

SYNDICATE 2791

Report and Financial Statements
31 December 2018

MAP

Underwriting at Lloyd's

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CHAIRMAN'S REPORT

There is very little I can add to Richard's excellent analysis of market conditions and of the causes of poor performance in Lloyd's and elsewhere. He and the team have kept their nerve and their principles throughout the longest soft market in at least 50 years. While 2017 and 2018 have been particularly difficult underwriting years, the strong reserving levels, low cost base and experienced underwriting team should ensure that MAP is very well positioned to take maximum advantage of the market disruption we are now seeing.

It will be important to keep our feet on the ground and not get carried away by modest improvements in market conditions, and I have every confidence that Richard and Aidan and their colleagues have the analytical skills and strength of purpose to make the most of such opportunities as arise. It is critically important that Lloyd's Franchise Performance department recognise the uniquely disciplined stance the syndicate has taken over the last decade, and allow the syndicate to rebuild its book as conditions permit, and there are encouraging signs that they have taken this on board.

Beyond Lloyd's, as well as the repeated failure of the proprietary models to capture the real drivers of natural perils losses, we are starting to see signs of seriously inadequate reserving for casualty exposures. Twice in my working life this combination has caused significant change in the market, and now that the days of free money seem to be over, the same cause should deliver the same outcome – it usually does!

D E S Shipley

Chairman

19 March 2019

SYNDICATE 2791

Underwriting Year Distribution Accounts

2016 Closed Year of Account

31 December 2018

DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Managing Agent

Managing Agency Partners Limited (MAP)

Directors

K Allchorne (Non-executive)

C E Dandridge (Non-executive)

J D Denoon Duncan

A S Foote (Non-executive)

T P Froehlich (Non-executive)

A Kong

P Langridge

A J T Milligan (Non-executive resigned 31 October 2018)

D E S Shipley (Non-executive Chairman)

C J Smelt

R J Sumner

R K Trubshaw (Active Underwriter)

Company Secretary

P Langridge

Managing Agent's Registered Office

Fitzwilliam House

10 St. Mary Axe

London

EC3A 8EN

Managing Agent's Registration

Registered in England; number: 03985640

SYNDICATE

Active Underwriter

R K Trubshaw

Principal Investment Managers

Schroders Investment Management Limited

Registered Auditor

Deloitte LLP

Hill House

1 Little New Street

London

EC4A 3TR

MANAGING AGENT'S REPORT

The managing agent presents its report for the 2016 year of account of Syndicate 2791 as closed at 31 December 2018.

These financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("2008 Regulations") and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied. Separate annual accounts under UK GAAP on the calendar year results are available to all the syndicate's members (see pages 34 to 78).

UNDERWRITER'S REPORT

2016 Year of Account

Capacity £399.1 million

The 2016 year has closed with a profit of £33.0m distributable to members, equivalent to 8.3% of stamp capacity, compared with the forecast range of 2.5% to 7.5%. Absent a £19.4m back-year release the 2016 pure year result would be 4.4%. The year benefitted from the closure of a long-running subrogation recovery emanating from the terror attack against the World Trade Center in 2001, contributing 1.5% to the bottom-line result.

Development of Closed Years (2015 and prior)

The total gross IBNR ('incurred but not reported') reserve, less future premiums, has increased marginally from £144.2m to £145.6m at year end rates of exchange (£1 = US\$1.27). £10.0m or 6.9% of this reserve was utilised in the calendar year, which is a little less than the five year average of 7.2%. There has been no fundamental change in either our reserving strategy or our ultimate completion factors.

The long-tail casualty classes account for around 11% of the back-year release, and constitute around 44% of the total remaining IBNR reserve (last year 48%). Older years continue to settle down relatively smoothly, whereas more recent years have experienced a much greater degree of volatility, and have been strengthened accordingly.

Roughly 40% (last year 50%) of the remaining short-tail reserve (constituting 28% of the overall total) relates to catastrophes, in particular the international cat events of 2010/11 (defined as Chile, NZ, Japan and Thailand), plus Superstorm Sandy. As at year end, across all years of account, the syndicate had gross incurred losses from the international cat events of \$32.1m (\$33.1m last year) with a further IBNR provision of \$1.9m (\$2.9m last year). For Superstorm Sandy our expected ultimate gross loss across all years of account is \$109.8m (\$110.8m last year), of which \$91.7m had been incurred at year end (\$91.0m last year). We remain cautious in evaluating the potential development of flood losses, in particular those affecting large risk policies in Metropolitan New York, which are likely to take years to fully settle out.

The balance of our total IBNR reserves (28%) relates largely to Auto, which in more recent years has grown to be a larger proportion of the book. From 2012-16 we wrote a large Irish motor account, whose performance has failed to match our initial expectations, although we feel it is prudently reserved.

Pure Year 2016

Utilisation of capacity

The final utilisation was 39% at closing rates of exchange. The reinsurance spend was £42.8m or 27.4% of written premium net of acquisition costs, 12% of which was ceded via a US catastrophe quota share to Syndicate 6103.

Performance review

We retreated pretty much down to our core book, which we defended as appropriate. Premium volume is similar to that in 2015, although the projected ultimate gross loss ratio is some 15 percentage points worse, in no small part reflecting the deterioration in terms and conditions over the period. Furthermore, in its final year our Irish motor account represents over 20% of gross income, and is reserved at a break-even underwriting result.

There is \$3.2m of expected ultimate loss falling back to 2016 from the catastrophe events of 2017 (Harvey, Irma, Maria and the Californian wildfires), of which \$2.6m had been incurred at year end.

MANAGING AGENT'S REPORT

continued

UNDERWRITER'S REPORT *continued*

2016 Year of Account *continued*

Analysis of premium written by syndicate classification

	Gross written £'000	Net written £'000
Property reinsurance	79,363	61,537
Direct and facultative property	20,303	15,953
Marine and offshore energy	7,347	6,835
Motor	58,736	40,429
Third party liability	8,802	8,802
Accident and health	7,329	7,329
Specialist lines	2,207	2,207
Terrorism and political risks	2,166	2,166
Total	186,253	145,258

Investment Return

The investment return generated over the last three years has contributed £3.8m to the 2016 closed year result. The calendar year returns net of expenses in each period were; 1.3% in 2016, 3.3% in 2017 and 0.7% in 2018.

In line with established policy, the 2016 year of account receives a proportion of the investment performance of the three calendar years as determined by a formula which measures assets held in each year of account and allocates the result accordingly.

The Effect of Exchange Rates on the 2016 Distribution Account

These accounts are reported over the three consecutive years from 2016, during which the GBP:USD exchange rate has moved from an average of 1.35 to a closing rate of 1.27 at the end of 2018. This has resulted in an exchange gain versus the average rates of £1.3m over the three year period as further set out in note 13.

Reinsurance Debtors

Recoverable amounts from reinsurers amount to £45.1m virtually all of which is current. There are no provisions for bad debts on the syndicate's reinsurance balances.

An analysis of the security rating for the debtors within our statement of financial position at 31 December 2018 is set out below:

Debt table by security rating

	On paid claims £m	On outstanding claims £m	On IBNR £m	Total £m
Standard & Poor's rating				
A	4.3	22.6	18.2	45.1
Not rated	(0.1)	-	0.1	-
	4.2	22.6	18.3	45.1

The negative paid claim figure in the not rated section is a repayment due to one of our reinsurers caused by a reduction on a previously paid claim.

