b>Accruals and deferred income</b>			3,758		3,716
<b>Total liabilities</b>			<u>566,086</u>		<u>506,033</u>

The notes on pages 18 to 38 form an integral part of these annual accounts.

The annual accounts on pages 14 to 38 were approved by the Board of The Channel Managing Agency Limited on 18 March 2019 and were signed on its behalf by

Stuart McMurdo  
CEO  
18 March 2019

Paul Chubb  
CFO  
18 March 2019



## Statement of Changes in Member's Balance

For the year ended 31 December 2018

	2018 £'000	2017 £'000
At 1 January	(37,543)	(36,965)
Distribution loss and open year cash calls	31,793	46,342
Loss for the year	(53,809)	(46,920)
At 31 December	<u>(59,559)</u>	<u>(37,543)</u>

## Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>Cash flows from operating activities</b>			
Loss for the year		(53,809)	(46,920)
Increase in gross technical provisions		81,720	112,746
Decrease / Increase in reinsurers' share of technical provisions		8,530	(98,572)
Increase in debtors		(53,663)	(12,761)
Increase in creditors		349	16,149
Movement in other assets/liabilities		(4,494)	11,955
Investment return		(2,556)	(1,277)
<b>Net cash flows from operating activities</b>		<u>(23,923)</u>	<u>(18,680)</u>
<b>Cash flows from investing activities</b>			
Purchase of debt instruments		(80,218)	(80,510)
Sale of debt instruments		69,430	53,750
Investment income received		2,551	1,736
Other		5	(458)
<b>Cash flows from financing activities</b>			
Distribution profit		(1,340)	-
Distribution loss and open year cash calls from Member in respect of underwriting participation		36,220	46,342
Other		(3,087)	-
<b>Net (decrease) / increase in cash and cash equivalents</b>		<u>(362)</u>	<u>2,180</u>
Foreign Exchange		868	8,220
<b>Movement in cash and cash equivalents</b>		506	10,400
Cash and cash equivalents at 1 January		29,885	19,485
<b>Cash and cash equivalents at 31 December</b>	12	<u>30,391</u>	<u>29,885</u>



# Notes to the Accounts

At 31 December 2018

## 1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRSI 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 have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The financial statements are presented in Sterling, which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand unless otherwise shown.

## 2. Use of judgement and estimates

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

Actual results may differ from these estimates. TCMA carry out reserving on a quarterly basis, and so all estimates and underlying assumptions are reviewed periodically throughout the year, with any revisions to estimates approved by the TCMA Board. An actual compared to expected analysis is carried out by the Head of Reserving on a quarterly basis. Comparing emerging experience to expectation is an important part of the reserve setting process. Actual versus expected movements within the quarter as well as actual versus expected movements during the year to date are compared. These analyses inform the Reserving Committee and Board in their validation and challenge of the quarterly reserves.

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

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgmental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by TCMA's Head of Reserving and peer reviewed by the TCMA Chief Actuary. The Head of Reserving makes recommendations of reserves to the Reserving Committee. The Reserving Committee meets quarterly to consider these recommendations and in turn recommend suitable reserves to the TCMA Board. In addition, an external independent Actuary is engaged by TCMA to evaluate the Syndicate's solvency reserves and provide a Statement of Actuarial Opinion ("SAO") at each year end. The main conclusions of the SAO Actuary are shared with the Reserving Committee and the Board at the time of setting year end reserves to provide a further point of consideration in respect of the recommended levels of IBNR.



## Notes to the Accounts (continued)

The statistical techniques used to estimate IBNR are widely accepted actuarial techniques and generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced. However, due to the Syndicate's relatively short history in writing some classes of business, it is not always possible to carry out actuarial projections of ultimate claims liabilities on actual Syndicate experience alone. Instead, development curves derived from LMA (Lloyd's Market Association) risk code level triangle data are combined to create benchmark curves for these classes of business, in addition to any other reasonable external benchmark data. These derived benchmark development patterns are then used to project ultimate claims based on paid and incurred Bornhuetter-Ferguson and chain ladder methods. These benchmark patterns are reviewed at least annually. As the Syndicate matures, more weight will be placed on the business' own experience instead of LMA data.

For the more recent underwriting years, regard is given to variations in business accepted and the underlying terms and conditions. For these years, in deriving ultimate claims liabilities, more reliance is placed on loss ratios from the Syndicate's current business plan (unless more current information to suggest deviating from the plan loss ratios is available).

