

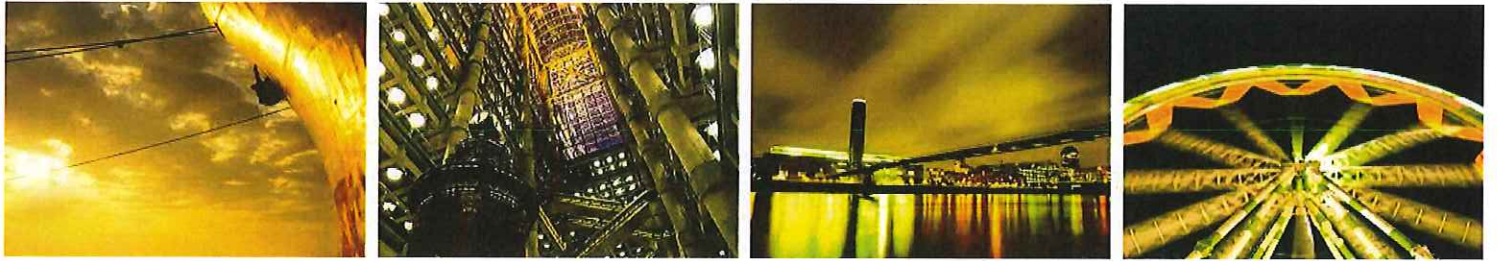
## **Important information about Syndicate Reports and Accounts**

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## Syndicate 1225



## Annual Report and Financial Statements

Year Ended 31 December 2017

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## Financial highlights

<p><b>Total comprehensive income £4.1m</b> <b>(2016: £59.6m)</b></p> <p>In the last five years a cumulative profit of £236m was made.</p>	<p><b>Gross written premium £462m</b> <b>(2016: £377m)</b></p> <p>Further diversification, strengthening and increased underwriting capacity has increased gross written premium by £85m.</p>
<p><b>Combined ratio 99.4% (2016:91.0%)<sup>Note 14</sup></b></p> <p>Strong result despite impact of hurricanes Harvey, Irma and Maria. The average combined ratio for the last five years is 86.8%.</p>	<p><b>Investment income prior to foreign exchange effects £7.9m</b> <b>(2016: £9.1m)</b></p> <p>Underlying investment products performed well generating 1.77% total return (2016: 1.99%).</p>

### Five year financial performance

£ million	2017	2016	2015	2014	2013
Gross written premium	462	377	333	371	367
Underwriting profit	2.1	27.0	67.2	43.0	55.6
Investment income and foreign exchange result	2.0	32.6	2.9	8.0	(10.8)
Total comprehensive income	4.1	59.6	66.3	60.5	45.8
Combined ratio <sup>Note 14</sup>	99.4%	91.0%	77.2%	85.4%	81.0%

**A**

A+ (strong) from Standard & Poor's<sup>1</sup>

**A**

A (Excellent) from A.M. Best<sup>1</sup>

**A**

AA- (very strong) from Fitch<sup>1</sup>

<sup>1</sup> Current insurer financial strength ratings of Lloyd's of London

## Report of the directors of the managing agent

The directors of the managing agent, AEGIS Managing Agency Limited ("the Company"), present their audited annual report and financial statements for Syndicate 1225 ("the Syndicate") for the year ended 31 December 2017.

The Syndicate is, through intermediate holding companies, a wholly aligned Syndicate of Associated Electric & Gas Insurance Services Limited (AEGIS) incorporated in Bermuda.

### 1. Strategic Report

#### Principal activity and review of the business

The principal activity of Syndicate 1225 remains the transaction of specialist insurance and reinsurance business across 21 classes of business underwritten within the Lloyd's of London insurance market. The total premium written as at 31 December 2017 was £462m which saw an increase of £85m on 2016 as a reflection of further diversification initiatives. A significant proportion of the Syndicate's underwriting is sourced from North America.

The business mix is as follows:

	2017	2016	2015	2014	2013
Property	63%	64%	68%	68%	70%
Casualty	37%	36%	32%	32%	30%

#### Total comprehensive income: £4.1m (2016: £59.6m) with a combined ratio of 99.4% (2016: 91.0%)<sup>Note 14</sup>

AEGIS London recorded its twelfth successive year of underwriting profit. However, the underwriting profit has reduced by more than 90% in comparison to 2016. Whilst significant blame can be attached to the catastrophe events of 2017 including hurricanes Harvey, Irma and Maria, underlying poor rate adequacy has meant margin erosion in many classes. Given the circumstances and the market, AEGIS has performed well due to strong underwriting discipline, prudent management of risk appetite and careful control over expenses. The historic consistency of the combined ratio reflects the fact that AEGIS London has managed its risk selection wisely, has refused to write business in areas that are under priced relative to their volatility and has maintained strong relationships with both its clients and brokers in difficult underwriting climate.

#### Investment income

Investment income prior to foreign exchange effects continues to perform well considering the average investable assets (2017: £491.2m) have decreased by 5% when compared to 2016 (£516.0m). The investment income gross of investment management fees and prior to foreign exchange effects formed as a % of the average investable assets is 1.77% for 2017 (2016: 1.99%). AEGIS continues to be a high quality, short duration investor.