MANAGING AGENT'S REPORT

continued

UNDERWRITER'S REPORT *continued*

2017 Year of Account Forecast

Our forecast range for the 2017 year of account is a loss of 0% to 7.5% on Stamp Capacity after all expenses.

2017 represents the lowest volume in MAP's history, although without the Irish motor account forecast gross premium is in line with 2016. Capital providers will be well aware of the plethora of catastrophes that occurred in 2017, notably Hurricanes Harvey, Irma and Maria, as well as the California Wildfires. Of particular note is the well documented deterioration in the Floridian market loss from Hurricane Irma which shows little sign of abating. It is therefore pleasing to report that our Irma gross loss pick is virtually unaltered since last year. This is partly because of our deliberately modest exposure in the worst affected area of reinsurance programmes, but mainly due to our innate conservatism in formulating damage ratios. Across all years of account we are projecting ultimate gross catastrophe losses, after cessions to Syndicate 6103, of \$71.8m, (last year \$76.7m) with a year-end incurred of \$65.2m (last year \$50.8m).

Ultimate net losses to the 2017 year of account, after reinsurance recoveries and inwards reinstatement premiums, are projected to be \$50.2m, representing nearly 40 percentage points of net loss ratio, albeit less than 10% on Stamp due to the historically low utilisation. Note that only one loss, Irma, is into the first layer of our reinsurance programme, and our retrocessionaires have in the aggregate had a profitable year.

The pure year is currently forecast to generate a break-even net underwriting result, which, magnified by the expense load, partially offset by a small investment return, would result in a modest loss.

An estimate of the 2017 underwriting result as at 36 months is set out below:

	£'000
Stamp capacity	396,814
Gross premiums written	160,592
Net premiums written	136,355
Claims incurred – net of reinsurance	(103,858)
Net operating expenses	(43,260)
Investment return	3,431
Profit commission	-
Personal expenses	(3,454)
Non technical account foreign exchange	(9)
Estimate of profit for the year of account after personal expenses	(10,795)

Assumptions underlying the 2017 Estimated Result:

- (i) There will be no material reinsurance failures.
- (ii) Syndicate expenses, incurred in the calendar year 2019 to be charged to the 2017 year of account, will continue the pattern of previous years as refined by current budgets.
- (iii) Exchange rates at 31 December 2019 will not be materially different from those at 31 December 2018.
- (iv) Investment returns attributable to 2017 during 2019 = 1.57% for USD and 0.5% for all other currencies.
- (v) Claims will be paid in line with our expected development patterns.
- (vi) No material back year surplus or deficit arises from the RITC.

2018 Overview

As indicated in last year's report, the market failed to move significantly following the poor experience of 2017: indeed, by "doubling down" so readily capital providers effectively negated the opportunity to re-price business. Consequently it was very difficult for businesses like MAP, which rely on market dislocation to re-underwrite other people's mistakes, to make any meaningful headway. Gross premium volume is up 15% over 2017, but still a long way short of historic norms.

Interestingly, catastrophe incidence was similarly elevated to 2017, with hurricanes Florence and Michael impacting the US, four significant loss events in Asia, followed by a repeat of the Californian Wildfires. Once again, the pure year is trending to a marginal result, with projected ultimate gross losses of \$49.3m, after inwards reinstatement premiums and cessions to Syndicate 6103. There are no anticipated excess of loss recoveries.

MANAGING AGENT'S REPORT

continued

2019 Trading Conditions

Last year I wrote that “there needs, I think, to be an explicit recognition that the Lloyd’s franchise depends not just upon policy- holder security, but also on underwriting integrity”, and that “there are insufficient disincentives for systematic under-performance.” Interestingly, under pressure from the PRA and ratings agencies, the Lloyd’s Franchise Board came to the same conclusion, and, for the first time in 300 years, began to actively interfere in the business planning process. We would stress we are supportive of Lloyd’s intent to ensure all syndicates are operating in a sustainable and prudent manner: as I have stated publicly it is incredibly difficult to compete against someone who is selling a dollar for 95 cents. That the Corporation of Lloyd’s is seemingly seeking to ensure this is no longer acceptable is broadly to be welcomed.

Nevertheless, we would note that over the period 2013-17 the Lloyd’s market of 100 syndicates (excluding life and run-off specialists) has collectively generated a positive underwriting return of £2,600m representing a combined loss ratio of 97.6%. However, of the 41 syndicates who are less than 10 years old, in the same time-frame only 4 have made a profit and the aggregate return is -£1,160m at a 109.9% CLR. (Source: Syndicate Reports and Accounts)

MAP syndicates’ all time return to Capital providers closed years 2001-16 is over £1,200m representing a CLR of less than 80%. For the period 2013-17 our UK GAAP result is £199m profit at a CLR of 76.3%. This consistent level of profitability has only been achieved through taking tough underwriting decisions in a rapidly softening market.

MAP is regarded globally as the poster-child of cycle management. We have written only 60% of the volume we did in the previous 5 year block 2008-12, whilst maintaining profitability. No one else in the market comes close to this metric.

As owner-operators, Lloyd’s is our livelihood – we have considerable personal investment and risk tied up in MAP. Indeed Staff and directors now underwrite around 10% of 2791 Capacity, some £40m, so our interests are fully aligned with Capital providers. Crucially, as currently constituted we have no alternative: we cannot exist outside the Lloyd’s market.

In contrast, we note that 90% of the market is now foreign owned, and effectively operate a mercenary model, whereby the Lloyd’s platform is a flag of convenience akin to a branch office. Stand-alone syndicate profitability is often not a corporate requirement for Global carriers who are simply seeking to access Lloyd’s licences and ratings. Certainly it is always difficult for start-ups to generate profits due to the expense burden, but clearly many of the recent entrants have not even tried. Arguably then, Lloyd’s has been the architect of its own poor performance: by encouraging global expansion into a rapidly softening market, executed by syndicates who have no particular incentive to make an underwriting margin.

To the extent that 2018 is proving to be a re-run of 2017, with no obvious improvement in terms and conditions, the regulatory pressure will doubtless continue through 2019 and beyond. Given our track record, MAP should be a net beneficiary of this process, which is already causing considerable dislocation in the property insurance and marine markets.

Looking outside the Lloyd’s bubble, commentators often lament the over-supply of Global Capital as driving sub-standard underwriting returns throughout the industry. Whereas this is undoubtedly true, to my mind the more insidious problem is the over-reliance of much of the market on third party proprietary models, particularly in the more volatile, catastrophe exposed lines of business. Time and again there is shown to be a material gap between theoretical modelled by-peril output and the harsh reality of an all-risks contract, magnified by legal and regulatory interpretation. Added to this, much of the Capital Markets operate an Agency model, whereby managers are incentivised to bet investors’ money on these inadequate metrics. Until this delusional adherence to off the shelf models (often excessively optimised by the counterparty, or their intermediary) is replaced by a reasonable level of prudence, it will prove hard to escape their gravitational pull.

