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# **SYNDICATE 5151 ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

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## **Directors and Administration**

### **Managing Agent:**

Endurance At Lloyd's Limited  
**(Registered No. 06539650)**

### **Executive Directors:**

G P Evans  
R J R Housley  
P A Rooke  
T Kurumisawa

### **Non-Executive Directors:**

I M Winchester  
J A Kuhn  
J J Murray (resigned 29 March 2018)  
J A Giordano  
M G Fergusson (appointed 13 September 2018)  
C B Gallagher

### **Secretary**

M S I L Bonnell (appointed 13 September 2018)  
D S Lurie (resigned 13 September 2018)

### **Auditors**

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London  
E14 5EY

### **Bankers**

Barclays Bank Plc  
Citibank NA  
RBC Dexia

### **Solicitors**

Ashurst LLP  
Broadwalk House  
5 Appold Street  
London  
EC2A 2HA

### **Registered Office**

1st Floor  
2 Minster Court  
Mincing Lane  
London  
EC3R 7BB

## REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED

The directors of Endurance at Lloyd's Limited, ("the Company"), company registration number 06539650, registered office 1st Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB, present their report and Syndicate 5151 ("the Syndicate") Annual Accounts for the year ended 31 December 2018.

### Review of the business

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

### Results and performance

The Syndicate's insurance underwriting business is managed along four key lines; Property, Marine & Energy, Specialty and Professional lines. The Syndicate's reinsurance underwriting business is managed under Property and Casualty treaty, Property Catastrophe, Specialty and Marine. The Syndicate's key performance indicators during the year were as follows:

<b>Performance</b>	<b>2018 £m</b>	<b>2017 £m</b>	<b>Change</b>
Gross Written Premiums	358.1	318.7	12.4%
Net Earned Premiums	148.6	121.8	22.0%
Net Claims Incurred	(91.3)	(93.4)	(2.3%)
Expenses	(68.2)	(65.9)	3.4%
Underwriting Result	(10.9)	(37.5)	
Investment return	2.0	0.7	170.6%
Balance on technical account	(8.9)	(36.8)	
Unrealised foreign exchange (loss)/gain	(0.3)	3.3	
Loss for the financial year	(9.2)	(33.5)	
Claims ratio	61.5%	76.7%	(15.2%)
Expense ratio	45.9%	54.1%	(8.2%)
Combined ratio	107.4%	130.8%	(23.4%)

The claims ratio is calculated as net claims incurred, as a percentage of net earned premiums. The expense ratio is the sum of acquisition costs, the change in deferred acquisition costs, reinsurance commission and general and administrative expenses, as a percentage of net earned premiums. The combined ratio is calculated as the claims ratio plus the expense ratio.

Gross written premiums increased by 12.4% from £318.7m in 2017 to £358.1m in 2018. This increase is predominately from the Insurance book; the most significant growth was in Specialty lines (£26.0m) and Professional lines (£12.4m).

The Syndicate generated an underwriting loss of £10.9m for the year (2017 – £37.5m loss), representing a combined ratio of 107.4% (2017 – 130.8%). After the addition of investment returns and foreign exchange the overall result for 2018 is a loss of £9.2m (2017 – loss of £33.5m).

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## **REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED (CONTINUED)**

The Syndicate recorded a claims ratio of 61.5% during 2018 (2017 – 76.7%).

The Syndicate benefitted from positive development on prior accident year claims reserves of £11.1m (2017 - £17.3m) across all lines of business, as a result of lower than expected claims development.

The Syndicate purchases outwards reinsurance to protect against large losses from future events. Treaty reinsurance is purchased on an excess of loss, quota share and facultative basis. Excess of loss and facultative reinsurance is purchased from third party reinsurers. Premiums ceded on this basis amounted to £37.4m during 2018 (2017 – £46.0m). Quota share reinsurance purchased with third party reinsurers amounted to £108.6m in 2018 (2017 - £94.2m).

The Syndicate was also party to quota share reinsurance arrangements with other related companies, including Endurance Specialty Insurance Ltd (“ESIL”) which provides reinsurance protection for 30% of the losses incurred on the 2012, 2013, 2014, 2015, 2016, 2017 and 2018 accident years; premiums ceded on this basis totalled £33.8m during 2018 (2017 – £29.4m).

### **Future developments**

The Syndicate delivers its annual Syndicate Business Forecast (“SBF”) to Lloyd’s each year and this forms the basis of the Syndicate’s short term business plans. The 2019 SBF was a particularly challenging process this year as the Lloyd’s market became subject to extensive performance reviews resulting in limited ability to grow through Lloyd’s in 2019. As a result, the Syndicate’s 2019 SBF was submitted with planned gross written premium of £307.8m (2018 - £370.6m). Note that the Q4 2018 QMB estimates 2018 YOA gross written premium to be £333.7m and so, our 2019 SBF presents a reduction in GWP of 8%. This will require careful monitoring throughout 2019 and a regular dialogue with Lloyd’s on areas where the Syndicate expects to be able to grow with evidenced profitability.

The risks to UK economic growth remain significant not least because of the UK’s decision to leave the European Union (“EU”) (“Brexit”). Negotiations are still ongoing to determine the terms of the United Kingdom’s withdrawal from the European Union, as well as its relationship with the European Union going forward. There is significant change and associated uncertainty ahead for the market as a result.

EU membership and access to the single market has enabled underwriters at Lloyd’s to underwrite insurance business in all of the other 27 member states on a cross-border basis. The underwriters are writing business on a passporting basis, which allows them to conduct business throughout the EU while being regulated and supervised by the Prudential Regulatory Authority (“PRA”). Post Brexit, the loss of passporting rights will mean that Lloyd’s cannot write insurance business on a cross-border basis in the future. As a result, Lloyd’s has set up a subsidiary in Belgium to maintain access for Lloyd’s Syndicates to European business. The 2019 SBF expects £14.4m of gross written premium to be written through Lloyd’s Brussels.

### **Principal risks and uncertainties**

The Board of Directors reviews risk appetite annually with regard to both the strategic objectives of the Syndicate and the broader economic climate. The Syndicate has a Risk and Compliance Committee which meets quarterly to provide oversight of the risk framework and to monitor performance against risk appetite using a series of risk and performance indicators.

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## REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED (CONTINUED)

The principal risks and uncertainties facing the Syndicate are as follows:

### **Insurance risk**

Insurance risk includes both underwriting risk and reserving risk. Underwriting risk represents the risks that a policy will be written for too low a premium or provide inappropriate cover, or that the frequency or severity of insured events will be higher than expected. Reserving risk represents the risk that claims estimates 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. Performance against the business plan is monitored regularly throughout the year by the Underwriting Committee and the Board. Reserve adequacy is monitored by quarterly reviews by the Syndicate Actuary who reports to the Audit Committee and the Board. In addition, the Syndicate purchases outwards reinsurance on an excess of loss and facultative basis to protect against large losses from future events, as well as quota share reinsurance from third parties and other group companies to manage its exposures and enable diversification of its inwards insurance risk.

### **Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligations. The Syndicate's policies are aimed at minimising such losses and require that clients demonstrate creditworthiness before entering into a business relationship. Although the Syndicate requires the client to demonstrate creditworthiness, it does not eliminate this risk. To date the Syndicate has not experienced any significant losses related to such credit risks.

### **Market risk**

A key aspect of market risk is the potential for the Syndicate to incur losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. To mitigate this risk the insurance debtors and creditors are reviewed by currency on a regular basis and reported in line with Lloyd's requirements.

The Syndicate is exposed to interest rate risk on financial instruments as a result of changes primarily in interest rates due to the Syndicate's fixed interest securities portfolio. In an effort to mitigate this risk the Syndicate maintains a high quality investment portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. A significant portion of the investment portfolio matures each year, allowing for reinvestment at current market rates. The portfolio is also actively managed, and trades are made to balance the Syndicate's exposure to interest rates.

### **Liquidity risk**

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial liabilities as they become due. The Syndicate aims to mitigate liquidity risk by managing cash generation from its operations, in addition to maintaining a highly liquid investment portfolio.