The total cash and financial investments of the Syndicate were £434m (2016: £548m):

	2017	2016	2017	2016
	£m	£m	% of Total	% of Total
Fixed income	363	476	84%	87%
Overseas deposits	52	56	12%	10%
Cash	19	16	4%	3%
	434	548		

## Report of the directors of the managing agent

(continued)

### Future developments

The Syndicate's underwriting capacity for 2018 will be increased from £330m (2017) to £362m. In what is a challenging market place, our philosophy of capital preservation will continue whilst soft market conditions continue to prevail. However we are looking for disciplined profitable growth in those classes that still retain a prospective acceptable margin. We anticipate further success with regards to our digital product offerings, we will continue our strategy of multi-channelled distribution whilst continuing to deliver the excellence in underwriting and service that our clients and brokers have come to expect.

### Principal risks and uncertainties

The principal risks to the business have been evaluated through an extensive enterprise risk management programme and relate to future uncertainties of claims reserve risk, investment risk and underwriting risks from both catastrophe and non-catastrophe events. All of these are closely monitored and managed. For further details see note 2 of these financial statements.

### Use of financial instruments

In relation to the use of financial instruments, the financial risk management objectives and policies of the Syndicate as well as the exposure of the Syndicate to risk are discussed in note 2 of these Financial Statements.

## 2. Directors' Report

### Executive Directors

J E Chambers	<i>Director</i>
D P Croom-Johnson	<i>Managing Director</i>
A J P Powell	<i>Active Underwriter</i>
H Smeets-Flier	<i>Chief Financial Officer</i>
G S G Tennyson	<i>Risk &amp; Compliance Director</i>
M C Yeldham	<i>Director</i>

### Non-Executive Directors

W R Dalton	<i>Chairman</i>
T G S Busher	
C D Forbes	
J G Gray	
M L Onslow	
W von Schack	

The current directors of the managing agent are shown above. O M Ryan was appointed on 11 April 2017 and resigned on 29 November 2017.

### Going concern

The Syndicate has considerable financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Syndicate is well positioned to manage its business risks successfully in the current economic environment.

After making enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis for preparing the annual report and financial statements.

### Disclosure of information to auditor

Each director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

## Report of the directors of the managing agent

(continued)

### Independent auditor

The auditor for the year ended 2017 were Deloitte LLP. They have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be re-appointed.

### 3. Statement of managing agent's responsibilities

AEGIS Managing Agency Limited is responsible for preparing the Syndicate annual report and financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare Syndicate annual report and financial statements as at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", FRS 103 "Insurance Contracts" and applicable law). The annual report and financial statements 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 and loss for that year.

In preparing the Syndicate annual report and financial statements, the managing agent is required to:

- a) select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable United Kingdom accounting standards have been followed; and
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

The managing agent is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual report and financial statements 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.

Approved by the Board of Directors of AEGIS Managing Agency Limited and signed on its behalf by:



**D P Croom – Johnson**  
Managing Director  
15 March 2018

## Statement of total comprehensive income

(for the year ended 31 December 2017)

	Notes 14	2017 £m	2016 Restated £m
<b>Technical account – general business</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3,4	462.2	376.7
Outward reinsurance premium		(108.6)	(81.8)
Net premiums written		353.6	294.9
Change in provision for unearned premiums:	10		
Gross amount		(29.8)	(9.7)
Reinsurers' share		7.9	7.1
Change in the net provision for unearned premiums		(21.9)	(2.6)
Earned premiums, net of reinsurance		331.7	292.3
Allocated investment return transferred from the non-technical account		6.8	8.3
Other technical income, net of reinsurance	5	8.9	6.6
<b>Total technical income</b>		<b>347.4</b>	<b>307.2</b>
<b>Claims incurred, net of reinsurance</b>			
Gross claims paid		(208.3)	(175.7)
Reinsurer's share		48.6	25.2
Net claims paid		(159.7)	(150.5)
Change in the provision for claims:	6,10		
Gross amount		(87.0)	(34.1)
Reinsurer's share		55.5	33.2
Change in the net provision for claims		(31.5)	(0.9)
Claims incurred, net of reinsurance		(191.2)	(151.4)
Net operating expenses	5	(147.4)	(120.5)
<b>Total technical charges</b>		<b>(338.6)</b>	<b>(271.9)</b>
<b>Balance on technical account – general business</b>		<b>8.8</b>	<b>35.3</b>

The notes 1 to 14 form an integral part of these financial statements



## Statement of total comprehensive income

(for the year ended 31 December 2017)

	Notes 14	2017	2016 Restated
		£m	£m
<b>Non-technical account</b>			
<b>Balance on the general business technical account</b>		<b>8.8</b>	<b>35.3</b>
Interest income from investments		14.7	14.3
Realised investment gains		0.3	0.2
Realised investment losses		(2.5)	(1.8)
Unrealised gains on investments		-	0.4
Unrealised losses on investments		(3.8)	(2.8)
Investment expenses and investment management charges		(0.8)	(1.2)
Foreign exchange (loss)/gain		(5.5)	19.9
Allocated investment return transferred to the general business technical account		(6.8)	(8.3)
		<hr/>	<hr/>
<b>Profit for the financial year</b>		<b>4.4</b>	<b>56.0</b>
Other comprehensive income – foreign exchange (loss)/gain on conversion to presentational currency		(0.3)	3.6
		<hr/>	<hr/>
<b>Total comprehensive income</b>		<b>4.1</b>	<b>59.6</b>
		<hr/>	<hr/>

All operations of the Syndicate are continuing.