MANAGING AGENT'S REPORT

continued

Seven Year Summary of Closed Years of Account

	Note	2010	2011	2012	2013	2014	2015	2016
Syndicate allocated capacity (£m)		504.5	504.5	506.8	510.5	453.0	399.4	399.1
Number of Underwriting Members		1,585	1,687	1,718	1,721	1,720	1,691	1,710
Aggregate net premiums (£m)		232.5	232.6	258.4	194.3	149.0	137.5	145.3
Results for illustrative share of £10,000		%	%	%	%	%	%	%
Utilisation of capacity at premium income								
monitoring rates of exchange		44.7	46.3	48.4	38.2	34.7	30.3	31.7
Gross premiums written (% of illustrative share)		54.2	54.8	61.8	47.8	40.5	42.7	46.7
Net premiums (% of illustrative share)		46.1	46.1	51.0	38.1	32.8	34.4	36.4
Profit (% of gross premiums)		32.7	24.5	18.9	27.9	27.6	27.7	17.7
Results for illustrative share of £10,000		£	£	£	£	£	£	£
Gross premiums	1	5,417	5,479	6,185	4,782	4,051	4,266	4,667
Net premiums		4,608	4,612	5,098	3,806	3,280	3,442	3,639
Reinsurance to close from an earlier year								
of account		5,046	4,545	4,304	4,771	5,153	6,220	5,440
Net claims		(1,659)	(1,946)	(2,070)	(1,436)	(1,529)	(1,579)	(1,750)
Reinsurance to close	2	(4,782)	(4,361)	(4,553)	(4,439)	(4,554)	(5,707)	(5,117)
Underwriting profit		3,213	2,850	2,779	2,702	2,350	2,376	2,212
Acquisition costs	1	(1,161)	(1,157)	(1,370)	(1,061)	(865)	(940)	(1,030)
Other syndicate operating expenses, excluding								
personal expenses		(113)	(130)	(170)	(140)	(201)	(200)	(210)
Reinsurers' commissions and profit participations		42	48	39	49	43	2	17
Exchange movement on foreign currency								
translation	4	(59)	(65)	14	79	293	22	32
Net investment income		398	242	252	107	112	292	95
Illustrative personal expenses:								
Managing agent's fee		(55)	(55)	(55)	(55)	(55)	(55)	(55)
Profit commission	3	(455)	(351)	(287)	(312)	(281)	(288)	(197)
Other personal expenses	5	(40)	(39)	(34)	(35)	(28)	(29)	(37)
Profit after illustrative personal expenses and illustrative profit commission		1,770	1,343	1,168	1,334	1,368	1,180	827

1. Gross premiums and syndicate operating expenses have been grossed up for brokerage costs.
2. Reinsurance to close is stated at relevant average rates applicable or when reserves were first set for each year of account.
3. Profit commission is reported on a pro forma basis before the application of the deficit clause brought forward.
4. From the 2014 year of account, foreign currency realised gains and losses are now included in exchange movement on foreign currency translation rather than within other syndicate operating expenses. Comparatives in this seven year summary have not been restated as immaterial and this change has nil impact on the profit after illustrative personal expenses and illustrative profit commission.
5. Other personal expenses include Lloyd's subscriptions and central fund contributions.

MANAGING AGENT'S REPORT

continued

Individual Capital Assessment

When the 2016 year of account commenced the syndicate was required to produce an Individual Capital Assessment (ICA) under the Individual Capital Adequacy Standards (ICAS) regime which set the capital required to be held by the members of the syndicate. From 1 January 2016 the ICAS regime changed to Solvency II and the ICA altered to a Solvency Capital Requirement (SCR). For these underwriting year accounts the capital detailed is that which was required to be provided by the members of the 2016 year of account.

The capital set by each syndicate is required to reflect the risks contained within each business. Lloyd's reviews, and through its Capital and Planning Group, approves these assessments to ensure syndicate ICAs are appropriate and consistent across the market. Lloyd's requires an uplift to syndicate ICA's to provide a margin to meet its own financial strength, licence and ratings objectives. For the 2016 Year of Account the uplift is 35% of the member's ICA. An ICA including the margin is known as the Economic Capital Requirement (ECR) and Lloyd's allocates the ECR required down to each individual member.

The syndicate capital assessment for the 2016 year of account was established using our internal Solvency II model which has been run within the ICA regime as prescribed by Lloyd's. The internal model uses sophisticated mathematical models reflecting key risks within the syndicate. The risks are principally Insurance (catastrophes, pricing and reserving), Market (equity, liquidity, currency, interest rate and spread), Credit (brokers, investment and reinsurance) and Operational.

The following table sets out the syndicate's ECR which is unaudited:

2016 Approved Capital

Lloyd's ECR

	Prospective year 2016 £m
2791	222.5

ECR capital is provided by the members of the syndicate from syndicate retained profits plus additional contributed assets held and managed by Lloyd's of London, known as Funds at Lloyd's or FAL.

European Union business

In order to ensure continued market access to European (re)insurance business following the U.K.'s exit from the European Union, Lloyd's has established a Belgian subsidiary - Lloyd's Insurance Company S.A.

More commonly known as 'Lloyd's Brussels', this subsidiary is authorised and regulated as an insurance entity by the National Bank of Belgium and regulated by the Financial Services and Markets Authority.

Lloyd's Brussels is capitalised in accordance with Solvency II rules and is licensed to write non-life risks across the European Economic Area (EEA), the UK and Monaco.

Lloyd's Brussels benefits from Lloyd's central resources, including the Lloyd's Central Fund. As all Lloyd's Brussels policies are 100% reinsured back to Lloyd's syndicates, they are ultimately backed by Lloyd's unique capital structure, often referred to as the Chain of Security.

All European non-life business incepting and/or renewing on or after 1 January 2019 will now be placed with Lloyd's Brussels and the structure of Lloyd's Brussels enables business partners and policyholders to retain access to the underwriting expertise of the Lloyd's market via established distribution channels of brokers, coverholders, and syndicates.

Lloyd's has publicly committed that its syndicates will continue to pay all valid claims on historic policies and that before the end of 2020 all legacy EEA business will be moved to Lloyd's Brussels via a Part VII transfer.

Future Developments

The syndicate continues to transact the majority of its business in the classes of general insurance and reinsurance that it has transacted historically.

MANAGING AGENT'S REPORT

continued

Disclosure of Information to the Auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he/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 auditor is aware of that information.

This managing agent's report was approved by the Board of Managing Agency Partners Limited on 19 March 2019 and signed on its behalf by:

R K Trubshaw

Active Underwriter

Managing Agency Partners Limited

19 March 2019

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 ('the Lloyd's Regulations') require the managing agent to prepare syndicate underwriting year accounts for each syndicate in respect of any underwriting year which is being closed by reinsurance to close at 31 December. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8. of 2005).

The managing agent must prepare the syndicate underwriting year accounts which give a true and fair view of the result of the closed year of account.

In preparing the syndicate underwriting year accounts, the managing agent is required to:

- select suitable accounting policies which are applied consistently and, where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in these underwriting year accounts.

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 underwriting year accounts comply with the Lloyd's 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.

INDEPENDENT AUDITOR'S REPORT

to the Members of Syndicate 2791

Independent auditor's report to the members of Syndicate 2791 – 2016 closed year of account

Report on the audit of the syndicate underwriting year accounts for the 2016 closed year of account for the three years ended 31 December 2018.