Reinsurance IBNR is made up of general IBNR on Treaty, Facultative and Quota Share programmes, and specific reinsurance IBNR on known losses. Reinsurance IBNR calculations take into account the actual programmes that are purchased to cover each class of business and where appropriate the assumed reinsurance loss ratios are based on the Syndicate's latest views calculated from the Internal Model.

The provision for claims also includes amounts in respect of internal and external claims handling costs. The reserves are calculated on an undiscounted basis by class of business and year of account. The recommended reserves are on a best estimate basis with no margin for prudence or optimism. Further information about reserving risk is included in Note 17.

### 3. Significant Accounting Policies

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

#### Gross Premiums Written

Premiums written comprise premiums on contracts incepted during the financial year, as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Premiums include estimates for pipeline premiums, net of estimated future cancellations, representing amounts due to the Syndicate not yet notified.

#### Unearned Premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.



## Notes to the Accounts (continued)

### Reinsurance Premium Ceded

Outward reinsurance premiums comprise premium for contracts incepting during the financial year together with adjustments to outward reinsurance ceded in previous years.

### Claims Provisions and Related Recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the financial year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding established in previous years.

The provision for claims outstanding is assessed on:

- 1) 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; and
- 2) The estimated cost of IBNR claims at the balance sheet date based on statistical methods.

The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided, as set out in Note 2.

### Unexpired Risk Provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together after taking into account any future investment return. No provision is necessary at the current year end (2017: £nil).

### Deferred Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

### Foreign Currencies

Transactions in US Dollars, Canadian Dollars and Euros are translated at the average rates of exchange for the year. Transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities denominated in non-sterling currencies are retranslated at the rate of exchange at the balance sheet date. Unearned premium reserves and deferred acquisition costs are treated as monetary assets and liabilities.

Exchange differences are recorded in the non-technical account.



## Notes to the Accounts (continued)

### Investments

Investments are stated at fair value at the balance sheet date. For this purpose, listed investments are stated at market value (bid value) and deposits with credit institutions and overseas deposits are stated at cost of market value as notified by Lloyd's. As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurements provisions of IAS 39- Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

### 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 year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

### 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 is included 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.

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

### Pension Costs

TCMA operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expense.

### Cash and cash equivalents

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



## Notes to the Accounts (continued)

### 4. Analysis of Business Written

	Gross written premium £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Re- insurance balance £'000	Total £'000
<b>2018</b>						
<b>Direct insurance:</b>						
Accident and health	6,241	6,849	(5,251)	(3,082)	(1,064)	(2,548)
Motor (Other						
Classes)	14	7	(103)	(2)	(3)	(101)
Marine	7,719	8,988	(12,748)	(4,282)	4,518	(3,524)
Aviation	5	5	45	(3)	8	55
Transport	3,781	4,392	(7,999)	(1,639)	977	(4,269)
Fire and other						
damage to property	138,098	121,331	(85,249)	(48,098)	(5,380)	(17,396)
Third party liability	76,186	65,259	(63,128)	(27,856)	6,504	(19,221)
Pecuniary loss	35,714	19,508	(11,333)	(6,158)	(1,618)	399
	<u>267,758</u>	<u>226,339</u>	<u>(185,766)</u>	<u>(91,120)</u>	<u>3,942</u>	<u>(46,605)</u>
<b>Reinsurance</b>	<u>45,226</u>	<u>39,423</u>	<u>(26,784)</u>	<u>(13,982)</u>	<u>(6,264)</u>	<u>(7,607)</u>
	<u>312,984</u>	<u>265,762</u>	<u>(212,550)</u>	<u>(105,102)</u>	<u>(2,322)</u>	<u>(54,212)</u>