### **Financial instruments and risk management**

Information on the use of financial instruments by the Syndicate and its management of financial risk and in particular its exposure to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk is disclosed in note 24 to the financial statements.



## REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED (CONTINUED)

### **Operational risk**

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Syndicate seeks to manage this risk through the Risk & Control Self-Assessment (RCSA) process which includes the maintenance of operational risk registers covering all aspect of operations, facilitated by the risk function. Through the RCSA process, each 'Risk Owner' is responsible for assessing the design and operating effectiveness of their control environment, and, to the extent any gaps or deficiencies exists, assessing the corresponding impacts and level of operational risk. The risk function provides a structured and consistent approach to the RCSAs across the organisation, including the approach/methodology for ratings, and also to provide some independent input and challenge to the risk owners as part of the process. This is supplemented by a structured programme of testing of processes and systems by internal audit.

### **Conduct Risk**

Conduct risk is the risk that the Company fails to pay appropriate regard to the interest of its customers and/or fails to treat them fairly at all times. Conduct risk is managed through the application of strong internal controls, compliance policies and procedures, and through the monitoring of various conduct risk metrics.

The Syndicate has a Product Oversight Group (POG) in place to manage conduct risk. The POG oversees the lifecycle of insurance products and monitors the effectiveness of our conduct risk framework and certain key touchpoints with our customers. The POG also ensures that our framework remains risk sensitive and appropriate for the conduct risk profile of the business as it develops.

### **Regulatory and compliance risk**

Regulatory and compliance risk is considered to be the inability or failure of the Syndicate to comply with UK or overseas regulatory requirements. The Syndicate's operations are subject to regulation by the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and by the Council of Lloyd's.

The PRA's focus with regards to Lloyd's managing agents is on solvency and risk management, whereas the FCA's focus is on policyholder treatment, financial crime, and sanctions risks. Lloyd's provides oversight of matters within the remit of both the PRA and FCA and, accordingly, has entered into co-operation arrangements with both statutory regulators for the stated purpose of minimizing duplication of regulatory oversight, where appropriate.

The Syndicate manages this risk through ongoing constructive engagement with the Regulators, investment in a knowledgeable Compliance function, and monitoring of market-wide developments and requirements in relation to regulation.

### **Directors**

The directors of the Managing Agent during the year ended 31 December 2018 up to the date of approval of the financial statements were as listed on page 1.

None of the directors has any participation in the premium income capacity of the Syndicate.

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## **REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED (CONTINUED)**

### **Disclosure of information to the auditors**

So far as each person who was a director of the company at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with this report, of which the auditors are unaware. Having made enquiries of fellow directors of the agency and the Syndicate's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

### **Auditors**

In accordance with section 14(2) of Schedule 1 of the Lloyd's Regulations 2008, the auditors, Ernst & Young LLP, were reappointed at the board meeting on 28 November 2018 and therefore continue in office.  
By order of the Board

P Rooke  
**Director**  
22 March 2019

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## **STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES**

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

The Insurance Accounts Directive (Lloyd's syndicates and Aggregate Accounts) Regulations 2008 requires 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:

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

The directors confirm they have complied with the above requirements in preparing the syndicate annual report and accounts for Syndicate 5151.

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 the prevention and detection of fraud and other irregularities.

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

## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 5151**

### **Opinion**

We have audited the syndicate annual accounts of syndicate 5151 ('the syndicate') for the year ended 31 December 2018 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 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 syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### **Conclusions relating to going concern**

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

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

## **Other information**

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

## **Responsibilities of the managing agent**

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

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

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

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

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

### **Use of our report**

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

Angus Millar (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

22 March 2019

## INCOME STATEMENT

### TECHNICAL ACCOUNT – GENERAL BUSINESS

### FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	5		358,148		318,658
Outward reinsurance premiums			(179,789)		(170,116)
Net premiums written			<u>178,359</u>		<u>148,542</u>
Change in provision for unearned premiums					
Gross amount	15	(39,653)		(46,104)	
Reinsurers' share	15	<u>9,851</u>		<u>19,372</u>	
Change in net provision for unearned premiums			<u>(29,802)</u>		<u>(26,732)</u>
Earned premiums, net of reinsurance			<u>148,557</u>		<u>121,810</u>
Allocated investment return					
Transferred from the non-technical account			2,034		752
Claims paid, net of reinsurance					
Gross amount		(153,828)		(140,407)	
Reinsurers' share		<u>81,083</u>		<u>61,466</u>	
		<u>(72,745)</u>		<u>(78,941)</u>	
Change in the provision for claims					
Gross amount		(69,379)		(115,669)	
Reinsurers' share		<u>50,832</u>		<u>101,169</u>	
Change in the net provision for claims		<u>(18,547)</u>		<u>(14,500)</u>	
Claims incurred, net of reinsurance			(91,292)		(93,441)
Net operating expenses	6		(68,160)		(65,925)
<b>Balance on the technical account for general business</b>			<u><b>(8,861)</b></u>		<u><b>(36,804)</b></u>

## INCOME STATEMENT

### NON-TECHNICAL ACCOUNT

#### FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		£'000	£'000
<b>Balance on the general business technical account</b>		<b>(8,861)</b>	<b>(36,804)</b>
<b>Investment result</b>			
Investment income	4,235		1,940
Realised gains on investments	27		41
Unrealised gains on investments	503		234
Unrealised losses on investments	(416)		(707)
Investment expenses and charges	(643)		(685)
<b>Allocated investment return</b>			
Transferred to the general business technical account	(2,034)		(752)
		<u>1,672</u>	<u>71</u>
Unrealised foreign exchange (losses) / gains		(2,003)	3,258
<b>Loss for the financial year</b>		<b><u>(9,192)</u></b>	<b><u>(33,475)</u></b>

All investment income, expense and net gains or net losses, including changes in fair value are in respect of financial assets measured at fair value through profit or loss.

There are no differences between the profit for the financial year stated above and their historical cost equivalents.

## STATEMENT OF COMPREHENSIVE INCOME

#### FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018	2017
		£'000	£'000
Loss for the financial year		(9,192)	(33,475)
Currency translation differences		(3,535)	4,829
<b>Total comprehensive loss for the year</b>		<b><u>(12,727)</u></b>	<b><u>(28,646)</u></b>



## STATEMENT OF CHANGES IN MEMBER'S BALANCES

AS AT 31 DECEMBER 2018

	<b>2018 £'000</b>	<b>2017 £'000</b>
Member's balances brought forward at 1 January	5,784	(31,974)
Loss for year	(9,192)	(33,475)
Other recognised (losses)/ profits	(3,535)	4,829
At 31 December	(6,943)	(60,620)
Loss collection /(cash distribution)	16,378	(5,448)
Net balance at 31 December	9,435	(66,068)
Deposits of funds at Lloyds in Syndicate trust funds	104,851	71,852
Member's balances carried forward at 31 December	<b>114,286</b>	<b>5,784</b>

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

## STATEMENT OF FINANCIAL POSITION - ASSETS

AS AT 31 DECEMBER 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
<b>Investments</b>					
Financial investments	9		274,748		152,310
<b>Reinsurers' share of technical provisions</b>					
Provision for unearned premiums	15	91,155		76,245	
Claims outstanding	16	<u>267,307</u>		<u>204,406</u>	
			358,462		280,651
<b>Debtors</b>					
Debtors arising out of direct insurance operations	10	85,854		95,316	
Debtors arising out of reinsurance operations	11	88,698		80,295	
Other debtors		<u>6,500</u>		<u>2,107</u>	
			181,052		177,718
<b>Other assets</b>					
Cash at bank and in hand	13	46,716		43,134	
Other assets	12	<u>42,628</u>		<u>24,935</u>	
			89,344		68,069
<b>Prepayments and accrued income</b>					
Deferred acquisition costs	14	52,661		42,324	
Other prepayments and accrued income		<u>1,465</u>		<u>1,527</u>	
			54,126		43,851
<b>Total assets</b>			<u><b>957,732</b></u>		<u><b>722,599</b></u>