Opinion

In our opinion the syndicate underwriting year accounts of Syndicate 2791 (the 'syndicate'):

- give a true and fair view of the profit for the 2016 closed year of account;
- 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 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

We have audited the syndicate underwriting year accounts which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of cash flow; and
- the related notes 1 to 20.

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", the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

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 underwriting year accounts 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 underwriting year accounts in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 underwriting year accounts and our auditor's report thereon. Our opinion on the syndicate underwriting year accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the syndicate underwriting year accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate underwriting year 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 underwriting year 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 this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT

continued

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 underwriting year accounts under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005), and for being satisfied that they give a true and fair view of the result, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate underwriting year accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate underwriting accounts, the managing agent is responsible for assessing the syndicate's ability to realise its assets and discharge its liabilities in the normal course of business, disclosing, as applicable, any matters that impact its ability to do so.

Auditor's responsibilities for the audit of the syndicate underwriting year accounts

Our objectives are to obtain reasonable assurance about whether the syndicate underwriting year 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 underwriting year accounts.

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

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) 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 proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the syndicate's members, as a body, in accordance with regulation 6 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Downes (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

19 March 2019

INCOME STATEMENT TECHNICAL ACCOUNT – GENERAL BUSINESS

2016 Closed Year of Account for the three years ended 31 December 2018

	Note	2016 £'000
Syndicate allocated capacity		399,118
Earned premiums, net of reinsurance		
Gross premiums written	4	186,253
Outward reinsurance premiums		(40,995)
Earned premiums, net of reinsurance		145,258
Reinsurance to close premiums received, net of reinsurance	5	217,099
Allocated investment return transferred from the non-technical account		3,787
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		(82,769)
Reinsurers' share		12,936
		(69,833)
Reinsurance to close premium payable, net of reinsurance	6	(204,238)
Acquisition expenses		(41,103)
Reinsurers' commissions and profit participations		682
Administrative expenses	8	(19,910)
Net operating expenses		(60,331)
Balance on the technical account – general business	12	31,742

INCOME STATEMENT NON-TECHNICAL ACCOUNT

2016 Closed Year of Account for the three years ended 31 December 2018

	Note	2016 £'000
Balance on the technical account for general business		31,742
Investment return	11	3,787
Allocated investment return transferred to general business – technical account		(3,787)
Non-technical account foreign exchange	13	(561)
Profit for the 2016 Closed Year of Account excluding other comprehensive income		31,181

STATEMENT OF COMPREHENSIVE INCOME

2016 Closed Year of Account for the three years ended 31 December 2018

	Note	2016 £'000
Profit for the 2016 Closed Year of Account excluding other comprehensive income		31,181
Exchange differences on foreign currency translation	13	1,833
Profit for the 2016 Closed Year of Account including other comprehensive income being profit distributed to members		33,014

STATEMENT OF FINANCIAL POSITION

2016 Closed Year of Account as at 31 December 2018

	Note	2016 £'000
Assets		
Investments	14	237,280
Debtors	15	20,352
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	7	40,905
Other assets		
Cash at bank and in hand	18	11,904
Prepayments and accrued income		
Accrued interest		655
Other prepayments and accrued income		811
Total assets		311,907
Liabilities		
Amounts due to members	16	33,014
Reinsurance to close premiums payable to close the account – gross amount	7	255,697
Other creditors	17	19,789
Accruals and deferred income		3,407
Total liabilities		311,907

The financial statements on pages 15 to 31 were approved by the Board of Managing Agency Partners Limited on 19 March 2019 and were signed on its behalf by:

R K Trubshaw
Active Underwriter

R J Sumner
Finance Director

19 March 2019

STATEMENT OF CASH FLOWS

2016 Closed Year of Account for the three years ended 31 December 2018

	Note	2016 £'000
Operating profit on ordinary activities		31,181
Movement in gross technical provisions		255,697
Movement in reinsurers' share of gross technical provisions		(40,905)
Movement in debtors		(21,818)
Movement in creditors		23,196
Investment return		(3,787)
Exchange differences on foreign currency translation		(16,212)
Net cash inflow from operating activities		227,352
Cash flows from investing activities		
Purchase of equity and debt instruments		(593,361)
Sale of equity and debt instruments		379,889
Investment income received		8,163
Movement in overseas deposits		(10,139)
Movement in cash equivalents		58
Net cash outflow from investing activities		(215,390)
Movement in cash and cash equivalents		11,962
Cash and cash equivalents at 1 January		-
Cash and cash equivalents at 31 December	18	11,962

NOTES TO THE ACCOUNTS

2016 Closed Year of Account for the three years ended 31 December 2018

1. Basis of Preparation and Statement of Compliance

These financial statements have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied.

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.

The Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) requires the aggregation of movements in each of the three calendar years for any Underwriting Year of account. For 2016's Underwriting Year Distribution Account each calendar year result is aggregated using the relevant years average rates of exchange for each item in the income statements. The reinsurance to close received by 2016 from 2015 is presented as both a premium and as part of the reinsurance to close payable at the same rates, which are the rates at 1 January 2018. Any changes made to the opening reinsurance to close are accounted for at the average rates ruling during calendar year 2018.

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

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2016 year of account which has been closed by reinsurance to close at 31 December 2018; consequently the statement of financial position represents the assets and liabilities of the 2016 year of account and the income statements and statement of cash flows reflect the transactions for that year of account during the three year period until closure.

As each syndicate year of account is a separate annual venture, comparatives are not required to be disclosed.

Reinsurance to close

A Reinsurance to Close (RITC) is a reinsurance which closes a year of account and transfers the responsibility for discharging all the liabilities that attach to that year of account (and any year of account closed into that year) plus the right to any income due to the closing year of account into an open year of account of the same or a different syndicate in return for a premium.

Effective at each year-end 31 December, the RITC process means that all assets and liabilities have been transferred to a reinsuring year of account. To this extent, the risks that the syndicate is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the syndicate Annual Accounts. Accordingly, these underwriting year accounts do not include the associated risk disclosures required by section 34 of FRS 102 and section 4 of FRS 103. Full disclosures relating to these risks are provided in the main Annual Accounts of the Syndicate. In addition, certain other disclosure requirements under FRS 102 and FRS 103, such as the disclosure of a Statement of Changes in Members' Balances, have not been provided as we believe they are not required for a proper understanding of the underwriting year accounts.

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.

Syndicate 2791 cedes business under a quota-share treaty to Syndicate 6103 which is operated on a funds withheld basis by Syndicate 2791. Syndicate 6103 holds no cash or investments. All of Syndicate 6103's funds are held by Syndicate 2791 which makes payments of liabilities on Syndicate 6103's behalf. Debtors and creditors between the syndicates are grossed up in the syndicate statement of financial position and upon the closure of each year of account, normally after 36 months, the assets and liabilities of that closing year are netted off as part of the commutation settlement with Syndicate 6103. Syndicate 6103 is also managed by the managing agent, MAP.

2. 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 statement of financial position 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.

It should however be noted that upon RITC the uncertainties are transferred to the accepting year of account of the syndicate, being the 2017 year of account at 31 December 2018.

NOTES TO THE ACCOUNTS

continued

2. Judgements and Key Sources of Estimation Uncertainty *continued*

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

Insurance contract technical provisions (reinsurance to close premium payable)

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

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder, Bornheutter-Ferguson methods and individual reserving at contract level.