	Gross written premium £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Re- insurance balance £'000	Total £'000
<b>2017</b>						
<b>Direct insurance:</b>						
Accident and health	6,325	8,340	(6,264)	(4,141)	(1,099)	(3,164)
Motor (Other						
Classes)	2	2	(37)	(4)	(1)	(40)
Marine	9,787	10,336	(9,460)	(4,383)	521	(2,986)
Aviation	(8)	(7)	(450)	3	88	(366)
Transport	4,962	5,646	(3,219)	(2,328)	395	494
Fire and other						
damage to property	105,404	100,502	(135,898)	(37,460)	46,785	(26,071)
Third party liability	73,323	65,901	(44,258)	(27,130)	997	(4,490)
Pecuniary loss	19,060	18,569	(7,450)	(4,832)	(2,965)	3,322
	<u>218,855</u>	<u>209,289</u>	<u>(207,036)</u>	<u>(80,275)</u>	<u>44,721</u>	<u>(33,301)</u>
<b>Reinsurance</b>	<u>43,643</u>	<u>42,892</u>	<u>(59,031)</u>	<u>(14,709)</u>	<u>13,204</u>	<u>(17,644)</u>
	<u>262,498</u>	<u>252,181</u>	<u>(266,067)</u>	<u>(94,984)</u>	<u>57,925</u>	<u>(50,945)</u>

An analysis of the underwriting result before investment return is set out above.

The reinsurance balance represents the charge to the technical account from the aggregate of all the items relating to outwards reinsurance.

All contracts were concluded in the UK, albeit that the business emanates from around the world.





## Notes to the Accounts (continued)

### 5. Net Operating Expenses

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	(106,150)	(85,980)
Change in deferred acquisition costs (note 14)	15,693	5,495
Administrative expenses	(16,424)	(15,901)
Reinsurance commissions	1,779	1,402
	<u>(105,102)</u>	<u>(94,984)</u>

Commission for direct insurance business for the year was £63,731,000 (2017: £54,679,000).

Administrative expenses include:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Auditor's remuneration		
Audit of the annual accounts	(100)	(67)
Other services:		
Other assurance services	(17)	(17)
Interim reporting	(28)	(28)
	<u>(145)</u>	<u>(112)</u>

In addition to the above during 2018, Mazars LLP carried out cover holder reviews for a fee of £6,640 (2017: £13,513).

Standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, Managing Agents fees)	<u>(4,018)</u>	<u>(3,973)</u>
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### 6. Staff Numbers and Costs

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	14,485	14,938
Social security costs	1,912	1,902
Other pension costs	837	860
Total	<u>17,234</u>	<u>17,700</u>

The average numbers of employees of the Managing Agent working during the year for the Syndicate were as follows:

	<b>2018</b>	<b>2017</b>
Administration	40	40
Underwriting and reinsurance	72	72
Claims	12	10
Total	<u>124</u>	<u>122</u>



## Notes to the Accounts (continued)

### 7. Emoluments of the Directors of TCMA

The Directors of TCMA and the Active Underwriter received the following aggregate emoluments, as defined by Schedule 1 to the 2008 Regulations, charged to the Syndicate and included within net operating expenses.

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Active Underwriter	582	451
Other directors of TCMA	1,059	1,066
Total	<u>1,641</u>	<u>1,517</u>

### 8. Investment Return

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Interest and dividend income	3,358	2,168
Realised losses	(206)	(175)
Total investment income	<u>3,152</u>	<u>1,993</u>
Unrealised losses	(469)	(607)
Investment expenses	(127)	(109)
Total investment return	<u>2,556</u>	<u>1,277</u>

All realised and unrealised losses arise from investments designated as fair value through profit and loss.

### 9. Financial Investments

	<b>2018</b>		<b>2017</b>	
	<b>Fair Value £'000</b>	<b>Cost £'000</b>	<b>Fair Value £'000</b>	<b>Cost £'000</b>
Shares and other variable securities and units in unit trusts	22,938	22,938	21,050	21,050
Debt securities and other fixed income securities	112,732	113,217	103,832	104,428
	<u>135,670</u>	<u>136,155</u>	<u>124,882</u>	<u>125,478</u>



## Notes to the Accounts (continued)

The Syndicate has not traded in derivatives.

All financial investments are designated as at fair value through profit or loss.

All "Shares and other variable yield securities and units in unit trusts" and "Debt Securities and other fixed income securities" are listed.

The Syndicate classifies the measurement bases of its financial investments as follows:

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

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Inputs are unobservable for the asset or liability.