The notes 1 to 14 form an integral part of these financial statements

# Syndicate 1225

For the year ended 31 December 2017

## Balance sheet

(as at 31 December 2017)

	Notes	2017	2016
		£m	£m
<b>ASSETS</b>			
<b>Investments</b>			
Financial investments	9	362.9	475.6
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	10	53.2	50.2
Claims outstanding		206.7	164.5
		<u>259.9</u>	<u>214.7</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations		120.6	109.9
Debtors arising out of reinsurance operations		30.1	16.5
Other debtors		9.9	2.0
		<u>160.6</u>	<u>128.4</u>
<b>Other assets</b>			
Cash at bank and in hand		19.3	16.0
Overseas deposits		52.0	56.6
		<u>71.3</u>	<u>72.6</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		60.2	54.0
Other prepayments and accrued income		4.5	4.1
		<u>64.7</u>	<u>58.1</u>
		<u>919.4</u>	<u>949.4</u>

The notes 1 to 14 form an integral part of these financial statements

# Syndicate 1225

For the year ended 31 December 2017

## Balance sheet

(as at 31 December 2017)

	Notes	2017	2016
		£m	£m
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Members' balances		7.2	107.9
<b>Technical provisions</b>			
	10		
Provision for unearned premium		254.1	240.7
Claims outstanding		595.8	545.9
		<u>849.9</u>	<u>786.6</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations		4.2	3.6
Creditors arising out of reinsurance operations		54.5	43.7
Other creditors including taxation and social security		2.1	6.3
		<u>60.8</u>	<u>53.6</u>
<b>Accruals and deferred income</b>		<u>1.5</u>	<u>1.3</u>
<b>TOTAL LIABILITIES</b>		<u>919.4</u>	<u>949.4</u>

The Syndicate Financial Statements were approved by the Board of Directors of AEGIS Managing Agency Limited (registered number: 03413859) and signed on its behalf by:



**H Smeets-Flier**  
Chief Financial Officer  
15 March 2018

## Statement of changes in members' balances

(for the year ended 31 December 2017)

	2017	2016
	£m	£m
Members' balances brought forward at 1 January	107.9	107.8
Profit for the financial year	4.4	56.0
Other comprehensive income– foreign exchange (loss)/gain on conversion to presentational currency	(0.3)	3.6
Foreign exchange movement on profit distribution	(0.9)	-
Transfer out of Funds In Syndicate	(40.4)	(9.1)
Profit distribution	(63.5)	(50.4)
	<hr/>	<hr/>
Members' balances carried forward at 31 December	7.2	107.9
	<hr/>	<hr/>

Members participate on the Syndicate by reference to years of account (YOA) 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. As a result of the Transfer out of Funds in Syndicate other appropriate forms of capital were accepted by Lloyd's.

## Notes to the Financial Statements

(Forming part of the financial statements)

### 1. Basis of preparation

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in September 2015, and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in February 2017. In accordance with FRS 102 the financial statements are prepared under the historical cost convention as modified by financial instruments recognised at fair value. Because the corporate members of the Syndicate are all owned by the same corporate Group, the Syndicate's financial statements are fully consolidated within the financial statements of the ultimate parent and controlling company, Associated Electric & Gas Insurance Services Limited (AEGIS), which are publically available and may be obtained at 1 Meadowlands Plaza, East Rutherford, NJ 07073.

The Syndicate therefore meets the definition of a qualifying entity under FRS 102 and has taken advantage of certain disclosure exemptions available to it in respect of its separate financial statements. Exemptions have been taken in these separate Syndicate financial statements in relation to presentation of a cash flow statement.

### Principal Accounting Policies

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

#### Insurance contracts premium

Gross premium written comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a 365ths basis. For premium written under facilities, such as binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of premium written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the Statement of comprehensive income in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable.

#### Reinsurance premium ceded

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 1. Basis of Preparation *(continued)*

#### Insurance contracts liabilities: claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the underwriting divisions within the Syndicate have been regarded as groups of business that are managed together.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made. There have been no changes in assumptions used to measure insurance assets and insurance liabilities during the year.

#### Investments

Equity investments in non-convertible preference shares and non-puttable ordinary or preference shares are measured at fair value through profit or loss. All debt instruments are designated as fair value through profit or loss and are therefore also measured as such. The best evidence of fair value is a quoted price for an identical assets in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The cost of the Syndicate investments held at the balance sheet date is deemed to be the aggregate of the value of investments held at the balance sheet date, and the cost of any new investments acquired during the year.

#### Overseas deposits

Overseas deposits are stated at the market value ruling at the balance sheet date.

#### Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges. Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the non-technical account. A transfer is then made from the non-technical account to the technical account.

#### Taxation

No provision has been made in respect of UK income tax on trading income. It is the responsibility of members to settle their tax liabilities.

Overseas taxation comprises US Federal Income tax and Canadian Federal Income tax. The amounts charged to members are collected centrally through Lloyd's Members' Services Unit as part of the members' distribution process. The ultimate tax liability is the responsibility of each individual underwriting member.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 1. Basis of Preparation *(continued)*

#### Foreign currencies

In accordance with FRS 102, the functional currency of the Syndicate is US dollars as this is the currency of the primary economic environment in which the entity operates and is the one in which it primarily generates and expends cash. The presentational currency of the Syndicate is Sterling, which is common for Syndicates at Lloyd's.

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in Non-technical account. This is a change in treatment in comparison to the prior year, due to the requirements by the Insurance Accounts Directive. Consequently, the prior year balance has been restated to comply with this requirement. Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded as Other Comprehensive Income as per FRS103.

#### Insurance debtors and creditors

In the normal course of business, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, comprise respectively the totals of all the Syndicate's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

#### Syndicate operating expenses

Costs incurred by the managing agent exclusively for the Syndicate are charged to the Syndicate on an accruals basis.