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from pricing and other models of the business accepted and assessments of underwriting conditions.

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

The directors consider the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. In addition, where losses are not settled until several years after the expiration of the policy in question, the estimates are considered to be more volatile and consequently are subjected to additional management judgemental prudence adjustments. The methods used, and the estimates made, are reviewed regularly.

Where the amount of any material salvage and subrogation recoveries is separately identified it is reported as an asset.

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Estimates include an element of judgement with regard to the level of claims affected future premiums receivable by the syndicate. The methods used for assessing future premiums generally involve projecting from past experience, based on the development of claims and the related inwards premiums receivable against these claims. The directors consider whether the estimates of gross future premium are fairly stated on the basis of the information available currently to them. However, the ultimate receivable will vary as a result of subsequent information or events and this may result in significant adjustments.

The estimated premium income in respect of facility contracts, for example binding authorities and lineslips, includes an estimate of the underlying business attaching to each facility at the statement of financial position date.

Expense provisions – Unallocated loss adjustment provisions and legal provisions

Estimates of future expenses to be incurred in respect of settlement transaction costs and administrating or adjusting expenses in respect of claim provisions are made at each statement of financial position date. The main assumptions underlying these provisions are that direct claim administration costs will be as budgeted, inflation rates will be in line with historical rates and claim payment patterns will reflect historical experience by line of business.

Expense provisions are also made in respect of legal disputes anticipated to be incurred in the normal course of business defending the syndicate position. These provisions are based on historical average costs or direct individual case estimates.

Changes in assumptions, quantum or complexity of future claims can affect the value of these provisions.

NOTES TO THE ACCOUNTS

continued

2. Judgements and Key Sources of Estimation Uncertainty *continued*

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques.

These valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on estimates. It incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

3. Accounting Policies

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account.

Insurance contracts

An insurance contract (including inwards reinsurance contract) is defined as a contract containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause the syndicate to pay significant additional benefits in any scenario. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Premiums written

Premiums written comprise premiums on contracts inception during the financial year of account as well as adjustments made in the year to premiums written in prior accounting periods. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet received at the statement of financial position date.

Premiums written are disclosed before the deduction of acquisition costs and taxes or duties levied on them and are treated as fully earned.

Premiums for contracts where the syndicate delegates underwriting authority to another party (e.g. binding authorities, lineslips or proportional treaties) use an estimate of the proportion of premiums inception at the reference date as an estimate based on historical inception patterns, if no pattern exists business is assumed to inception evenly over the term of the delegated authority.

Acquisition costs

Acquisition costs comprising commission and other direct or indirect costs related to the acquisition of insurance contracts are deferred to the extent that they are attributable to premiums unearned at the statement of financial position date. The value of commission paid to insurance intermediaries is determined based on the contractual amounts recorded in all contracts. Where, however, policies are issued and the insured agrees to pay a fee directly to the intermediary without reference to the insurer, the written premium comprises the premium payable to the insurer and accounting for broker acquisition costs is inappropriate.

Reinsurance premium ceded

Outwards reinsurance purchased consists of excess of loss contracts and proportional reinsurance contracts. Initial excess of loss premiums are accounted for in the year of inception. Premiums ceded to reinstate reinsurance cover or additional premiums payable on loss are recognised when they may be assessed with reasonable certainty. Proportional outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Claims paid and related recoveries

Gross claims paid include internal and external claims settlement expenses together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers. They are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as to which the recovery is credited.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Reinsurance to close premium payable

The RITC premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims IBNR), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein.

The estimate of claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs. It also includes the estimated cost of claims IBNR at the statement of financial position date based on statistical methods.

Future unallocated loss adjustment expenses

An accrual for all future unallocated loss adjustment expenses ('ULAE') is made if applicable. The ULAE is comprised of those costs which are related to the settlement of earned claims but which are not directly attributable to individual claims. ULAE expenses are undiscounted and include the expenses of managing the run-off of the business on the basis the business is a going concern. Costs of administration of the reinsurance programme are included in the gross ULAE. Separate reserves are established for each year of account.

Legal provisions

The syndicate may be subject to legal disputes, in the normal course of business. Provisions for such events and their related costs are recognised where there is an expected present obligation relating to a past event or evidence exists of the requirement for a general provision that can be measured reliably and it is probable that an outflow of economic benefit will be required to settle an obligation.

The directors of the managing agent do not expect the outcome of these claims, either individually or in aggregate, to have a material effect upon the syndicate's operations or financial position. As allowed by FRS 102, further disclosure has not been given as it may seriously prejudice the outcome of any legal proceedings.

Insurance receivables and payables

Insurance receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration received. They are derecognised when the obligation is settled, cancelled or expired.

Bad debt

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

Foreign currency translation

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 in US dollars. We have chosen to maintain our presentational currency as sterling as the syndicate is based in the UK, complies with UK reporting standards and to enable simpler comparisons to other Lloyd's insurance syndicates.

The syndicate records transactions in four settlement currencies being sterling, US dollars, Canadian dollars and Euros and when reported these currencies are translated in the income statement at the average rates of exchange for each calendar year of the 36 month period respectively. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

As permitted by FRS 103, 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 from the functional currency (US dollars) arising from the retranslation of opening balances and between average and year-end rates to the presentational currency are included in the statement of comprehensive income.

All other exchange differences are included in the general business non-technical account.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Foreign currency translation continued

Where Canadian dollars or Euros are sold or bought relating to the profit or loss of the closed underwriting account after 36 months, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where US dollars relating to the profit or loss of a closed underwriting account are bought or sold by the syndicate on behalf of the members on that year, any exchange profit or loss accrues to those members.

The following rates of exchange to sterling have been used in the preparation of these accounts:

	Year end rate	Average rates during		
	2018	2018	2017	2016
USD	1.27	1.34	1.29	1.35
CAD	1.74	1.73	1.67	1.79
EUR	1.11	1.13	1.14	1.22

Syndicate 6103 funds withheld basis

Syndicate 2791 has purchased a proportional reinsurance contract from Syndicate 6103 also managed by Managing Agency Partners Limited. This proportional reinsurance contract operates on a funds withheld basis; reinsurance premium less recoveries payable to Syndicate 6103 are withheld by Syndicate 2791. The withheld funds are invested alongside Syndicate 2791's other investments until Syndicate 6103 closes the relevant year of account, normally at 36 months.

At the closure, by Reinsurance to Close of Syndicate 6103 the net funds are released to the members of Syndicate 6103. Syndicate 2791 has the right to request funds from the members of Syndicate 6103 if its net balance becomes a liability.

The contract between the syndicates provides that an investment return is payable by Syndicate 2791 on the average net balance owed to Syndicate 6103. The return mirrors that achieved by Syndicate 2791 on its own funds, principally, the credit for reinsurance trust fund in respect of US dollar balances.

Investment values

Financial investments are valued at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Listed investments

Listed and other quoted investments are stated at current bid value at the statement of financial position date. For this purpose listed and quoted investments are stated at market value and deposits with credit institutions are stated at cost.

The cost of syndicate investments is the amount paid on the purchase date for those investments still held at the statement of financial position date.

Deposits

All deposits with credit institutions are stated at cost.