## STATEMENT OF FINANCIAL POSITION – MEMBER’S BALANCES AND LIABILITIES

AS AT 31 DECEMBER 2018

	Notes	2018		2017	
		£'000	£'000	£'000	£'000
Member's balances			114,286		5,784
<b>Total Member's balances</b>			<u>114,286</u>		<u>5,784</u>
<b>Technical provisions</b>					
Provisions for unearned premiums	15	221,778		174,876	
Claims outstanding	16	<u>485,209</u>		<u>398,997</u>	
			706,987		573,873
<b>Creditors</b>					
Creditors arising out of direct insurance operations	17	3,118		1,117	
Creditors arising out of reinsurance operations	18	92,174		106,830	
Other creditors, including taxation and social security	19	<u>14,963</u>		<u>14,353</u>	
			110,255		122,300
<b>Accruals and deferred income</b>			26,204		20,642
<b>Total liabilities</b>			<u>843,446</u>		<u>716,815</u>
<b>Total Member's balances and liabilities</b>			<u><u>957,732</u></u>		<u><u>722,599</u></u>

The financial statements on pages 11 to 48 were approved by the Board of Endurance at Lloyd's Limited on 6 March 2019 and were signed on its behalf by:

P Rooke  
Director

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £'000	2017 £'000
<b>Loss on ordinary activities</b>		(9,192)	(33,475)
Increase in gross technical provisions		133,114	125,137
(Increase) in reinsurers' share of technical provisions		(77,812)	(102,181)
(Increase) in debtors		(3,334)	(44,789)
(Decrease)/Increase in creditors		(12,045)	33,437
Movement in other assets / liabilities		(4,712)	(8,142)
Investment return		(3,706)	(823)
<b>Cash flows from operating activities</b>		<u>22,313</u>	<u>(30,836)</u>
Purchase of equity and debt instruments		(260,959)	(139,869)
Sale of equity and debt instruments		134,778	114,139
Investment income received		4,235	1,771
<b>Cash flows from investing activities</b>		<u>(121,946)</u>	<u>(23,959)</u>
(Distribution to)/ Transfer from members		16,378	(5,448)
Deposit of funds at Lloyd's in syndicate		104,851	71,852
<b>Cash flows from financing activities</b>		<u>121,229</u>	<u>66,404</u>
<b>Net increase in cash and cash equivalents</b>		<u>21,595</u>	<u>11,610</u>
Cash and cash equivalents at beginning of the year		68,069	57,823
Exchange differences on opening cash		(321)	(1,364)
<b>Cash and cash equivalents at end of the year</b>	13	<u><b>89,344</b></u>	<u><b>68,069</b></u>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### 1. Statement of compliance

The financial statements are prepared as at 31 December 2018 and for the year ended 31 December 2018.

The financial statements have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008") and applicable Accounting Standards in the United Kingdom.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

#### 2. Basis of preparation

The financial statements for the year ended 31 December 2018 were approved for issue by the Board of Endurance at Lloyd's Limited ("the Company") on 6 March 2019.

The directors of the managing agent have prepared the financial statements on the basis that the Syndicate will continue to write future business and settle its obligations as they become due. The financial statements are prepared in Sterling which is the presentational currency of the Syndicate and rounded to the nearest £'000. As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

#### 3. Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual report and accounts, are described within the significant accounting policies below.

The following are the Syndicate's key sources of estimation uncertainty:

##### Insurance contract technical provisions

Estimating claims reserves and claims expenses requires assumptions regarding reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in legal environments, inflation, loss amplification and other factors. These estimates and judgments are based on numerous considerations and are often revised as a result of:

- i. changes in loss amounts reported by reinsurance companies;
- ii. additional information, experience or other data;
- iii. development of new or improved methodologies; or
- iv. changes in the law.

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## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**FOR THE YEAR ENDED 31 DECEMBER 2018**

### **3. Judgements and key sources of estimation uncertainty (continued)**

The claims reserves relating to short-tail property risks are typically reported and settled more promptly than those relating to long-tail risks. However, the timeliness of loss reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss, whether the loss is from policies written as direct business or reinsurance where exposure falls within the overall insurance program. In the case of reinsurance business, the reserving process is highly dependent on the loss information received from insurance companies.

Details of the methodology and key assumptions are provided in note 16. Additionally further reference is made within the risk management section in relation to insurance risk in note 24.

### **4. Significant accounting policies**

#### **Premiums**

Premiums written and ceded are earned on a pro-rata basis over the terms of the risk period. For contracts and policies written on a losses occurring basis, the risk period is generally the same as the contract or policy term. For contracts written on a risk attaching basis, the risk period is based on the terms of the underlying contracts and policies.

Premiums written and ceded include estimates based on information received from brokers, ceding companies and insureds, and any subsequent differences arising on such estimates are recorded in the periods in which they are determined.

The portion of the premiums written and ceded applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premiums and prepaid reinsurance premiums, respectively.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Reinstatement premiums are earned upon the occurrence of a loss and are calculated in accordance with the contract terms based upon the ultimate loss estimate associated with each contract.

#### **Investment return**

Interest income is recognised on a time proportionate basis taking into account effective interest yield. Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered under the accounting policy for financial assets.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated equity is made from the non-technical account to the technical account. Investment return related to non-insurance business and shareholder's equity is attributed to the non-technical account.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 4. Significant accounting policies (continued)

#### Claims reserves and related recoveries

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.

#### Deferred acquisition costs

Acquisition expenses are costs that are directly related to the production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition expenses are shown net of commissions earned on ceded business. These costs are deferred and amortised over the periods in which the related premiums are earned.

#### Unexpired risks

Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions.

#### Reinsurance to close ("RITC")

Following the end of the third year, the underwriting account of each Lloyd's syndicate is normally closed by reinsurance into the following year of account. The amount of the RITC premium is determined by the managing agent, generally by estimating the cost of claims notified but not settled together with the estimated cost of claims incurred but not reported at that date and claims handling costs.

The payment of an RITC premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims. The directors consider that the likelihood of such a failure of the RITC is remote, and consequently the RITC has been deemed to settle liabilities outstanding at the closure of an underwriting account.

#### 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.

#### 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, net of outstanding bank overdrafts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 4. Significant accounting policies (continued)

#### Financial assets

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.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date the company 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 profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading as are all derivatives, including embedded derivatives, that are not designated as hedging instruments. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate ("EIR") method. Gains and losses are recognised in the income statement through the amortisation process.

Available for sale financial assets are non derivative financial assets that are designated as available for sale or which are not classified in any of the above categories. 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 gains and losses are reported in other comprehensive income as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported through the statement of comprehensive income is transferred to the income statement.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 4. Significant accounting policies (continued)

#### Fair value of financial assets

The Syndicate chose to early adopt the provisions of FRS102 on fair value hierarchy. 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. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See Note 9 for details of financial instruments classified by fair value hierarchy.

#### 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.

#### Derecognition 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.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 4. Significant accounting policies (continued)

#### Financial liabilities

The Syndicate's financial liabilities include trade and other payables and insurance payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in net investment income in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or expires, with gains and losses being recognised in profit or loss. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

#### 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 during the period are included in the balance sheet under the heading 'other debtors'. No provision has been made for any overseas tax payable by members on underwriting results.

#### Foreign currencies

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

Financial reporting Standard 102 requires each entity to identify its functional currency and a presentational currency. The functional currency is identified as the currency of the primary economic environment in which the entity operates. The functional currency of this Syndicate is US Dollars as the majority of the underwriting business, cash flows and expenses are denominated in US Dollars. The Managing Agent has chosen to maintain the presentational currency as Sterling as the Syndicate is based in the UK, complies with UK reporting standards and is consistent with reporting to Lloyd's.

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.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 4. Significant accounting policies (continued)

#### Foreign currencies (continued)

As permitted by FRS103, the Syndicate has continued with its existing accounting policy to treat non-monetary assets and liabilities arising from insurance contracts (which include items such as unearned premiums and deferred acquisition costs) the same as monetary assets and liabilities. Consequently all assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date or if appropriate at the forward contract rate.