Expenses incurred jointly by the managing agent and the Syndicate are charged through an annual management charge. The charge reflects the expected costs of services to be provided to the Syndicate and does not include any profit element.

#### Retirement benefit costs

AEGIS Managing Agency Ltd operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate and included within net operating expenses.

#### Going concern

The Syndicate's business activities, together with the factors likely to affect its future development, performance and position are set out in the strategic report and director's report. Its forecasts and projections, taking account of reasonably possible changes in trading performance, show that the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. In addition, the directors have a reasonable expectation that capital will be available to support future underwriting activities. Accordingly they continue to adopt the going concern basis in preparing the annual report and Financial Statements.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 2. Principal risks and uncertainties

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

#### Underwriting risk

The Syndicate accepts underwriting risk in a range of classes of business. The bias of the portfolio is towards short-tail property and accident risk but liability coverage is also underwritten.

In underwriting insurance or reinsurance policies the Syndicate's underwriters use their skill, knowledge and data on past claims experience to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. The business plan is subject to Lloyd's scrutiny and monitoring. Progress against this plan is monitored during the year. The Syndicate also operates under a line guide which determines the maximum liability per policy which can be written for each class and for each underwriter. These can be exceeded in exceptional circumstances but only with the approval of senior management. The Syndicate is also exposed to catastrophe losses which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the reinsurance arrangements section below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, that use their judgement to write risks on our behalf under clear authority levels. We have a regular process of coverholder audits performed during the year.

The insurance liabilities underwritten by the Syndicate are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise that in aggregate exceeds the reserve provision established.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

#### Reinsurance arrangements

The Syndicate purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. The Syndicate also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover. For information on credit risk in respect of reinsurance debtors see the Credit Risk section.



## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 2. Principal risks and uncertainties *(continued)*

#### Risk appetite

The Syndicate has a defined event risk appetite which seeks to limit its maximum net loss from major catastrophe event scenarios.

These maximum losses are expected only to be incurred in extreme events. The Syndicate also adopts risk appetite maximum net limits for a number of other non-elemental scenarios including, for example, a marine collision and an offshore rig loss.

The risk appetite policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against the event risk appetite. The following assumptions and procedures are used in the process:

- the data used reflects the information supplied to the Syndicate by insured and ceding companies. This may prove to be inaccurate or could develop during the policy period;
- the exposures are modelled using a mixture of stochastic models and underwriter input to arrive at 'damage factors' – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate;
- the reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is included but may prove to be inadequate; and
- reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be an unmodelled loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

#### Claims reserves

Claims reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% variation in the total net claims reserves would be £3.9m (2016: £3.8m).

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of legal advisers.

Property catastrophe claims such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Syndicate. There is uncertainty over the adequacy of information and modelling of major losses for a period of several months after a catastrophe loss. Consideration should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes, for which a large IBNR has to be established, represent the most difficult classes to reserve because claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for US liability written on a losses occurring basis.

The use of historical development data, adjusted for known changes to wordings or the claims environment, is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 2. Principal risks and uncertainties *(continued)*

#### Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. A credit risk could therefore have an impact upon the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. Syndicate 1225 is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

As well as an actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's ability to perform these duties in a timely manner. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The Syndicate's investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security and exposure limits prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on rating agency review and the Syndicate's own ratings for each reinsurer. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer.

Credit risk in respect of premium debt is overseen by the AEGIS Managing Agency Limited's Security Committee. The key controls include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

#### 2017

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Debt securities	86.4	55.3	73.1	41.1	57.0	-	312.9
Loans with credit institutions	16.0	34.0	-	-	-	-	50.0
Overseas deposits as investments	31.7	6.8	7.3	4.5	-	1.7	52.0
Reinsurer' share of claims outstanding	4.6	5.5	196.6	-	-	-	206.7
Reinsurers Debtors	1.5	0.3	5.4	-	-	-	7.2
Cash at bank and in hand	-	-	19.3	-	-	-	19.3
<b>Total credit risk</b>	<b>140.2</b>	<b>101.9</b>	<b>301.7</b>	<b>45.6</b>	<b>57.0</b>	<b>1.7</b>	<b>648.1</b>

#### 2016

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Debt securities	116.9	43.1	90.5	80.3	58.4	0.6	389.8
Loans with credit institutions	40.9	44.9	-	-	-	-	85.8
Overseas deposits as investments	35.5	9.5	6.7	3.1	-	1.8	56.6
Reinsurer' share of claims outstanding	-	6.7	157.7	-	-	0.1	164.5
Reinsurers Debtors	-	-	-	-	-	-	-
Cash at bank and in hand	-	-	16.0	-	-	-	16.0
<b>Total credit risk</b>	<b>193.3</b>	<b>104.2</b>	<b>270.9</b>	<b>83.4</b>	<b>58.4</b>	<b>2.5</b>	<b>712.7</b>

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 2. Principal risks and uncertainties *(continued)*

At 31 December 2017, total cash and investments amounted to £434.2m, of which 84% relates to debt and other fixed income securities and loans with credit institutions. The residual element of the portfolio relates to cash, overseas deposits. The portfolio remains of high quality, as illustrated by the asset allocation table shown above. The credit ratings on debt securities are composite ratings based on Standard & Poor's, Moody's and Fitch. Collateral held in the form of short term investments and cash in trust of £112.4m (2016: £65.0m) is held as security in support of reinsurer's share of claims outstanding.