Unlisted investments

Some investments are not listed or in a market not regarded as active because:

- quoted prices are not readily and regularly available; or
- prices do not represent actual and regularly occurring market transactions on an arm's length basis.

In such circumstances the syndicate then seeks to establish fair value by using third party administrators with experience in valuing such assets using valuation techniques as described below:

- using recent arm's length transactions between knowledgeable, willing parties (if available);
- reference to the current fair value of other instruments that are substantially the same; and
- discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on estimates. It incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial investment.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Unlisted investments continued

The syndicate participates in a number of hedge/credit funds and related financial instruments for which there are no available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of the hedge/credit fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds.

Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of any illiquid share classes, and the timing of the latest available valuations. The cost of syndicate investments is deemed to be the aggregate of market value at the accepted RITC date of those investments still held at the current statement of financial position date, and purchases during the period.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management expenses, charges and interest payable.

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

Movements in unrealised gains and losses on investments represent the difference between their valuation at the statement of financial position date and their purchase price or, if they have been previously valued, their valuation at the last statement of financial position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

As detailed above with regard to funds withheld on behalf of Syndicate 6103, investment income earned in the period is reduced by the amount payable to Syndicate 6103.

Purchases and sales of investments are recognised on the trade date, which is the date the syndicate commits to purchase or sell the assets. Funds receivable or payable after the trade date are recorded in debtors and creditors respectively until settled.

Allocation of investment return

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments are generated by insurance related assets.

Investment management expenses

Comprise contractual fees and profit commissions payable to external third party investment managers for managing the syndicate's investment funds. They are accrued in the period to which they relate.

Overseas deposits

Overseas deposits lodged as a condition of conducting underwriting business in certain countries in compliance with Lloyd's licences are stated at the market value, based on a bid price, ruling at the statement of financial position date.

Operating expenses

Where expenses are incurred by, or on behalf of, the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the managed syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. syndicate operating expenses are allocated to the year of account for which they are incurred.

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.

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 year are included in the statement of financial position under the heading 'debtors'.

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

Pension costs

MAP operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Profit commission

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. This is charged to the syndicate on an earned basis but does not become payable until after the year of account closes, normally at 36 months.

4. Segmental Analysis

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

	Gross written premiums (note 1) £'000	Gross claims incurred (note 2) £'000	Net operating expenses (note 4) £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
2016 year of account						
Direct insurance						
Accident and health	7,143	(3,831)	(3,433)	(15)	(136)	(4,586)
Fire and other damage to property	20,159	507	(8,574)	(6,737)	5,355	(4,345)
Marine, aviation and transport	6,369	(3,475)	(2,256)	(383)	255	(12,371)
Motor (other classes)	51,365	(37,916)	(14,038)	381	(208)	(20,435)
Third party liability	4,979	(1,725)	(1,967)	(191)	1,096	(20,246)
Miscellaneous	1,206	(1,317)	(515)	(2)	(628)	(8,168)
	91,221	(47,757)	(30,783)	(6,947)	5,734	(70,151)
Reinsurance	95,032	(30,293)	(29,548)	(12,970)	22,221	(144,641)
Total	186,253	(78,050)	(60,331)	(19,917)	27,955	(214,792)

1. Gross premiums earned are identical to gross premiums written.
2. Gross claims incurred comprise gross claims paid and movement in gross technical provisions.
3. All premiums are concluded in the UK.
4. Net operating expenses include reinsurer's commissions and profit participations.
5. All 2015 and prior years of account movements during 2018 are reflected in the above figures.
6. The business class split reported is a statutory reporting requirement but the business is managed by its own business classes and hence an element of allocation is used.

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

	Direct £'000	Reinsurance £'000	Total £'000
UK	12,532	1,773	14,305
Other EU countries	39,577	1,233	40,810
US	33,233	79,948	113,181
Other	5,879	12,078	17,957
Total	91,221	95,032	186,253

Total commissions on direct gross premiums written amount to £22.1m.

NOTES TO THE ACCOUNTS

continued

5. Reinsurance to Close Premium Receivable

	Syndicate 2791 £'000	Syndicate 6103 £'000	Total £'000
Gross reinsurance to close premium receivable	248,523	41	248,564
Reinsurance recoveries anticipated	(31,465)	-	(31,465)
Reinsurance to close premium receivable, net of reinsurance	217,058	41	217,099

At 1 January 2018, Syndicate 2791 accepted a Reinsurance to Close Premium from Syndicate 6103 in respect of Syndicate 6103's 2015 year of account.

6. Movement in Underwriting Reserves

The following table reconciles the reinsurance to close in the income statement to the statement of financial position:

	Reserves at average rate £'000	Exchange to closing rate £'000	Closing RITC £'000
2015 and prior			
Opening balance	(217,058)	(11,092)	(228,150)
Movement in paid, outstanding and IBNR in year	41,089	1,817	42,906
Change in three year period (2016 pure)	(26,927)	(1,279)	(28,206)
Movement in unallocated loss and loss adjustment expenses	(1,342)	-	(1,342)
	(204,238)	(10,554)	(214,792)

The exchange difference arising from the retranslation of the opening reinsurance to close liabilities is exactly matched by the assets transferred in at 1 January 2018 in currency and therefore the effect to the income statement is nil.

7. Reinsurance to Close Premium Payable

	2015 and prior £'000	2016 pure £'000	2016 £'000
Gross outstanding claims	74,519	20,255	94,774
Reinsurance recoveries anticipated	(13,488)	(9,160)	(22,648)
Net outstanding claims	61,031	11,095	72,126
Provision for gross claims incurred but not reported	129,270	24,586	153,856
Reinsurance recoveries anticipated	(10,783)	(7,474)	(18,257)
Provision for net claims incurred but not reported	118,487	17,112	135,599
Unallocated loss and loss adjustment expenses	5,952	1,115	7,067
Net premium for reinsurance to close	185,470	29,322	214,792

A positive run-off of £19.4m on the 2015 and prior years' reserves (2014 and prior: £12.1m) was experienced in the year. This change to the previous closed year reserves was 8.9% of the relevant provisions brought forward.

The reinsurance to close is effected to the 2017 year of account of Syndicate 2791.

NOTES TO THE ACCOUNTS

continued

8. Administrative Expenses

	£'000
Personal expenses	3,656
Profit commission payable to managing agent	7,885
Other administrative expenses	8,955
Gross operating expenses	20,496
Expense recoveries from reinsurers	(586)
Net operating expenses	19,910

	2791 £'000	6103 £'000	Total £'000
Administrative expenses include:			
Auditors' remuneration from Deloitte LLP during the calendar year 1 January 2018 to 31 December 2018			
Fees for the audit of the syndicate	85	7	92
Audit related assurance	44	10	54
Taxation compliance services	4	-	4
Other non-audit services	-	-	-
	133	17	150

	2791 £'000	6103 £'000	Total £'000
Administrative expenses include:			
Auditors' remuneration from Ernst & Young LLP during the period 1 January 2016 to 31 December 2017			
Fees for the audit of the syndicate	107	3	110
Audit related assurance	43	3	46
Taxation compliance services	3	-	3
Other non-audit services	151	3	154
	304	9	313

	2791 £'000	6103 £'000	Total £'000
Administrative expenses include:			
Total Auditors' remuneration for the three year period 1 January 2016 to 31 December 2018			
Fees for the audit of the syndicate	192	10	202
Audit related assurance	87	13	100
Taxation compliance services	7	-	7
Other non-audit services	151	3	154
	437	26	463

Audit related assurance includes reporting required by law and regulation, reviews of interim financial information and reporting on regulatory returns.