Exchange differences are recorded in the non-technical account.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 5. Segmental analysis

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

2018	Gross written premiums £'000	Gross Premiums Earned £'000	Gross claims incurred £'000	Net Operating Expenses £'000	Re- insurance Balance £'000	Total £'000
<b>Direct insurance:</b>						
Accident and health	27,077	17,352	(10,127)	(5,747)	(2,373)	(895)
Motor (3rd Party Liability)	208	162	(13)	(38)	(46)	65
Motor (Other Classes)	6,412	6,407	(4,556)	(1,734)	(1,162)	(1,045)
Marine	14,006	12,990	(23,175)	(3,187)	13,012	(360)
Aviation	16,198	12,263	(10,197)	(1,553)	(2,136)	(1,623)
Transport	7,548	6,530	(3,876)	(1,125)	(480)	1,049
Energy-marine	3,479	3,675	(947)	(576)	(1,844)	308
Energy non-marine	1,942	1,818	5,826	7	(4,109)	3,542
Fire and other damage to property	37,266	38,018	(31,560)	(8,062)	(8,358)	(9,962)
Third-party liability	138,782	109,888	(76,214)	(25,527)	(14,905)	(6,758)
Pecuniary loss	12,553	17,028	(18,859)	(3,868)	4,666	(1,033)
	265,471	226,131	(173,698)	(51,410)	(17,735)	(16,712)
<b>Reinsurance</b>	92,677	92,364	(49,509)	(16,750)	(20,288)	5,817
<b>Total</b>	<b>358,148</b>	<b>318,495</b>	<b>(223,207)</b>	<b>(68,160)</b>	<b>(38,023)</b>	<b>(10,895)</b>

2017	Gross written premiums £'000	Gross Premiums Earned £'000	Gross claims incurred £'000	Net Operating Expenses £'000	Re- insurance Balance £'000	Total £'000
<b>Direct insurance:</b>						
Accident and health	9,471	2,326	(388)	(898)	(949)	90
Motor (Other Classes)	7,648	5,796	(7,677)	(1,356)	1,399	(1,838)
Marine	16,003	16,758	(7,893)	(2,756)	(4,692)	1,416
Aviation	12,940	16,841	(11,898)	(1,843)	(3,729)	(628)
Transport	6,254	5,650	(11,971)	(1,070)	3,581	(3,810)
Energy-marine	5,010	5,911	(1,066)	(1,086)	(3,635)	124
Energy non-marine	994	2,464	(4,770)	(106)	2,066	(345)
Fire and other damage to property	43,420	38,769	(71,894)	(9,232)	27,956	(14,401)
Third-party liability	100,642	69,602	(56,583)	(20,430)	(9,895)	(17,306)
Pecuniary loss	19,457	23,373	(10,197)	(6,659)	(5,318)	1,199
	221,840	187,491	(184,337)	(45,438)	6,785	(35,499)
<b>Reinsurance</b>	96,818	85,063	(71,739)	(20,488)	5,106	(2,057)
<b>Total</b>	<b>318,658</b>	<b>272,554</b>	<b>(256,076)</b>	<b>(65,925)</b>	<b>11,891</b>	<b>(37,556)</b>

Commissions on direct insurance gross premiums during 2018 were £74.4m (2017 - £63.2m). All premiums were concluded in the UK.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 6. Net operating expenses

	2018 £'000	2017 £'000
Acquisition costs	93,231	81,712
Change in deferred acquisition costs	(4,711)	(9,144)
Administrative expenses	12,830	21,519
Reinsurer's commissions	(33,190)	(28,162)
	<u>68,160</u>	<u>65,925</u>

Administrative expenses include:	2018 £'000	2017 £'000
Audit services:		
Fees payable to the Syndicate's auditors for the audit of the Syndicate's accounts	283	255
Non-audit services:		
Other services pursuant to Regulations and Lloyd's Byelaws	74	72
Valuation and actuarial services	85	67
Members' standard personal expenses:		
Lloyd's subscriptions	1,437	1,470
New Central Fund contributions	1,344	1,137
Managing Agent's fees	1,000	1,850
Not included in Syndicate administrative expenses:		
Audit of the Managing Agency	15	15

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 7. Staff numbers and costs

All staff, at year end, were employed by Endurance Business Services Limited ("EBSL"), a wholly-owned subsidiary of Endurance Specialty Holdings Ltd. ("ESHL"), and the related costs were recharged to the Syndicate.

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Wages and salaries	12,816	13,974
Social security costs	1,526	2,000
Other pension costs	622	402
	<u>14,964</u>	<u>16,376</u>

The average number of employees employed by EBSL performing services directly on behalf of the Syndicate during the year was as follows:

	<b>2018</b> <b>Number</b>	<b>2017</b> <b>Number</b>
Administration and finance	27	26
Underwriting	33	34
Claims	6	5
	<u>66</u>	<u>65</u>

### 8. Directors' emoluments

The directors of the Managing Agent received the following aggregate remuneration charged to the Syndicate and included within net operating expenses.

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Emoluments	448	1,041
Contributions to defined contribution pensions	<u>26</u>	<u>27</u>

The active underwriter received the following remuneration charged as a Syndicate expense:

	<b>2018</b> <b>£'000</b>	<b>2017</b> <b>£'000</b>
Emoluments	118	348
Contributions to defined contribution pensions	<u>6</u>	<u>8</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 9. Financial investments

	Market Value 2018 £'000	Cost 2018 £'000	Market Value 2017 £'000	Cost 2017 £'000
<b>Held at fair value through profit or loss</b>				
Holdings in collective investment schemes	4,619	4,619	7,881	7,881
Fixed interest securities	260,394	264,426	143,841	142,391
Floating interest rate securities	9,735	9,837	588	668
	<u>274,748</u>	<u>278,882</u>	<u>152,310</u>	<u>150,940</u>

Included in the market values above are £239.9m (2017 - £127.8m) in respect of listed investments.

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

<b>At 31 December 2018</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Debt and other fixed income securities	10,154	259,975	-	270,129
Holdings in collective investment schemes	-	4,619	-	4,619
<b>Total</b>	<u>10,154</u>	<u>264,594</u>	<u>-</u>	<u>274,748</u>
<b>At 31 December 2017</b>	<b>Level 1 £'000</b>	<b>Level 2 £'000</b>	<b>Level 3 £'000</b>	<b>Total £'000</b>
Debt and other fixed income securities	-	144,429	-	144,429
Holdings in collective investment schemes	-	7,881	-	7,881
<b>Total</b>	<u>-</u>	<u>152,310</u>	<u>-</u>	<u>152,310</u>

### 10. Debtors arising out of direct insurance operations

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Due from intermediaries within one year	<u>85,854</u>	<u>95,316</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 11. Debtors arising out of reinsurance operations

	2018	2017
	£'000	£'000
Due from ceding insurers and intermediaries	51,802	24,259
Due from reinsurers and intermediaries	36,896	56,036
Due within one year	<u>88,698</u>	<u>80,295</u>

### 12. Other assets

	2018	2017
	£'000	£'000
Overseas deposits	<u>42,628</u>	<u>24,935</u>

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

### 13. Cash and cash equivalents

	2018	2017
	£'000	£'000
Cash at bank and in hand	46,716	43,134
Overseas deposits	42,628	24,935
	<u>89,344</u>	<u>68,069</u>

### 14. Deferred acquisition costs

	2018	2017
	£'000	£'000
At 1 January	42,324	31,255
Change in deferred acquisition costs	8,715	9,144
Foreign exchange	1,622	1,925
At 31 December	<u>52,661</u>	<u>42,324</u>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 15. Provision for unearned premiums

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2017	144,530	(63,881)	80,649
Premiums written in the year	318,658	(170,116)	148,542
Premiums earned in the year	(272,554)	150,744	(121,810)
Foreign exchange	(15,758)	7,008	(8,750)
At 31 December 2017	<u>174,876</u>	<u>(76,245)</u>	<u>98,631</u>
At 1 January 2018	174,876	(76,245)	98,631
Premiums written in the year	358,148	(179,789)	178,359
Premiums earned in the year	(318,495)	169,938	(148,557)
Foreign exchange	7,249	(5,059)	2,190
At 31 December 2018	<u>221,778</u>	<u>(91,155)</u>	<u>130,623</u>

### 16. Claims outstanding

The directors have assessed the technical provisions in accordance with the accounting policies set out within these annual accounts. This is the Syndicate's eleventh year of trading and the Syndicate's business includes classes of a long tail nature where the IBNR portion of the total reserves is high, and which typically display greater variation between initial estimates and final outcomes because of the greater level of uncertainty and difficulty estimating these reserves. The Syndicate has appropriate historic loss data for business similar to that underwritten during the period. The Syndicate has projected its claims reserves based on this historic development in order to assess the likely ultimate claims having regard to variations in the business accepted and the strengthening or weakening of the underlying terms and conditions.