The following table analyses the age of reinsurance and insurance debtors, that are past due but not impaired:

#### 2017

	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Reinsurance debtors	14.2	15.7	-	0.2	-	30.1
Insurance debtors	111.7	6.0	2.5	0.2	0.2	120.6
<b>Total insurance and reinsurance debtors</b>	<b>118.7</b>	<b>28.6</b>	<b>2.6</b>	<b>0.2</b>	<b>0.6</b>	<b>150.7</b>

#### 2016

	Neither due nor impaired Restated	Up to three months	Three to six months	Six months to one year	Greater than one year	Total Restated
	£m	£m	£m	£m	£m	£m
Reinsurance debtors	6.2	10.3	-	-	-	16.5
Insurance debtors	102.6	6.4	0.5	0.1	0.3	109.9
<b>Total insurance and reinsurance debtors</b>	<b>108.8</b>	<b>16.7</b>	<b>0.5</b>	<b>0.1</b>	<b>0.3</b>	<b>126.4</b>

There have been no material changes to the Syndicate's policies and processes for managing credit risk, or its exposure to credit risk, from the prior financial period.

#### Valuation risk

The Syndicate's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits, and SSAE 16 reports are obtained. The Syndicate's investment managers operate within guidelines which are set and regularly reviewed by the management of the Syndicate for investment duration, credit quality and appropriate benchmarks. There have been no material changes to Syndicate's policies or processes for managing or exposure to valuation risk from the prior financial period.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 2. Principal risks and uncertainties *(continued)*

#### Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Syndicate's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security; the greater its price volatility. This risk is mitigated by continual review of our investment strategies. Overall the Syndicate seeks to balance the potential for adverse results arising from interest rate movements against investment return. There have been no material changes to the Syndicate's policies or processes for managing to interest rate risk, or exposure to interest rate risk, from the prior financial period.

An analysis of the Syndicate's sensitivity to interest rate risk is presented in the table below:

	2017	2016
	£m	£m
Impact of 50 basis point increase on result	(4.3)	(5.2)
Impact of 50 basis point decrease on result	4.3	5.2
Impact of 50 basis point increase on net assets	(4.3)	(5.2)
Impact of 50 basis point decrease on net assets	4.3	5.2

#### Foreign exchange risk

Policyholders' assets are held in the base currencies of Sterling, US dollars Canadian dollars, Euros, Australian Dollar, and Japanese Yen, which represent the majority of the Syndicate's liabilities by currency. This limits underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-base currencies. These transactions are converted into sterling at the prevailing spot rate once the premium is received. Consequently there is exposure to currency movements between the exposure being written and the premium being converted. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Syndicate is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk is mitigated by internal monitoring which includes asset and liability matching. It is not management's intention to take speculative currency positions in order to make currency gains. Overall the Syndicate's foreign exchange risk appetite seeks to minimise the potential for adverse results arising from foreign exchange rate movements. There have been no material changes to the Syndicate's policies or processes for managing foreign exchange risk, or exposure to foreign exchange risk, from the prior financial period.

#### Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis. Liquid assets are also held in excess of the immediate requirements to avoid the Syndicate having to be a forced seller of any of its assets, which may result in prices below market value being realised, especially in periods of below normal investment market activity. This practice of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch.

Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios.

The table below shows the maturity profiles of the Syndicate's claims outstanding and creditor balances

#### 2017

	0-1 year	1-3 years	3-5 years	>5 years	Total
	£m	£m	£m	£m	£m
Claims Outstanding	233.9	223.9	103.3	34.7	595.8
Creditors	60.8	-	-	-	60.8
<b>Total claims outstanding and creditors</b>	<b>294.7</b>	<b>223.9</b>	<b>103.3</b>	<b>34.7</b>	<b>656.6</b>

## Notes to the Financial Statements (continued)

(Forming part of the financial statements)

### 2. Principal risks and uncertainties (continued)

2016

	0-1 year	1-3 years	3-5 years	>5 years	Total
	£m	£m	£m	£m	£m
Claims Outstanding	152.5	262.4	100.3	30.7	545.9
Creditors	53.3	0.3	-	-	53.6
<b>Total claims outstanding and creditors</b>	<b>205.8</b>	<b>262.7</b>	<b>100.3</b>	<b>30.7</b>	<b>599.5</b>

#### Regulatory risk

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the Prudential Regulation Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. AEGIS London has a Compliance Officer who monitors regulatory developments and assesses the impact on our policy.

#### Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Syndicate. The Syndicate manages these risks through internal compliance monitoring and the use of detailed procedure manuals. In addition, AEGIS London has an Internal Audit department which assists the business to meet the strategic and operational objectives of the Syndicate through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

### 3. Segmental analysis

The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

2017	Gross premiums written	Gross premium earned	Gross claims incurred	Net operating expenses	Reinsurance balance
	£m	£m	£m	£m	£m
Marine, aviation and transport	65.7	60.9	(51.4)	(19.7)	3.9
Fire and other damage to property	169.7	161.2	(128.8)	(50.8)	7.9
Third party liability	124.6	104.0	(43.9)	(37.3)	(8.8)
Miscellaneous	8.7	4.4	(1.4)	(11.6)	(0.5)
	<b>368.7</b>	<b>330.5</b>	<b>(225.5)</b>	<b>(119.4)</b>	<b>2.5</b>
Reinsurance acceptances	93.5	101.9	(69.8)	(28.0)	0.9
	<b>462.2</b>	<b>432.4</b>	<b>(295.3)</b>	<b>(147.4)</b>	<b>3.4</b>