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

### Fair Value Hierarchy

<b>As at 31 December 2018</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Shares and other variable yield securities and unit trusts	22,938	-	-	22,938
Debt securities and other fixed income securities	29,233	83,499	-	112,732
<b>Total</b>	<b>52,171</b>	<b>83,499</b>	<b>-</b>	<b>135,670</b>

<b>As at 31 December 2017</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Shares and other variable yield securities and unit trusts	21,050	-	-	21,050
Debt Securities and other fixed income securities	24,914	78,918	-	103,832
<b>Total</b>	<b>45,964</b>	<b>78,918</b>	<b>-</b>	<b>124,882</b>

### 10. Debtors arising out of Direct Insurance Operations

	<b>2018 £'000</b>	<b>2017 £'000</b>
Due within one year – intermediaries	78,595	59,043
Due after one year – intermediaries	41	37
	<b>78,636</b>	<b>59,080</b>



## Notes to the Accounts (continued)

### 11. Debtors arising out of Reinsurance Operations

	2018 £'000	2017 £'000
Due within one year – intermediaries	46,960	30,194
Due after one year – intermediaries	25	6
	<u>46,985</u>	<u>30,200</u>

### 12. Cash and cash equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	30,391	29,885

### 13. Overseas Deposits

The overseas deposits are held under Lloyd's premium trust deed arrangements, where applicable, and are administered by Lloyd's. The Syndicate is required to lodge deposits in various overseas insurance markets as a condition of conducting underwriting business in those markets. All such overseas deposits are calculated in accordance with the relevant territorial authority's requirements, usually by reference to outstanding liabilities derived from business written in those territories.

As these assets are managed by Lloyd's, without reference to TCMA, overseas deposits are disclosed as Other Assets on the Balance Sheet.

### 14. Deferred Acquisition Costs

	2018 £'000	2017 £'000
At 1 January	51,865	48,868
Change in deferred acquisition costs (note 5)	15,693	5,495
Foreign exchange	1,508	(2,498)
At 31 December	<u>69,066</u>	<u>51,865</u>

### 15. Creditors arising out of Direct Insurance Operations

	2018 £'000	2017 £'000
Due within one year	2,972	2,754
Due after one year	2	11
	<u>2,974</u>	<u>2,765</u>



## Notes to the Accounts (continued)

### 16. Creditors arising out of Reinsurance Operations

	2018 £'000	2017 £'000
Due within one year	<u>52,533</u>	<u>51,830</u>
	52,533	51,830

### 17. Risk and Capital Management

#### Overview

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

TCMA has a Risk Management function and governance structure for the business with clear terms of reference from the Board of Directors and its appointed Committees. Day to day management of the business is the responsibility of the Executive Management team. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board.

The Risk Management function reports to the Board via the Chief Risk Officer, who owns and maintains the Risk Management Strategy. All executive directors and selected senior management also maintain responsibility for identified risks and risk policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements.

The Board, and its relevant committees, approve the risk management policies and meet regularly to approve any commercial, regulatory and organisational requirements of such policies. Significant emphasis is placed on the assessment of the articulation and approval of the i) TCMA Risk Appetite, monitoring against which is provided at least quarterly to the Board; ii) Own Risk and Solvency Assessment (ORSA) process and reporting; iii) regular assessment and documentation of risks and controls; and iv) adherence to Lloyd's Minimum Standards framework, which in turn support the ability to demonstrate meeting Solvency II Directive and Lloyd's requirements.

#### Insurance Risk

Insurance risk includes the risk that underwriting results vary from their expected amounts, including the risk that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient.



## Notes to the Accounts (continued)

Factors considered for insurance risk include, but are not limited to:

- Our financial condition and operating results may be adversely affected by the occurrence of natural catastrophic events and/or large losses;
- The models we use to assess our exposure to losses from future natural catastrophes contain inherent uncertainties and our actual losses may therefore differ significantly from expectations;
- Our operating results may be adversely affected by an unexpected accumulation of attritional losses;
- The effects of emerging claim and coverage issues on our business are uncertain; and
- Our financial condition and operating results may be adversely affected if actual claims exceed our loss reserves.

The TCMA Board has implemented a robust governance framework to enable suitable oversight and challenge of the business to enable it to oversee insurance risk.

The Executive Underwriting Committee and Underwriting Guidelines provide the framework to manage and monitor underwriting risk. The Syndicate makes use of both proportional and non-proportional reinsurance to mitigate the risk of incurring significant losses linked to one or more events. Where an individual exposure is deemed to exceed the Syndicate's appetite additional facultative reinsurance is also purchased.