Whilst the directors consider that the provision for claims is fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in material adjustments to the amounts provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

2018 losses emanating from Hurricanes Florence and Michael generated gross incurred claims of £12.9m to the Syndicate and £7.4m net after ceded reinsurance. The Syndicate was also affected by the Marine Project Sassi loss that was a £18.1m gross loss and £1.5m net of ceded reinsurance.

Favourable prior accident year claims development of £11.1m (2017 – £17.3m) was experienced in 2018, spread across all lines of business, as a result of lower than expected claims development.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 16. Claims outstanding (continued)

	Gross	Reinsurers' share	Net	Gross	Reinsurers' share	Net
	2018	2018	2018	2017	2017	2017
	£'000	£'000	£'000	£'000	£'000	£'000
Reported claims	182,493	(94,891)	87,602	133,887	(47,512)	86,375
Incurred but not reported	214,244	(109,515)	104,729	168,598	(67,077)	101,521
Loss adjustment expenses	2,260	-	2,260	1,721	-	1,721
At 1 January	<u>398,997</u>	<u>(204,406)</u>	<u>194,591</u>	<u>304,206</u>	<u>(114,589)</u>	<u>189,617</u>
Claims paid during the year	(153,828)	81,083	(72,745)	(140,407)	61,466	(78,941)
Claims incurred during the year	223,207	(131,916)	91,291	256,076	(162,635)	93,441
Foreign exchange	16,833	(12,066)	4,767	(20,878)	11,352	(9,526)
Total movement	<u>86,212</u>	<u>(62,899)</u>	<u>23,313</u>	<u>94,791</u>	<u>(89,817)</u>	<u>4,974</u>
Reported claims	233,542	(133,130)	100,412	182,493	(94,891)	87,602
Incurred but not reported	247,929	(134,177)	113,752	214,244	(109,515)	104,729
Loss adjustment expenses	3,738	-	3,738	2,260	-	2,260
At 31 December	<u>485,209</u>	<u>(267,307)</u>	<u>217,902</u>	<u>398,997</u>	<u>(204,406)</u>	<u>194,591</u>

The Syndicate establishes loss and loss expense reserves to provide for the estimated costs of paying claims under insurance policies and reinsurance contracts underwritten by the Syndicate. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported and include estimates of all expenses associated with processing and settling these claims.

The loss reserves are comprised of case reserves (which are based on claims that have been reported to us) and IBNR reserves (which are based on losses believed to have occurred but for which claims have not yet been reported to us and a provision for expected future development on case reserves).

Case reserve estimates are initially determined on the basis of loss reports received from third parties. Case estimates are set by experienced claims technicians, applying their skill and specialist knowledge to the circumstances of individual claims. IBNR reserve estimates are determined using various actuarial methods as well as a combination of historical loss experience, historical insurance industry loss experience, estimates of pricing adequacy trends and professional judgment. The process used to estimate our IBNR reserves involves projecting estimated ultimate claims loss and claims expenses reserves and then subtracting paid claims and case reserves to arrive at the IBNR reserve.

Estimating the ultimate cost of future claims and claim adjustment expenses is an uncertain and complex process. This estimation process is based largely on the assumption that past developments are an appropriate predictor of future events and involves a variety of actuarial techniques and judgments that analyse experience, trends and other relevant factors.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 16. Claims outstanding (continued)

The Syndicate's reserving actuaries, review the Syndicate's loss and loss expense reserves on a quarterly basis for both current and prior accident years using the most current claims data. These reserve reviews incorporate a variety of actuarial methods and judgments, including the three most common methods of actuarial evaluation used within the insurance industry: the expected loss ratio method; the Bornhuetter-Ferguson method; and the loss development method. The expected loss ratio approach is based on expected results independent of current loss reporting activity. This approach is typically used for immature loss periods (i.e. the current accident year). The Bornhuetter-Ferguson method uses an initial loss estimate (expected loss technique) for each accident year by business line and type of contract. Under this method, IBNR is set equal to the initial loss estimate multiplied by the expected percent of loss yet to be reported at each valuation date. In a given quarter, if reported losses are less than expected, then the difference would result in a decrease in estimated ultimate losses. If losses for the quarter are greater than expected, then the difference would result in an increase in estimated ultimate losses. In contrast, the loss development method extrapolates the current value of reported losses to ultimate expected losses by using selected reporting patterns of losses over time. Selected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Syndicate's own operating history.

The Syndicate uses these multiple methods, supplemented with its own actuarial and professional judgment, to establish its best estimate of loss and loss expense reserves.

### 17. Creditors arising out of direct insurance operations

	2018	2017
	£'000	£'000
Due to intermediaries within one year	<u>3,118</u>	<u>1,117</u>

### 18. Creditors arising out of reinsurance operations

	2018	2017
	£'000	£'000
Due to ceding insurers and intermediaries	3,236	3,753
Due to reinsurers and intermediaries	<u>88,938</u>	<u>103,077</u>
Due within one year	<u>92,174</u>	<u>106,830</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 19. Other creditors, including taxation and social security

	2018 £'000	2017 £'000
Amounts due to group companies	11,471	14,353
Amount due in respect of premium tax	2,538	-
Other amounts due	954	-
	<u>14,963</u>	<u>14,353</u>

No security over the Syndicate's assets has been given in respect of the above.

### 20. Funds at Lloyd's

Every Lloyd's member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the Member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is entitled to make a call on the Members' FAL to meet liquidity requirements or to settle losses.

### 21. Funds in syndicate

During the year, the corporate member (Endurance Corporate Capital Limited), with Lloyds approval, transferred a total of US\$ 150.0m (£111.7m @ 1.343), to the Syndicate, to be held as funds in syndicate (FIS), and these now fall under the management of the managing agent. These accounts, therefore, incorporate assets held and the investment return achieved on the FIS.

### 22. Ultimate parent company

The Syndicate's ultimate parent undertaking Sompo Holdings Inc incorporated in Tokyo, Japan. A copy of the financial statements of Sompo Holdings Inc can be obtained from 1st Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB, or 26-1, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8338

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 23. Related parties

The Managing Agent of the Syndicate's active Board of Directors are also directors of Endurance Worldwide Insurance Limited (EWIL). G P Evans, R J R Housley and P A Rooke are also directors of Endurance Holdings Limited, Endurance Corporate Capital Limited (ECCL), Endurance Business Services Limited (EBSL), Endurance Worldwide Holdings Limited (EWHL) and Endurance Global Weather Risk Advisors Limited. G P Evans, P A Rooke and T Kurumisawa are directors of SI Insurance (Europe) SA (SIIE).

Syndicate 5151 participated in the following transactions, and held the following balances, with related parties within the Endurance Group:

During the year the Syndicate purchased reinsurance from Endurance Specialty Insurance Limited (ESIL). The cost of the reinsurance protection was £33.6m (2017 – £30m). As at the year end net technical balances included £20.2m (2017 - £12.8m) in respect of amounts owed to ESIL.

The Syndicate was also party to three (2017 – four) additional quota share arrangements with Blue Water Re Ltd affiliates which provided cover on the Property Treaty catastrophe book totalling £0.1m (2017 - £0.6m). As at the year end net technical balances included £0.3m (2017 - £0.2m) in respect of amounts due from Blue Water Re Ltd.

On 1<sup>st</sup> January 2018 the Syndicate agreed to commute the quota share arrangement with Endurance American Insurance Company ("EAIC"), a wholly owned subsidiary of Endurance Specialty Holdings Limited (ESHL), that had covered losses on US agriculture crop risks under this contract from 1 January 2016 to 31 December 2017. The Syndicate received £0.5m as full and final settlement of the 2017 year end net earned technical balance and reduced its 2018 gross written premium by £0.2m for unearned premium.