2016	Gross premiums written	Gross premium earned	Gross claims incurred	Net operating expenses Restated	Reinsurance balance
	£m	£m	£m	£m	£m
Marine, aviation and transport	58.0	60.3	(48.1)	(17.5)	1.1
Fire and other damage to property	142.6	136.4	(72.3)	(43.0)	(7.6)
Third party liability	87.4	76.7	(42.8)	(26.5)	(3.7)
Miscellaneous	4.8	4.2	(1.9)	(8.1)	(0.3)
	<b>292.8</b>	<b>277.6</b>	<b>(165.1)</b>	<b>(95.1)</b>	<b>(10.5)</b>
Reinsurance acceptances	83.9	89.4	(44.7)	(25.4)	(5.8)
	<b>376.7</b>	<b>367.0</b>	<b>(209.8)</b>	<b>(120.5)</b>	<b>(16.3)</b>

The net assets of Syndicate 1225 are managed as a whole and are not allocated to a separate business segment.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 4. Brokerage

Gross premiums written are stated before the deduction of brokerage. Brokerage for the year was £118m (2016: £91m).

### 5. Profit for the year

#### Net operating expenses include:

	2017	2016 Restated
	£m	£m
Acquisition expenses	118.2	91.2
Change in net deferred acquisition costs	(9.8)	(4.7)
Administrative expenses	39.0	34.0
	<u>147.4</u>	<u>120.5</u>

#### Administrative expenses include:

	2017	2016
	£000	£000
Auditor's remuneration		
- Syndicate audit	83.8	71.0
- Other services pursuant to legislation: regulatory audits	87.2	64.6
	<u>171.0</u>	<u>135.6</u>

Member's standard personal expenses are included within administrative expenses. Other technical income, net of reinsurance, includes reinsurance commissions and profit participation income of £8.9m (2016: £6.6m).

### 6. Prior years' claims provision

The provision for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims provision are as follows:

	2017	2016
	£m	£m
Marine, aviation and transport	(0.8)	6.2
Fire and other damage to property	3.3	12.2
Third party liability	29.7	8.4
Miscellaneous	5.3	1.0
	<u>37.5</u>	<u>27.8</u>
Favourable movement in technical provisions		

The movement in technical provisions forms an 11% (2016: 10%) component of the loss ratio for 2017: 58% (2016: 52%).

## Notes to the Financial Statements *(continued)* (Forming part of the financial statements)

### 7. Staff numbers and costs

#### Employees

The average number of employees employed by AEGIS Managing Agency Limited during the year was as follows:

	Note 14	2017	2016 Restated
Administration and finance		52	47
Underwriting and reinsurance		57	55
Claims		8	8
		<u>117</u>	<u>110</u>

#### Salary costs

The following amounts were recharged to the Syndicate in respect of salary costs:

	2017 £m	2016 £m
Wages and salaries	11.3	11.0
Social security costs	1.5	1.3
Other pension costs	1.4	1.4
	<u>14.2</u>	<u>13.7</u>

### 8. Directors' remuneration

AEGIS Managing Agency Limited charged the Syndicate the following amounts in respect of remuneration paid to its directors and the active underwriter of the Syndicate:

	2017 £m	2016 £m
Emoluments	1.9	1.7
Pension contributions	0.1	0.2
	<u>2.0</u>	<u>1.9</u>

The following aggregate remuneration was charged to the Syndicate in respect of persons holding the position of active underwriter:

	2017 £m	2016 £m
Emoluments	<u>0.3</u>	<u>0.3</u>

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 9. Financial investments

Financial assets Measured at fair value through profit or loss	At valuation		At cost	
	2017 £m	2016 £m	2017 £m	2016 £m
Debt securities & other fixed income securities	312.9	389.8	306.4	386.9
Loans guaranteed by mortgage	50.0	85.8	50.0	86.3
	<b>362.9</b>	<b>475.6</b>	<b>356.4</b>	<b>473.2</b>
<b>Financial assets Measured at amortised cost</b>			<b>2017 £m</b>	<b>2016 £m</b>
Insurance and reinsurance receivables			150.7	126.4
Other debtors			9.9	2.0
<b>Financial liabilities Measured at amortised cost</b>				
Insurance and reinsurance payables			58.7	47.3
Other creditors including taxation and social security			2.1	6.3

All overseas deposits £52.0m (2016: £56.6m) are held at fair value through profit or loss.

Loans guaranteed by mortgage listed on recognised stock exchanges have a carrying value of £4.4m (2016: £85.8m). Debt securities and other fixed income securities listed on recognised stock exchanges have a carrying value of £172.3m (2016: £272.7m). All investments are held at fair value through profit or loss as per the accounting policy note. All income and expense and unrealised gains and losses as a change in the fair value on these investments are presented on the face of the Statement of Total Comprehensive Income £2.4m (2016: £29.0m).

The Syndicate classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy, as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Prices based on recent transactions in identical assets (either unadjusted or adjusted)

Level 3 – Prices determined using a valuation technique

The table below analyses financial instruments and overseas deposits held at fair value in the Syndicate's balance sheet at the reporting date by its level in the fair value hierarchy.