The Reserving Committee oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

Large and catastrophe risks are managed via an Exposure Management team, as an intrinsic part of the Risk Management function, who also leverage specialist knowledge and catastrophe accumulation expertise within the SCOR group where appropriate.

### Concentration of Insurance Risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of its written premium by geographical segment. Where a policy provides worldwide coverage the geographical segment is determined by the location of the (re)insured.

	2018	2017
United States	37%	36%
United Kingdom	27%	25%
Europe (excluding United Kingdom)	10%	14%
Canada	6%	6%
Australia & New Zealand	5%	4%
Africa	4%	3%
Caribbean & Central America	4%	3%
Asia	3%	4%
Middle East	2%	3%
South America	2%	2%
	<u>100%</u>	<u>100%</u>



## Notes to the Accounts (continued)

### Sensitivity to Insurance Risk

The table below shows the impact on the result and member's balance of a ten percent increase or decrease in the net claims reserves.

	2018		2017	
	£'000		£'000	
	10 per cent		10 per cent	
	increase	decrease	increase	decrease
Accident & Health	(992)	992	(804)	804
Property	(8,782)	8,782	(6,298)	6,298
Marine	(2,327)	2,327	(2,307)	2,307
Credit & Political Risk	(541)	541	(408)	408
Liability	(9,594)	9,594	(7,091)	7,091
Total	<u>(22,236)</u>	<u>22,236</u>	<u>(16,908)</u>	<u>16,908</u>

### Credit Risk

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

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

- Financial investments;
- Reinsurers' share of insurance liabilities;
- Amounts due from intermediaries (re/insurance brokers);
- Amounts due from reinsurers in respect of settled claims;
- Cash and cash equivalents; and
- Other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year. The business has a low appetite for this risk category.

#### *Management of Credit Risk*

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies.

The Syndicate's exposure to reinsurance counterparties is monitored by the Reinsurance and Intermediaries Security Committee (RISC).



## Notes to the Accounts (continued)

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

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed, modelled, and managed accordingly.

### *Exposure to Credit Risk*

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

### **As at 31 December 2018**

	<b>AAA £'000</b>	<b>AA £'000</b>	<b>A £'000</b>	<b>BBB £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Shares & other variable yield securities & unit trusts	-	-	22,938	-	-	22,938
Debt securities	47,731	13,703	50,524	774	-	112,732
Overseas deposits	16,389	4,085	2,571	1,247	5,215	29,507
Reinsurers' share of claims outstanding	-	45,477	80,187	-	-	125,664
Reinsurance recoverable on paid claims	-	11,555	6,807	-	-	18,362
Cash at bank & in hand	-	-	30,391	-	-	30,391
<b>Total credit risk</b>	<b>64,120</b>	<b>74,820</b>	<b>193,418</b>	<b>2,021</b>	<b>5,215</b>	<b>339,594</b>

### **As at 31 December 2017**

	<b>AAA £'000</b>	<b>AA £'000</b>	<b>A £'000</b>	<b>BBB £'000</b>	<b>Other £'000</b>	<b>Total £'000</b>
Shares & other variable yield securities & unit trusts	-	-	21,050	-	-	21,050
Debt securities	41,456	20,812	41,250	314	-	103,832
Overseas deposit	13,540	3,470	2,407	1,045	5,419	25,881
Reinsurers' share of claims outstanding	-	40,570	105,607	-	-	146,177
Reinsurance recoverable on paid claims	-	5,611	2,465	-	-	8,076
Cash at bank & in hand	-	-	29,885	-	-	29,885
<b>Total credit risk</b>	<b>54,996</b>	<b>70,463</b>	<b>202,664</b>	<b>1,359</b>	<b>5,419</b>	<b>334,901</b>





## Notes to the Accounts (continued)

### Credit Risk – Ageing and Impairment

As at 31 December 2018

	Past due but not impaired				Total £'000
	Neither past due or impaired £'000	Up to three months £'000	Three to six months £'000	Greater than six months £'000	
Shares & other variable yield securities & unit trusts	22,938	-	-	-	22,938
Debt securities	112,732	-	-	-	112,732
Overseas deposits	29,507	-	-	-	29,507
Reinsurers' share of claims outstanding	125,664	-	-	-	125,664
Reinsurance recoverable on paid claims	14,495	964	1,772	1,131	18,362
Cash at bank & in hand	30,391	-	-	-	30,391
Insurance debtors	76,179	630	1,254	573	78,636
Other debtors	147,856	-	-	-	147,856
Total credit risk	<u>559,762</u>	<u>1,594</u>	<u>3,026</u>	<u>1,704</u>	<u>566,086</u>