In 2018 the Syndicate provided facultative reinsurance to Sompo Japan Nipponko Insurance Inc. ("SJNKI"), the parent company of ESHL, on a number of Japanese Property risks, receiving gross written premium of £0.7m. As at the year end net technical balances included £0.2m in respect of amounts due from SJNKI.

The Syndicate paid fees to Endurance at Lloyd's Limited ("EAL"), the managing agency for the Syndicate, of £1.0m (2017 – £1.85m), based on a fixed percentage of the Syndicate's underwriting capacity. As at the year end other creditors included £nil (2017 - £0.2m) in respect of amounts owed to the managing agent.

Endurance Services Ltd ("ESL"), a wholly-owned indirect subsidiary of ESHL incorporated in the US, charged the Syndicate £3.3m for certain administrative services (2017 – £6.1m) during the period. As at the year end other creditors included £0.3m (2017 - £0.9m) in respect of amounts owed to ESL. ESHL charged the Syndicate £0.3m (2017 - £0.8m) during the period in relation to services and at the year end owed ESHL £0.02m (2017 - £0.2m).

The services provided by EBSL to the Syndicate are reimbursed through a recharge of costs. In 2018, costs recharged from EBSL to the Syndicate amounted to £13.8m (2017 - £15.4m). As at the year end other creditors included £0.3m (2017 - £2.1m) in respect of amounts owed for services previously provided by EWIL and £1.4m (2017 - £1.6m) in respect of amounts owed to EBSL in relation to these services.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management

#### a) Governance framework

The primary objective of the Syndicate's risk management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of strategic objectives, including failing to exploit opportunities. The Managing Agent has established a risk management function with clear terms of reference from the Board of Directors and has embedded a risk appetite framework which encompasses the overall approach, including policies, procedures, controls and systems through which appetite is established, monitored and communicated.

The risk appetite framework is aligned with the Managing Agent's strategy and is used to inform and influence decisions at all levels. The risk governance framework supports this in the following ways:

- Board approved risk policies, appetites and tolerances are communicated to, owned by, monitored and reported upon by assigned sub-committees of the Board.
- Own risk and solvency assessments are performed quarterly, leveraging sophisticated risk modelling techniques and systems, to regularly assess key risk and performance indicators against tolerance.
- Authorities and responsibilities in respect of all key business risks are delegated to management committees and senior management across the Managing Agent.

#### b) Capital management objectives, policies and approach

##### Capital framework at Lloyd's

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

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 5151 is not disclosed in these financial statements.

##### Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review and approval by Lloyd's. Over and above this, Lloyd's applies a capital uplift to calculate the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

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

##### 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.

#### c) Insurance risk management

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 it maintains sufficient financial resources to cover these liabilities.

The principal risk exposure is actively managed by having a disciplined approach to underwriting and risk management that relies heavily upon the collective underwriting expertise of management and staff. This expertise is in turn guided by the following underwriting principles:

- Underwriting must be in accordance with the agreed business plan and underwriting guidelines
- Underwriters may only accept risks within their own written authority and seek authorization for any exceptions prior to binding;
- Underwriters must not commit to any risk that they do not fully understand;
- Underwriters shall not commit to any risk that does not pay due regard to the interests of the customer and treat them fairly;
- Underwriters must consult with colleagues where they do not understand any aspect of a risk;
- The process of underwriting should be transparent, collegiate, clear, and accessible to colleagues; and
- Underwriting information must be recorded promptly and accurately and retained in the applicable risk recording systems

The principal risk exposure is mitigated by having established underwriting guidelines for each product, diversifying the business by underwriting a variety of products across multiple industry sectors and geographies, proactively assessing and managing risk accumulations arising from both natural and man-made events and actively utilising outwards reinsurance arrangements to limit exposure to catastrophic events within tolerance.

#### (i) Concentrations of insurance risk

**As a property, marine/energy, aviation catastrophes and other specialty insurer and reinsurer the Syndicate is particularly vulnerable to losses from catastrophes.**

Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, droughts, severe weather, floods, fires, tornadoes, volcano eruptions, explosions and other natural or man-made disasters. Many scientists believe that the earth's atmospheric and oceanic temperatures are increasing and that, in recent years, changing climate conditions have increased the unpredictability, severity and frequency of natural disasters in certain parts of the world.

Whilst the Syndicate attempts to manage exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in pricing and risk management expectations. As a result, the occurrence of one or more catastrophic events could have a material adverse effect on the results of operations or financial condition.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### 24. Risk management (continued)

##### c) Insurance risk management (continued)

##### (i) Concentrations of insurance risk (continued)

**As a property and casualty insurer and reinsurer the Syndicate could face losses from war, terrorism and political unrest.**

The Syndicate may have substantial exposure to losses resulting from acts of war, acts of terrorism and political instability. These risks are inherently unpredictable, although recent events may lead to increased frequency and severity. It is difficult to predict their occurrence with statistical certainty or to estimate the amount of loss an occurrence will generate. Accordingly, it is possible that loss reserves will be inadequate to cover these risks. The Syndicate closely monitors the amount and types of coverage it provides for terrorism risk under insurance policies and reinsurance treaties.

The Syndicate regularly quantifies and monitors its exposures to key sources of concentration risk against defined risk tolerances.

For certain defined natural catastrophe and man-made catastrophe events, the Syndicate assesses the probability and likely magnitude of losses using a combination of industry third-party models, proprietary models and underwriting judgment. The Syndicate attempts to model the projected net impact from a single event, taking into account contributions from all lines of business offset by the net benefit of any reinsurance or derivative protections we purchase and the benefit of reinstatement premiums.

The Syndicate monitors its net accumulation risk exposures regularly against internally defined risk tolerances. This includes, but is not limited to, the Lloyd's RDS scenarios which are monitored against Lloyd's franchise guidelines.

The Syndicate actively manage the level of assumed risk and the purchase of outwards reinsurance to ensure that concentration risk levels remain within defined tolerances.

The geographical analysis of premiums by territory of risk is as follows:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
UK	3,277	3,682
Other EU countries	10,965	9,158
US and Canada	74,437	91,574
Worldwide	269,469	214,244
	<b>358,148</b>	<b>318,658</b>



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### c) Insurance risk management (continued)

##### (i) Concentrations of insurance risk (continued)

The following table sets out the gross premiums written by line of business:

	<b>2018</b>	<b>2017</b>
	<b>£'000</b>	<b>£'000</b>
Property	90,592	87,319
Marine & Energy	54,659	56,881
Specialty	115,503	89,495
Professional Lines	97,394	84,963
	<u>358,148</u>	<u>318,658</u>

The table below sets out the concentration of outstanding claim liabilities by type of contract:

	<b>Gross liabilities £'000</b>	<b>Reinsurance of liabilities £'000</b>	<b>Net liabilities £'000</b>
<b>2018</b>			
Property	110,979	(54,693)	56,286
Marine & Energy	98,261	(62,331)	35,930
Specialty	139,543	(83,873)	55,670
Professional Lines	136,426	(66,410)	70,016
	<u>485,209</u>	<u>(267,307)</u>	<u>217,902</u>
	<b>Gross liabilities £'000</b>	<b>Reinsurance of liabilities £'000</b>	<b>Net liabilities £'000</b>
<b>2017</b>			
Property	133,907	(80,437)	53,470
Marine & Energy	83,219	(45,653)	37,566
Specialty	137,497	(53,125)	79,372
Professional Lines	49,374	(25,191)	24,183
	<u>398,997</u>	<u>(204,406)</u>	<u>194,591</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### c) Insurance risk management (continued)

##### (ii) Sensitivity to insurance risk

**The Syndicate is exposed to, and may face adverse developments, involving mass tort claims such as those relating to exposure to potentially harmful products or substances.**

The Syndicate faces exposure to mass tort claims, including claims related to exposure to potentially harmful products or substances. Establishing claims and claim adjustment expense reserves for mass tort claims is subject to uncertainties because of many factors, including expanded theories of liability, disputes concerning medical causation with respect to certain diseases, geographical concentration of the lawsuits asserting the claims and the potential for a large rise in the total number of claims without underlying epidemiological developments suggesting an increase in disease rates. Moreover, evolving judicial interpretations regarding the application of various tort theories and defences, including application of various theories of joint and several liabilities, as well as the application of insurance coverage to these claims, make it difficult to estimate the ultimate liability for such claims.