#### 2017

	Level 1 £m	Level 2 £m	Level 3 £m	Balance Sheet Position £m
Debt securities and other fixed income securities	100.6	212.3	-	312.9
Loans and deposits with credit institutions	-	50.0	-	50.0
Overseas deposits	7.3	44.7	-	52.0
<b>Total</b>	<b>107.9</b>	<b>307.0</b>	<b>-</b>	<b>414.9</b>



## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 9. Financial investments *(continued)*

2016

	Level 1	Level 2	Level 3	Balance Sheet Position
	£m	£m	£m	£m
Debt securities and other fixed income securities	80.9	308.9	-	389.8
Loans and deposits with credit institutions	-	85.8	-	85.8
Overseas deposits	8.7	47.9	-	56.6
<b>Total</b>	<b>89.6</b>	<b>442.6</b>	<b>-</b>	<b>532.2</b>

### 10. Technical provisions

	Provision for unearned premium	Provision for claims outstanding	Deferred acquisition costs	Total
	£m	£m	£m	£m
<b>Gross</b>				
At 1 January 2017	(240.7)	(545.9)	54.0	(732.6)
Movement in technical account	(29.8)	(87.0)	9.8	(107.0)
Foreign exchange movement	16.4	37.1	(3.6)	49.9
<b>At 31 December 2017</b>	<b>(254.1)</b>	<b>(595.8)</b>	<b>60.2</b>	<b>(789.7)</b>
<b>Reinsurance</b>				
At 1 January 2017	50.2	164.5	-	214.7
Movement in technical account	7.9	55.5	-	63.4
Foreign exchange movement	(4.9)	(13.3)	-	(18.2)
<b>At 31 December 2017</b>	<b>53.2</b>	<b>206.7</b>	<b>-</b>	<b>259.9</b>
<b>Net</b>				
<b>At 31 December 2017</b>	<b>(200.9)</b>	<b>(389.1)</b>	<b>60.2</b>	<b>(529.8)</b>
<b>At 31 December 2016</b>	<b>(190.5)</b>	<b>(381.4)</b>	<b>54.0</b>	<b>(517.9)</b>

The exchange rate movement reflects the opening provision at opening vs closing rates of exchange together with the difference between the technical account movement at average vs closing rates of exchange.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 11. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2017 in all cases. Gross claims ratios represent gross ultimate claims divided by gross ultimate premiums, and the net claims ratios represent ultimate claims net of reinsurance divided by ultimate premiums net of reinsurance.

<b>Gross ultimate claims and ratios</b>	<b>2012 &amp;prior</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
At end of underwriting year	-	57%	58%	61%	64%	70%	-
One year later	-	62%	53%	56%	70%	-	-
Two years later	-	59%	55%	56%	-	-	-
Three years later	-	58%	51%	-	-	-	-
Five years later	-	56%	-	-	-	-	-
Total ultimate losses (£m)	2,298.8	221.4	217.7	212.5	287.6	310.2	3,548.2
Less cumulative paid claims (£m)	(2,183.3)	(170.7)	(156.1)	(98.2)	(112.2)	(24.7)	(2,745.2)
Less unearned portion of ultimate losses (£m)	-	-	-	(9.2)	(22.1)	(175.9)	(207.2)
<b>Gross claims liabilities (£m)</b>	<b>115.5</b>	<b>50.7</b>	<b>61.6</b>	<b>105.1</b>	<b>153.3</b>	<b>109.6</b>	<b>595.8</b>

<b>Net ultimate claims and ratios</b>	<b>2012 &amp;prior</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>Total</b>
At end of underwriting year	-	57%	56%	58%	58%	62%	-
One year later	-	57%	51%	53%	60%	-	-
Two years later	-	54%	52%	52%	-	-	-
Three years later	-	52%	49%	-	-	-	-
Five years later	-	51%	-	-	-	-	-
Total net ultimate losses (£m)	1,624.5	166.7	174.5	165.4	199.0	217.6	2,547.7
Less cumulative paid claims (£m)	(1,544.1)	(138.0)	(133.3)	(87.1)	(87.6)	(17.6)	(2,007.7)
Less unearned portion of ultimate losses (£m)	-	-	-	(4.0)	(14.8)	(132.1)	(150.9)
<b>Net claims liabilities (£m)</b>	<b>80.4</b>	<b>28.7</b>	<b>41.2</b>	<b>74.3</b>	<b>96.6</b>	<b>67.9</b>	<b>389.1</b>

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 11. Claims development *(Continued)*

The below tables show the pure year earned claims reserves and cumulative payments, gross and net of reinsurance.

Gross reserves and payments	2012	2013	2014	2015	2016	2017
	£m	£m	£m	£m	£m	£m
At end of underwriting year	123.0	99.7	108.8	98.1	96.7	134.2
One year later	192.1	235.1	208.7	198.0	265.6	-
Two years later	185.1	232.0	230.7	207.9	-	-
Three years later	180.4	228.3	215.7	-	-	-
Four years later	175.2	221.0	-	-	-	-
Five years later	173.6	-	-	-	-	-
Cumulative payments	(142.3)	(170.7)	(156.1)	(98.2)	(112.2)	(24.7)
<b>Estimated balance to pay</b>	<b>31.3</b>	<b>50.3</b>	<b>59.6</b>	<b>109.7</b>	<b>153.4</b>	<b>109.5</b>

Net reserves and payments	2012	2013	2014	2015	2016	2017
	£m	£m	£m	£m	£m	£m
At end of underwriting year	92.7	82.0	87.8	76.0	68.9	85.2
One year later	157.1	182.1	170.0	157.8	184.4	-
Two years later	148.3	178.9	183.0	163.7	-	-
Three years later	142.7	170.9	172.9	-	-	-
Four years later	139.9	166.7	-	-	-	-
Five years later	139.4	-	-	-	-	-
Cumulative payments	(116.5)	(138.0)	(133.3)	(87.1)	(87.6)	(17.6)
<b>Estimated balance to pay</b>	<b>22.9</b>	<b>28.7</b>	<b>39.6</b>	<b>76.6</b>	<b>96.8</b>	<b>67.6</b>

### 12. Related parties

The ultimate parent company of AEGIS Managing Agency Limited (AMAL) is Associated Electric & Gas Insurance Services Limited (AEGIS) incorporated in Bermuda.