Non-audit service fees were incurred by syndicate actuaries employed by the former auditors Ernst & Young LLP. These fees relate to actuarial valuation services and for the provision of the Syndicate Actuarial Opinions (SAO) to Lloyd's and HMRC.

Personal expenses comprise managing agent's fees, Lloyd's subscriptions and central fund contributions.

Lloyd's is a member of the Motor Insurers' Bureau of Ireland (MIBI) and is charged a membership levy based on the Irish motor liability premiums written by all Lloyd's syndicates. Lloyd's share is based upon its share of the total market. Lloyd's receive an invoice directly from MIBI which is then allocated proportionally to each relevant syndicate's share. Syndicate 2791 can recover 62.50% of these expenses under the terms of a reinsurance contract. These recoveries are disclosed as expense recoveries from reinsurers within net operating expenses.

NOTES TO THE ACCOUNTS

continued

9. Staff Numbers and Costs

All staff are employed by the managing agent. The following amounts were recharged to the syndicate in respect of salary costs:

	£'000
Wages and salaries	4,424
Social security costs	514
Other pension costs	409
	<u>5,347</u>

Included above are the employment costs of underwriters attributable to acquisition of business and those of claims staff treated within the technical account as Acquisition Costs and Loss Adjustment Expenses respectively.

The average number of employees employed by the managing agent but working for the syndicate during the three years was as follows:

Administration and finance	17
Underwriting	25
Claims	5
	<u>47</u>

10. Emoluments of the Directors of Managing Agency Partners Limited

The directors of Managing Agency Partners Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	£'000
Emoluments	<u>1,098</u>

The 2016 year of account has been charged with active underwriter's remuneration as follows:

	£'000
Emoluments – R K Trubshaw	<u>284</u>

Profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

11. Investment Return

	£'000
Investment income	
Income from investments	4,980
Gains on the realisation of investments	5,892
Losses on realisation of investments	(3,703)
	<u>7,169</u>
Net unrealised gains and losses	(2,316)
Investment expenses and charges	
Investment management expenses, including interest payable	(1,054)
Investment return payable to Syndicate 6103	(12)
	<u>(1,066)</u>
Total Investment Return	<u>3,787</u>

All investment return arises from investments designated as fair value through profit and loss.

NOTES TO THE ACCOUNTS

continued

12. Balance on the Technical Account – General Business

	2015 and prior years of account £'000	2016 pure years of account £'000	Total 2016 £'000
Balance excluding investment return and operating expenses	17,610	70,676	88,286
Brokerage and commission on gross premium	450	(41,553)	(41,103)
Allocated investment income	-	3,787	3,787
Net operating expenses other than acquisition costs	(49)	(19,179)	(19,228)
	18,011	13,731	31,742

13. Exchange Differences Arising on Foreign Currency Translation

	£'000
On 2016 balances brought forward at 1 January 2018: from opening to closing rates	787
On transactions during 2018: from average to year end rates	485
	1,272
Represented by:	
Non-technical account foreign exchange	(561)
Exchange differences on foreign currency translation	1,833
	1,272

14. Financial Investments

	Market value £'000	Cost £'000
Investments:		
Shares and other variable yield securities and units in unit trusts	26,182	26,117
Debt securities and other fixed income securities	169,363	170,958
Participation in investment pools	13,434	13,536
Deposits with credit institutions	1,822	1,822
Overseas deposits as investments	10,139	10,153
	220,940	222,586
Hedge Funds/Alternative Assets:		
Shares and other variable yield securities and units in unit trusts	-	-
Debt securities and other fixed income securities	-	-
Participation in investment pools	16,340	9,438
Deposits with credit institutions	-	-
Overseas deposits as investments	-	-
	16,340	9,438
Total Investments:		
Shares and other variable yield securities and units in unit trusts	26,182	26,117
Debt securities and other fixed income securities	169,363	170,958
Participation in investment pools	29,774	22,974
Deposits with credit institutions	1,822	1,822
Overseas deposits as investments	10,139	10,153
	237,280	232,024

Within "Shares and other variable yield securities and units in unit trusts" £18.1m are listed on a recognised exchange. These comprise 7.6% of the total market value of investments.

NOTES TO THE ACCOUNTS

continued

15. Debtors

	£'000
Arising out of direct insurance operations	532
Arising out of reinsurance operations	16,487
Inter-syndicate loan	157
Members' agents' fees advances	2,141
Non-standard personal expenses due from members (overseas taxation)	110
Reinsurers' profit commission and overriding commission	223
Expense recoveries from reinsurers	702
	<u>20,352</u>

Debtors arising out of reinsurance operations of £16.5m include funds due in respect of Syndicate 6103 of £1.6m.

16. Amounts Due to Members

	£'000
Profit for the 2016 Closed Year of Account due to members at 31 December 2018	<u>33,014</u>

17. Other Creditors

	£'000
Arising out of direct insurance operations	
Policyholders	-
Intermediaries	2,798
Arising out of reinsurance operations	7,723
Profit commissions	8,254
Reinsurance profit commission payable	1,014
	<u>19,789</u>

Creditors in respect of reinsurance operations of £7.7m include funds due to Syndicate 6103 of £5.2m.

18. Cash and Cash Equivalents

	2016 £'000
Cash at bank and in hand	11,904
Short term deposits with financial institutions	58
	<u>11,962</u>

19. Related Parties

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agency and syndicate.

MAP also manages Syndicate 6103. The underwriting business of Syndicate 6103 is derived solely under a reinsurance contract with Syndicate 2791. Under the terms of this contract, Syndicate 6103 is obliged to accept 10% of all business written by Syndicate 2791 under certain categories of its property catastrophe book. Syndicate 2791 retains the balance of these contracts net for its own account.

Syndicate 2791 receives a ceding commission of 5% and an overriding commission of 1% of gross written premiums ceded to Syndicate 6103 to cover personal expenses of Syndicate 6103 names borne by Syndicate 2791. A profit commission of 15% of profits, as defined in the contract, is payable to MAP. All funds are retained and invested by Syndicate 2791 on behalf of Syndicate 6103 and interest is payable (or charged on negative balances) to Syndicate 6103 at rates agreed.

NOTES TO THE ACCOUNTS

continued

19. Related Parties *continued*

The following transactions between the syndicates occurred for the 2016 year of account:

	£'000
Premiums ceded	(4,876)
Paid claims recovered	1,319
Ceding commission	233
Overriding commission	49
Investment income payable	12
Reinsurance to close premium	28
Profit commission payable	513

The balance owed by Syndicate 2791 to Syndicate 6103 at the end of the period is £2.9m and will be settled through the Lloyd's distribution process.

The directors' interests in the ordinary share capital of MAP Equity Limited, which has an issued share capital of 250,000 £1 shares, at the statement of financial position date were as follows:

	A Shares (voting)	B Shares (non-voting)
R K Trubshaw	33,000	–
A Kong	22,000	–
J D Denoon Duncan	–	8,333
P Langridge	–	2,500
C J Smelt	5,000	2,500
R J Sumner	–	10,000

Messrs. Shipley, Denoon Duncan, Kong, Trubshaw, Sumner and Smelt, or their related parties, participate on Syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member MAP Capital Limited.