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current related reserves. In addition, estimates of claims and claim adjustment expenses may change, and such change could be material. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could materially and adversely affect the results of operations.

**The failure of any of the loss limitation methods employed, as well as an unexpected accumulation of attritional losses, could have a material adverse effect on financial condition or on the results of operations.**

The Syndicate seeks to limit its loss exposure in a variety of ways, including by writing many of its insurance and reinsurance contracts on an excess of loss basis, adhering to maximum limitations on policies written in defined geographical zones, limiting program size for each client, establishing per risk and per occurrence limitations for each event, employing coverage restrictions, following prudent underwriting guidelines for each program written and purchasing reinsurance and retrocessional protection. In the case of proportional treaties, the Syndicate generally seeks per occurrence limitations or loss ratio caps to limit the impact of losses from any one event. Most direct liability insurance policies include maximum aggregate limitations. The Syndicate also seeks to limit its loss exposure through geographic diversification. Disputes relating to coverage and choice of legal forum may also arise. As a result, various provisions of the Syndicate's policies, such as limitations or exclusions from coverage or choice of forum, may not be enforceable in the manner intended and some or all of the other loss limitation methods may prove to be ineffective. Underwriting is a matter of judgment, involving important assumptions about matters that are inherently unpredictable and beyond the Syndicate's control, and for which historical experience and probability analysis may not provide sufficient guidance.

The Syndicate's operating results may also be adversely affected by unexpectedly large accumulations of smaller losses. The Syndicate seeks to manage this risk by using appropriate loss limitation methods as noted above. These processes are intended to ensure that premiums received are sufficient to cover the expected levels of attritional loss as well as a contribution to the cost of natural catastrophes and large losses where necessary. It is possible, however, that loss limitation methods may not work as intended in this respect and that actual losses, including attritional losses, from a class of risks may be greater than expected, which may have a material adverse effect on financial condition and the results of operations.

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### d) Insurance risk management (continued)

##### (ii) Sensitivity to insurance risk (continued)

**The Syndicate may be unable to purchase reinsurance and its net income could be reduced or it could incur a net loss in the event of unusual loss experience.**

The Syndicate purchases reinsurance if it is deemed prudent from a risk mitigation perspective or if it is expected to have a favourable cost/benefit relationship relative to the retained risk portfolio. Changes in the availability and cost of reinsurance, which are subject to market conditions that are outside of the Syndicate's control, may reduce to some extent the Syndicate's ability to use reinsurance to balance exposures across its reinsurance or insurance operations. Accordingly, the Syndicate may not be able to obtain its desired amounts of reinsurance. In addition, even if the Syndicate is able to obtain such reinsurance, it may not be able to negotiate terms that are deemed appropriate or acceptable or obtain such reinsurance from entities with satisfactory creditworthiness.

**Profitability may be adversely impacted by inflation.**

The effects of inflation could cause the cost of claims from catastrophes or other events to rise in the future. The Syndicate's reserve for losses and loss expenses includes assumptions about future payments for settlement of claims and claims handling expenses, such as medical treatments and litigation costs. To the extent inflation causes these costs to increase above reserves established for these claims, the Syndicate will be required to increase its loss reserves with a corresponding reduction in net income in the period in which the deficiency is identified.

**The effects of emerging claim and coverage issues on the Syndicate's business are uncertain.**

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Syndicate's business by either broadening coverage beyond its underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after the Syndicate has issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under insurance or reinsurance contracts may not be known for many years after a contract is issued. Cyber risk is one such area where this is increasing.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### c) Insurance risk management (continued)

#### (ii) Sensitivity to insurance risk (continued)

##### Quantitative sensitivity analysis

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' balances.

	Change in assumption	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit £'000	Impact on members' balances £'000
<b>2018</b>					
Loss ratio	+ 10%	22,321	9,129	(9,129)	(9,129)
<b>2017</b>					
Loss ratio	+ 10%	25,608	9,344	(9,344)	(9,344)

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive pure year of account at each reporting date, together with cumulative payments to date.

The Syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016–2021.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### c) Insurance risk management (continued)

#### (ii) Sensitivity to insurance risk (continued)

##### Claims development table

Gross insurance contract outstanding claims provision as at 31 December 2018:

Pure year of account	Pre-2011 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of cumulative claims incurred										
At end of underwriting year		103,394	51,344	48,377	60,593	43,849	73,418	130,035	89,067	
One year later		124,790	83,678	87,477	106,295	120,644	192,203	252,295		
Two years later		114,756	77,071	91,276	119,921	119,922	201,210			
Three years later		114,839	80,021	88,638	113,797	128,197				
Four years later		117,599	84,141	86,432	131,492					
Five years later		121,341	81,701	89,044						
Six years later		120,819	76,959							
Seven years later		118,862								
Estimate for cumulative claims		118,862	76,959	89,044	131,492	128,197	201,210	252,295	89,067	
Cumulative payments to date		108,179	64,498	66,077	87,480	79,651	102,197	92,327	12,921	
Claims outstanding per balance sheet	11,413	10,683	12,461	22,967	44,012	48,546	99,013	159,968	76,146	485,209

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

c) Insurance risk management (continued)

(ii) Sensitivity to insurance risk (continued)

#### Claims development table

Net insurance contract outstanding claims provision as at 31 December 2018:

Pure year of account	Pre-2011	2011	2012	2013	2014	2015	2016	2017	2018	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative claims incurred										
At end of underwriting year		89,431	35,299	32,971	35,909	28,204	31,974	46,425	41,220	
One year later		101,744	57,924	60,492	66,159	74,688	82,119	101,689		
Two years later		89,665	52,662	62,476	70,944	71,210	84,419			
Three years later		85,414	55,700	59,877	67,249	72,564				
Four years later		85,168	58,439	58,652	68,544					
Five years later		87,665	56,916	60,444						
Six years later		86,197	53,490							
Seven years later		84,966								
Estimate for cumulative claims		84,966	53,490	60,444	68,544	72,564	84,419	101,689	<b>41,220</b>	
Cumulative payments to date		76,754	44,864	45,127	50,960	49,599	44,976	38,639	7,483	
Claims outstanding per balance sheet	8,969	8,212	8,626	15,317	17,584	22,965	39,443	63,050	33,737	217,902

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## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### d) Financial risk management

The Syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk are credit risk, market risk and liquidity risk.

An analysis of the Syndicate's exposure to each significant component of financial risk is given below:

#### Credit risk

Credit risk is defined as the risk that a counterparty is unable, or unwilling, to settle its debts to the Syndicate as they fall due. The primary sources of credit risk for the Syndicate are: amounts due from reinsurers, amounts due from insurance intermediaries, and counterparty risk with respect to investments including cash and cash equivalents. The Syndicate has in place policies and procedures designed to manage its credit risk exposures.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security by the Underwriting Committee, prior to the purchase of reinsurance contracts. Guidelines are set, and monitored, that limit the purchase of reinsurance based on Standard & Poor's or appropriate alternative ratings for each reinsurer.

The credit risk in respect of insurance intermediaries is managed through a subset of the Underwriting Committee, with the assistance of the underwriting department and the binder management team. To transact business with the Syndicate the insurance intermediary must first comply with internal guidelines that include approval (where relevant) by both the PRA and Lloyd's, to have a satisfactory credit rating and to have in place a Terms of Business Agreement or a Binding Authority Agreement with the Syndicate.

The position is then monitored through on-going review of the amount of debt outstanding to terms, and by regular cover-holder audit.

Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. Fixed income investments are predominantly invested in Government and corporate bonds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### d) Financial risk management (continued)

##### Credit risk (continued)

An analysis of the Syndicate's major exposure to counterparty credit risk, which is based on Standard & Poor's or equivalent rating, is presented below.