AMAL recharges the Syndicate expenses incurred by AMAL in connection with the Syndicate's underwriting business. These recharges include a proportion of the remuneration payable in respect of the executives of AMAL. The total recharge for the year was £18.2m (2016: £18.0m). The balance owed to AMAL at 31 December 2017 was £0.3m (2016: £3.5m).

In turn, the Syndicate recharges AEGIS the cost of certain expenses incurred by the Syndicate on behalf of AEGIS. During the year, the net amount of these recharges was £0.4m income to the Syndicate.

### Service Company

AEGIS London Holdings Limited, the company which owns the capital providers of the Syndicate, has a 100% subsidiary which introduces business to the Syndicate. The service company premium income received by the Syndicate is £9.8m (2016: £4.5) relating to the Hull and Canadian Non-Marine Property classes of business.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 12. Related parties *(Continued)*

The underwriting transactions of AEGIS London Services Limited are included in that of the Syndicate. AEGIS London Services Limited receives agency fees to the value of 5% of gross written premiums placed with the Syndicate. No fees are paid by AEGIS London Services Limited to any of the directors of AEGIS Managing Agency Limited.

#### Transactions with Directors

Certain directors of the managing agent are also directors of other companies, which may, and in some instances do, conduct business with Syndicate 1225. In all cases transactions between the Syndicate are carried out on normal arm's length commercial terms without any involvement by the director concerned on either side of the transaction.

### 13. Funds at Lloyd's

#### 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 and in accordance with the Solvency II framework.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at the 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 the Syndicate level. Accordingly the capital requirement in respect of Syndicate 1225 is not disclosed in these financial statements.

#### Lloyd's capital setting process

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

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

#### Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (Funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the balance sheet on page 8, represent resources available to meet members' and Lloyd's capital requirements.

## Notes to the Financial Statements *(continued)*

*(Forming part of the financial statements)*

### 14. Prior year restatement

Under FRS103 any foreign exchange movements reported through the Profit & Loss in the non-technical account on the statement of comprehensive income. This treatment also maintains consistency with the Lloyd's Quarterly Monitoring Return ("QMA"). The Foreign exchange results were previously reported under the technical account in 2016. The following restatement has been made to the 2016 comparatives:

	As previously reported	Restatement	2016 Restated
	£m	£m	£m
Net operating expenses	(109.1)	(11.4)	(120.5)
Non-technical account foreign exchange (loss)/gain	8.5	11.4	19.9
Total Comprehensive Income	59.6	-	59.6

The above restatements resulted in no change to Total Comprehensive Income but an increase in the Non-technical account foreign exchange (loss)/gain and corresponding decrease in the technical account under Net operating expenses. Due to the increase of the Net operating expenses, this has increased the combined ratio calculation for 2016 to 91.0% (previously reported: 87.2%). Restatements have been made in respect to the combined ratios 2013, 2014 and 2015 in order to follow the same basis as above.

The restatement of note 7. Staff numbers and costs has been made to correctly disclose the average number of employees employed by AEGIS Managing Agency Limited for the prior year.

	As previously reported	2016 Restated
Administration and finance	51	47
Underwriting and reinsurance	55	55
Claims	8	8
	<u>114</u>	<u>110</u>

## Independent auditor's report to the members of Syndicate 1225 of the syndicate annual report and financial statements

### Opinion

In our opinion the syndicate annual financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual financial statements of Syndicate 1225 (the 'syndicate') which comprise:

- the statement of total comprehensive income;
- the balance sheet;
- the statement of changes in members' balances; and
- the related notes 1 to 14.

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

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the syndicate annual financial statements section of our report.

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the 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 are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

## Independent auditor's report to the members of Syndicate 1225 of the syndicate annual report and financial statements *(continued)*

### Other information

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

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

We have nothing to report in respect of these matters.

### Responsibilities of managing agent

As explained more fully in the managing agent's responsibilities statement, the managing agent is responsible for the preparation of the syndicate annual financial statements and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

### Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Independent auditor's report to the members of Syndicate 1225 of the syndicate annual report and financial statements *(continued)*

### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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

- the information given in the strategic report and the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the managing agent's report have been prepared in accordance with applicable legal requirements.

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

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

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

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

We have nothing to report in respect of these matters.



Alexander Arterton BSc ACA (Senior statutory auditor)  
for and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
15 March 2017



## Administration

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*AEGIS Syndicate 1225 at Lloyd's of London ("AES 1225") commenced operations in 1999. AEGIS Syndicate 1225 (TM) operations are supported by AEGIS London, also known as AEGIS Managing Agency Limited ("AMAL"), which provides professional staff and services for AES 1225. AEGIS Electric & Gas International Services Limited ("AEGIS International") is a corporate member of Lloyd's and the main capital provider of AES 1225. AEGIS International, AMAL, AEGIS London Services Limited, AEGIS Electric & Gas International Services 2 Ltd, AEGIS Electric & Gas International Services 3 Ltd, AEGIS Electric & Gas International Services 4 Ltd and AEGIS Electric & Gas International Services 5 Ltd are subsidiaries of AEGIS through AEGIS Holding Inc.*