As at 31 December 2017

	Past due but not impaired				Total £'000
	Neither past due or impaired £'000	Up to three months £'000	Three to six months £'000	Greater than six months £'000	
Shares & other variable yield securities & unit trusts	21,050	-	-	-	21,050
Debt securities	103,832	-	-	-	103,832
Overseas deposits	25,881	-	-	-	25,881
Reinsurers' share of claims outstanding	146,177	-	-	-	146,177
Reinsurance recoverable on paid claims	7,646	282	45	103	8,076
Cash at bank & in hand	29,885	-	-	-	29,885
Insurance debtors	56,961	984	329	806	59,080
Other debtors	112,052	-	-	-	112,052
Total credit risk	<u>503,484</u>	<u>1,266</u>	<u>374</u>	<u>909</u>	<u>506,033</u>



## Notes to the Accounts (continued)

### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial investment or insurance contract will fluctuate. Market risk comprises three types of risk: interest rate risk, currency risk, and equity price risk.

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

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

#### *Interest Rate Risk:*

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

#### *Currency Risk:*

The Syndicate maintains four settlement currencies being Sterling, Euro, Canadian Dollar, and US Dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to mitigate the currency risk inherent in these contracts.

#### *Equity Price Risk:*

The Syndicate holds no equities within its portfolio.

### Liquidity Risk

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

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year. The business has a low appetite for this risk category.



## Notes to the Accounts (continued)

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

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

- Forecasts are prepared and reviewed to predict future cash flows;
- The Syndicate sets limits for the average duration of investments;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements; and
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts.

### As at 31 December 2018

	Carrying Amount £'000	Less than 1 year £'000	1-2 Years £'000	2-5 Years £'000	More than 5 years £'000
Outstanding claims liabilities	348,027	125,086	85,865	110,221	26,855
Other creditors	55,798	55,796	2	-	-
Total	403,825	180,882	85,867	110,221	26,855

### As at 31 December 2017

	Carrying amount £'000	Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Outstanding claims liabilities	321,769	112,946	88,276	100,012	20,535
Other creditors	55,490	55,479	11	-	-
Total	377,259	168,425	88,287	100,012	20,535

## Currency Risk

### As at 31 December 2018

	GBP £'000	USD £'000	EURO £'000	CAD £'000	Total £'000
Financial investments	-	108,555	-	27,115	135,670
Reinsurers' share of technical provisions	39,273	114,672	18,887	1,451	174,283
Insurance & reinsurance receivables	36,135	86,820	4,253	(1,587)	125,621
Cash & cash equivalents	5,760	279	24,352	-	30,391
Overseas deposits	22,210	3,141	-	4,156	29,507
Other assets	24,787	35,329	7,613	2,885	70,614
Total assets	128,165	348,796	55,105	34,020	566,086
Technical provisions	(150,693)	(316,853)	(81,585)	(16,958)	(566,089)
Insurance & reinsurance payables	1,188	(61,931)	5,592	(356)	(55,507)
Other creditors and accruals	(3,912)	(137)	-	-	(4,049)
Total liabilities	(153,417)	(378,921)	(75,993)	(17,314)	(625,645)
Net assets/(liabilities)	(25,252)	(30,125)	(20,888)	16,706	(59,559)



## Notes to the Accounts (continued)

### As at 31 December 2017

	GBP £'000	USD £'000	EURO £'000	CAD £'000	Total £'000
Financial investments	-	87,649	14,594	22,639	124,882
Reinsurers' share of technical provisions	34,956	133,258	13,270	1,329	182,813
Insurance & reinsurance receivables	23,937	68,785	(2,233)	(1,209)	89,280
Cash & cash equivalents	7,324	260	22,301	-	29,885
Overseas deposits	19,557	2,451	-	3,873	25,881
Other assets	18,864	27,431	4,912	2,085	53,292
<b>Total assets</b>	<b>104,638</b>	<b>319,834</b>	<b>52,844</b>	<b>28,717</b>	<b>506,033</b>
Technical provisions	(122,897)	(282,938)	(64,125)	(14,409)	(484,369)
Insurance & reinsurance payables	(454)	(56,716)	3,245	(670)	(54,595)
Other creditors and accruals	(4,492)	(87)	(26)	(7)	(4,612)
<b>Total liabilities</b>	<b>(127,843)</b>	<b>(339,741)</b>	<b>(60,906)</b>	<b>(15,086)</b>	<b>(543,576)</b>
<b>Net assets/(liabilities)</b>	<b>(23,205)</b>	<b>(19,907)</b>	<b>(8,062)</b>	<b>13,631</b>	<b>(37,543)</b>