	AAA	AA	A	Other/ Not rated	Total
	£'000	£'000	£'000	£'000	£'000
<b>At 31 December 2018</b>					
Reinsurance debtors and reinsurers' share of claims outstanding	-	908	303,288	6	304,203
Debtors arising out of direct insurance operations	-	-	-	85,854	85,854
Debtors from ceding insurers and intermediaries	-	-	-	51,802	51,802
Debt and other fixed income securities	183,202	27,635	42,504	16,788	270,129
Holdings in collective investment schemes	1,820	2,799	-	-	4,619
Cash	-	323	46,394	-	46,716
Overseas deposits	26,349	8,132	5,253	2,894	42,628
<b>Total</b>	<b>211,371</b>	<b>39,796</b>	<b>397,439</b>	<b>157,345</b>	<b>805,951</b>

  

	AAA	AA	A	Other/ Not rated	Total
	£'000	£'000	£'000	£'000	Restated £'000
<b>At 31 December 2017</b>					
Reinsurance debtors and reinsurers' share of claims outstanding	-	523	259,785	134	260,442
Debtors arising out of direct insurance operations	-	-	-	95,316	95,316
Debtors from ceding insurers and intermediaries	-	-	-	24,259	24,259
Debt and other fixed income securities	104,265	15,545	22,826	1,793	144,429
Holdings in collective investment schemes	1,914	5,967	-	-	7,881
Cash	-	549	42,585	0	43,134
Overseas deposits	14,945	4,384	3,823	1,783	24,935
<b>Total</b>	<b>121,124</b>	<b>26,968</b>	<b>329,019</b>	<b>123,285</b>	<b>600,396</b>

The financial assets included in the 'other/not rated' column relate to debt and other fixed income securities with credit ratings of BBB to CCC, premium debtors, reinsurance debtors and reinsurers' share of claims outstanding with unrated counterparties.

In addition, collateral is held in trust in respect of debtors outstanding on a quota share between the Syndicate and ESIL. This includes debt securities and cash and cash equivalents that are held with The Bank of New York Mellon, with a fair value of £75.0m (2017 – £69.8m) as at 31 December 2018.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### d) Financial risk management (continued)

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.

As at 31 December 2018	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Reinsurance debtors and reinsurers' share of claims outstanding	304,203	-	-	304,203
Debtors arising out of direct insurance operations	71,364	14,490	-	85,854
Debtors from ceding insurers and intermediaries	48,269	3,533	-	51,802
Debt and other fixed income securities	270,129	-	-	270,129
Holdings in collective investment schemes	4,619	-	-	4,619
Cash	46,716	-	-	46,716
Overseas deposits	42,628	-	-	42,628
	<b>787,928</b>	<b>18,023</b>	<b>-</b>	<b>805,951</b>

As at 31 December 2017	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total Restated £'000
Reinsurance debtors and reinsurers' share of claims outstanding	260,442	-	-	260,442
Debtors arising out of direct insurance operations	80,992	14,324	-	95,316
Debtors from ceding insurers and intermediaries	20,896	3,363	-	24,259
Debt and other fixed income securities	144,429	-	-	144,429
Holdings in collective investment schemes	7,881	-	-	7,881
Cash	43,134	-	-	43,134
Overseas deposits	24,935	-	-	24,935
	<b>582,709</b>	<b>17,687</b>	<b>-</b>	<b>600,396</b>

#### Financial assets that are neither past due nor impaired

Insurance and reinsurance receivables that are neither past due nor impaired are creditworthy debtors with a good payment record with the Branch. Financial investments and cash at bank and in hand are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

#### Financial assets that are either past due or impaired

Of the amounts arising from insurance and reinsurance operations £18.0m (2017 - £17.7m) are past due as at the balance sheet date, of which £14.2m (2017 - £12.3m) are aged less than 6 months and £3.8m (2017 - £5.4m) are aged more than 6 months. These amounts are unsecured.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2018

#### 24. Risk management (continued)

##### d) Financial risk management (continued)

###### 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 factors.

Market risk comprises three types of risk as set out below:

- interest rate risk (due to fluctuations in market interest rates)
- currency risk (due to fluctuations in foreign exchange rates)
- price risk (due to fluctuations in market prices)

###### Interest rate risk

The majority of the Syndicate's investments comprise cash and fixed income securities. The fair value of the Syndicate's investments is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the Syndicate's fixed income securities tends to rise and vice versa.

The tables below show the potential impact on profit and loss and equity resulting from fluctuations in interest rates, based on the portfolio duration, as follows:

<b>At 31 December 2018</b>	<b>GBP'000</b>
Change in interest rates (Basis points)	
+100 bps	(5,871)
+50 bps	(2,954)
-50 bps	2,686
-100 bps	5,300

<b>At 31 December 2017</b>	<b>GBP'000</b>
Change in interest rates (Basis points)	
+100 bps	(2,539)
+50 bps	(1,275)
-50 bps	1,121
-100 bps	2,148

The Syndicate manages interest rate risk by investing in financial investments with an average duration of less than 3 years. The Company monitors the duration of these assets on a regular basis.

Outstanding claims provisions are not sensitive to the level of interest rates, as they are undiscounted and contractually non-interest bearing.

###### Currency risk

The Syndicate operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar. The Syndicate mitigates currency risk by endeavouring to maintain a match of assets and liabilities in their respective currencies.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### d) Financial risk management (continued)

##### Currency risk (continued)

The table below show the potential impact, by currency to US Dollar, on profit and loss and equity resulting from fluctuations in foreign exchange rates:

<b>At 31</b>							
<b>December</b>							
<b>2018</b>	<b>GBP</b>	<b>USD</b>	<b>CAD</b>	<b>Euro</b>	<b>Yen</b>	<b>Aus\$</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
+ 10%	3,803	-	(1,335)	2,346	114	503	5,431
+ 5%	1,992	-	(699)	1,229	59	263	2,844
- 5%	(2,201)	-	773	(1,359)	(66)	(291)	(3,144)
- 10%	(4,648)	-	1,632	(2,868)	(139)	(615)	(6,638)

  

<b>At 31</b>							
<b>December</b>							
<b>2017</b>	<b>GBP</b>	<b>USD</b>	<b>CAD</b>	<b>Euro</b>	<b>Yen</b>	<b>Aus\$</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
+ 10%	3,530	-	(1,357)	687	206	58	3,124
+ 5%	1,849	-	(711)	360	108	30	1,637
- 5%	(2,044)	-	786	(398)	(119)	(34)	(1,809)
- 10%	(4,315)	-	1,659	(840)	(251)	(71)	(3,818)

##### Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Syndicate holds no equity investments and so has a low exposure to price risk.

##### Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due.

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities. The average duration of insurance contract liabilities is 2.3 years (2017 – 2.1 years). The Syndicate's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. These liquid funds are regularly monitored and the majority of the Syndicate's investments are in highly liquid assets which could be converted into cash in a short time frame and at minimal expense. Cash and overseas deposits are generally bank deposits and money market funds.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2018

### 24. Risk management (continued)

#### e) Financial risk management (continued)

##### Liquidity risk (continued)

The table below summarises the maturity profile of the Syndicate's financial liabilities based on the remaining undiscounted contractual obligations, including interest payable.

<b>At 31 December 2018</b>	<b>0-1 year £'000</b>	<b>1-3 years £'000</b>	<b>3-5 years £'000</b>	<b>&gt;5 years £'000</b>	<b>Total £'000</b>
Claims outstanding	140,417	197,483	83,723	63,586	485,209
Creditors	110,255	-	-	-	110,255
<b>Total</b>	<b>250,672</b>	<b>197,483</b>	<b>83,723</b>	<b>63,586</b>	<b>595,464</b>
<b>At 31 December 2017</b>	<b>0-1 year £'000</b>	<b>1-3 years £'000</b>	<b>3-5 years £'000</b>	<b>&gt;5 years £'000</b>	<b>Total £'000</b>
Claims outstanding	128,532	166,848	61,364	42,253	398,997
Creditors	122,300	-	-	-	122,300
<b>Total</b>	<b>250,832</b>	<b>166,848</b>	<b>61,364</b>	<b>42,253</b>	<b>521,297</b>

### 25. Post Balance Sheet events

There are no post Balance Sheet events.