### *Sensitivity to Market Risks for Financial Investments*

#### *Sensitivity Analysis*

An analysis of the Syndicate's sensitivity to interest rate increase and decrease for its financial investments at the period end is shown in the table below.

The table shows the impact on the result and member's balance.

	2018 £'000	2017 £'000
<b>Interest Rate Risk</b>		
Impact of 50 basis point increase on result/member's balance	(885)	(882)
Impact of 50 basis point decrease on result/member's balance	892	889

### *Sensitivity to Foreign Exchange Rate Changes*

#### *Sensitivity Analysis*

An analysis of the Syndicate's sensitivity to GBP/USD, GBP/EUR and GBP/CAD exchange rate increase and decrease for its result and member's balance at the period end is shown in the table below.

	2018 £'000	2017 £'000
<b>Currency Risk</b>		
Impact of 10 percent increase in GBP/USD	(3,013)	(1,991)
Impact of 10 percent decrease in GBP/USD	3,013	1,991
Impact of 10 percent increase in GBP/EUR	(2,089)	(806)
Impact of 10 percent decrease in GBP/EUR	2,089	806
Impact of 10 percent increase in GBP/CAD	1,671	1,363
Impact of 10 percent decrease in GBP/CAD	(1,671)	(1,363)



## Notes to the Accounts (continued)

### **Capital Management**

TCMA operates under the Solvency II Directive requirements and the Society of Lloyd's capital framework.

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

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

Lloyd's capital setting processes use a capital requirement set at individual Syndicate level as a starting point. However, the requirement to meet Solvency II and Lloyd's capital requirement applies at overall and Member level (SCOR Underwriting Limited) only respectively, not at Syndicate level. The Syndicate is supported 100% by SCOR via the SCOR Underwriting Limited Member. As such, the capital requirement in respect of the Syndicate is not disclosed in these financial statements.

In order to meet Lloyd's and regulatory requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) in line with the business plan for the prospective underwriting year that is proposed for approval. The amounts are to be sufficient to cover losses at the 99.5<sup>th</sup> percentile, reflecting uncertainty in the run-off of underwriting liabilities to ultimate (SCR 'to ultimate') and for a one year time horizon (1 year SCR). The SCRs of each Syndicate are subject to review and agreement by Lloyd's.

For establishing Lloyd's minimum solvency requirements, Lloyd's uses the agreed Syndicate SCR to ultimate as a starting point. Over and above this, Lloyd's applies a market wide capital uplift, currently 35%, to the SCR, to derive the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's rather than a Solvency II requirement, is to meet Lloyd's financial strength, license and ratings objectives.

Any material change in business plan will trigger the recalculation of the SCR to ultimate and be advised to Lloyd's. TCMA must also confirm the Syndicate's solvency position quarterly to Lloyd's.

### **18. Claims Development**

The table below represents the estimated ultimate claims development by underwriting year in respect of the cumulative premiums earned at each relevant year end. Premiums written are allocated to an underwriting year based on the inception date of the policy or the inception date of the facility where the premium is written under a delegated authority agreement. As such the earned premium for an underwriting year will continue to increase in subsequent years leading to an underlying increase in estimated ultimate claims in subsequent years.



Notes to the Accounts (continued)

**Gross**

Year	At end of	One year	Two years	Three	Four	Five	Six	Seven
U/W	UW year	later	later	years	years	years	years	years
Pure	£'000	£'000	£'000	later	later	later	later	later
				£'000	£'000	£'000	£'000	£'000
2011	6,947	14,430	13,540	13,075	12,630	12,025	11,693	11,674
2012	26,082	58,229	58,017	61,305	66,000	65,828	68,977	
2013	40,111	95,567	101,215	96,785	95,433	94,124		
2014	46,857	117,831	138,209	144,104	148,766			
2015	44,152	113,475	122,730	131,683				
2016	64,797	188,936	210,816					
2017	132,052	226,848						
2018	87,949							

**Net**

Year	At end of	One year	Two years	Three	Four	Five	Six	Seven
U/W	UW year	later	later	years	years	years	years	years
Pure	£'000	£'000	£'000	later	later	later	later	later
				£'000	£'000	£'000	£'000	£'000
2011	6,679	13,967	13,025	12,499	12,119	11,515	11,183	11,164
2012	22,736	52,778	53,351	54,808	55,887	55,540	57,475	
2013	35,580	75,509	81,876	78,470	77,696	76,610		
2014	42,537	101,016	113,031	109,555	112,261			
2015	37,104	97,428	103,815	109,730				
2016	52,716	135,362	148,900					
2017	63,195	143,977						
2018	62,552							

**Underwriting Pure year**

	Gross	Net
	estimated	estimated
	balance	balance
	to pay	to pay
	£'000	£'000
2011	170	170
2012	16,139	8,438
2013	10,230	5,883
2014	38,302	25,594
2015	34,076	24,770
2016	70,615	43,425
2017	110,144	67,752
2018	68,351	46,331
	<u>348,027</u>	<u>222,363</u>



## Notes to the Accounts (continued)

The Syndicate has loss reserves for various events and for IBNR. Losses continue to develop, both positively and negatively on these open balances. Whilst the Syndicate has a reasonable degree of confidence as to the ultimate adequacy of its reserves for all events, volatility exists around the final settlement value.

Overall on an aggregate basis, a reserve strengthening of £6.7m net of reinsurance was made to prior year reserves during 2018. In 2017 there was a reserve release of £0.8m.

The Liability, Marine and Accident and Health classes showed a reserve deterioration which was partially offset by a surplus in the Property and Credit and Political Risk accounts.

### 19. Technical Provisions

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

	Gross provisions £'000	Reinsurance assets £'000	Net £'000
<b>Provision for Claims</b>			
At 1 January 2018	321,768	(146,177)	175,591
Movement per technical account	14,739	25,327	40,066
Foreign Exchange	11,520	(4,814)	6,706
At 31 December 2018	<u>348,027</u>	<u>(125,664)</u>	<u>222,363</u>
<b>Unearned Premiums</b>			
At 1 January 2018	162,600	(36,636)	125,964
Movement per technical account	47,222	(9,509)	37,713
Foreign Exchange	8,240	(2,474)	5,766
At 31 December 2018	<u>218,062</u>	<u>(48,619)</u>	<u>169,443</u>
	Gross provisions £'000	Reinsurance assets £'000	Net £'000
<b>Provision for Claims</b>			
At 1 January 2017	210,466	(46,754)	163,712
Movement per technical account	121,803	(104,308)	17,495
Foreign Exchange	(10,501)	4,885	(5,616)
At 31 December 2017	<u>321,768</u>	<u>(146,177)</u>	<u>175,591</u>
<b>Unearned Premiums</b>			
At 1 January 2017	161,157	(37,487)	123,670
Movement per technical account	10,317	(1,903)	8,414
Foreign Exchange	(8,873)	2,754	(6,119)
At 31 December 2017	<u>162,601</u>	<u>(36,636)</u>	<u>125,965</u>



## Notes to the Accounts (continued)

### 20. Post Balance Sheet Events

There are no significant post Balance Sheet events.

### 21. Disclosure of Interests

#### Managing Agent's Interests

The Financial Statements of TCMA are available by application to the Registered Office (see page 2).

#### Related Companies' Interests

Syndicate 2015's dedicated capital provider is SCOR Underwriting Limited. SCOR Underwriting Limited is a subsidiary of SCOR Global P&C SE and shares the same ultimate parent, SCOR SE.

TCMA, a subsidiary undertaking of SCOR SE, provides management services to the Syndicate. In 2018, the recharge to the Syndicate was £18,285,000 (2017 £18,955,000). The balance outstanding at the year end owed by the Syndicate to TCMA was £291,000 (2017 £905,000).

The amount of reinsurance ceded to SCOR SE companies was £18,905,000 (2017: £12,320,000). The amount owed from SCOR SE companies was £2,861,000 (2017 amounts due to the SCOR SE companies was £1,392,000).