MAP Capital Limited commenced underwriting on the 2001 year of account. For the 2016 year of account MAP Capital Limited provided £77.2m of capacity on Syndicate 2791 representing 19.3% of capacity. MAP has no direct interest in the share capital of MAP Capital Limited.

For the 2016 year of account these directors also participate on Syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member, Nomina No 208 LLP. For the 2016 year of account it has provided £11.3m of capacity representing 2.8% of capacity. MAP has no direct or indirect interest in Nomina No 208 LLP.

Managing agency fees amounting to £2.2m were paid to MAP for the 2016 year and profit commission of £8.3m (at closing rates) is also due to the managing agency in respect of the profit of the 2016 closed year. Expenses totalling £10.1m were recharged to this year of account through acquisition and other administrative expenses.

There are no other transactions or arrangements requiring disclosure.

20. Contingent Liabilities

Letters of credit

The syndicate has provided letters of credit to certain insureds and reinsureds to cover losses that might arise on their contracts written in the ordinary course of business. These amount to US\$2.3m; the letters of credit are fully collateralised with cash deposits held by Citibank, on the syndicate's account, of US\$2.3m.

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SYNDICATE 2791

Annual Report and Accounts
31 December 2018

DIRECTORS AND ADMINISTRATION

MANAGING AGENT

Managing Agent

Managing Agency Partners Limited (MAP)

Directors

K Allchorne (Non-executive)

C E Dandridge (Non-executive)

J D Denoon Duncan

A S Foote (Non-executive)

T P Froehlich (Non-executive)

A Kong

P Langridge

A J T Milligan (Non-executive resigned 31 October 2018)

D E S Shipley (Non-executive Chairman)

C J Smelt

R J Sumner

R K Trubshaw (Active Underwriter)

Company Secretary

P Langridge

Managing Agent's Registered Office

Fitzwilliam House

10 St. Mary Axe

London

EC3A 8EN

Managing Agent's Registration

Registered in England; number: 03985640

SYNDICATE

Active Underwriter

R K Trubshaw

Principal Investment Managers

Schroders Investment Management Limited

Registered Auditor

Deloitte LLP

Hill House

1 Little New Street

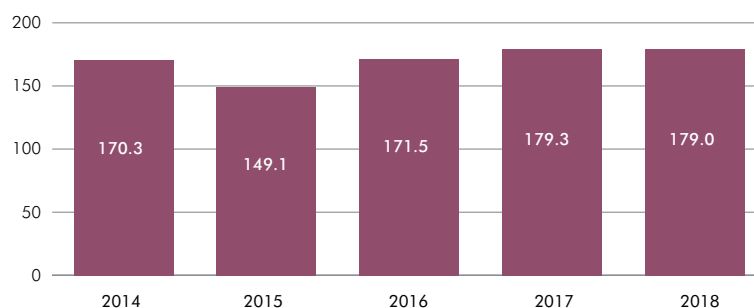
London

EC4A 3TR

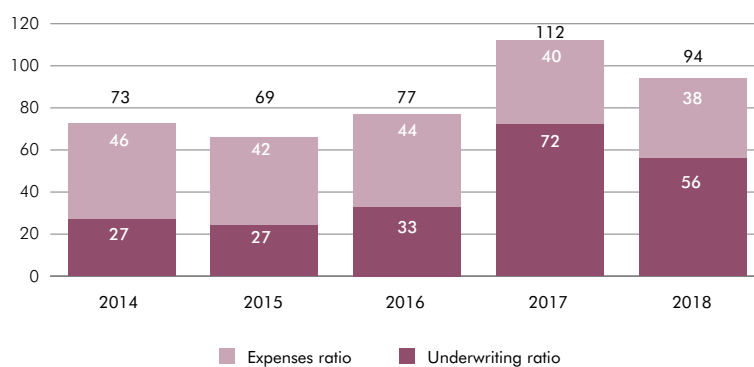
KEY FINANCIAL DATA

All data is at 31 December

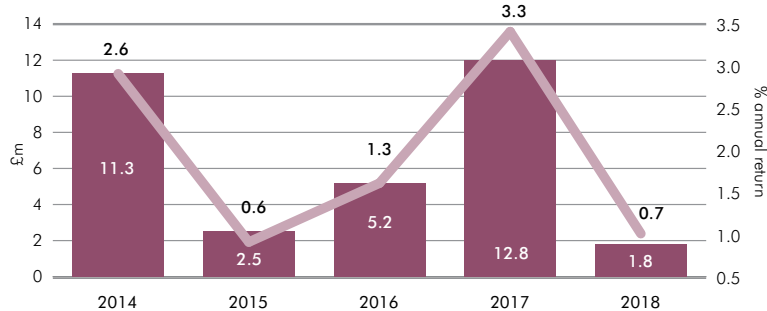
Gross premiums written 2014 to 2018 (£m)



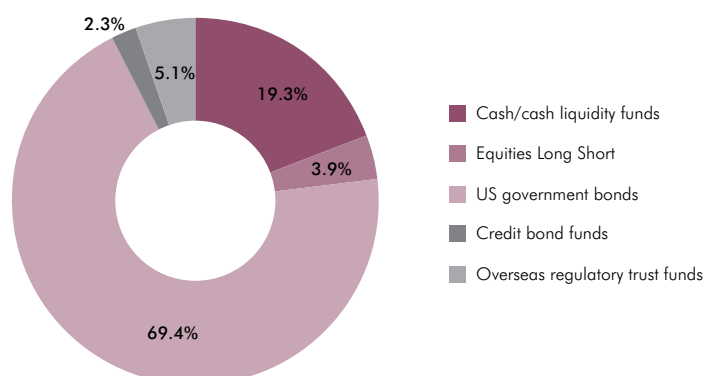
Combined ratio 2014 to 2018 (%)



Net Investment return 2014 to 2018



Total investment asset composition 2018



MANAGING AGENT'S REPORT

The directors of the managing agent present their report for the year ended 31 December 2018. The principal activity of the syndicate is that of writing insurance and reinsurance business.

This annual report is prepared using the annual basis of accounting as required by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations'), FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

Separate underwriting year accounts for the closed 2016 year of account are attached to these accounts in the section headed Underwriting Year Distribution Accounts (pages 4 to 31).

UNDERWRITER'S REPORT

A Review of the Calendar Year Result

These financial statements are prepared focusing on the calendar year results under UK generally Accepted Accounting Practices (GAAP) for insurance companies.

The 2018 calendar year produced an annually accounted profit of £9.3m (2017: £6.7m loss) on gross earned premiums of £176.6m (2017: £179.1m) gross of acquisition and reinsurance costs. The net combined ratio was 94.4% (2017: 111.7%).

Movement on underwriting years of account during the 2018 calendar year

	2015 and prior periods £'000	2016 and 2016 prior periods £'000	2016 and prior periods £'000	2017 £'000	2018 £'000	Total £'000	2017 £'000
Gross written premium	(1,031)	1,644	613	23,482	154,872	178,967	179,348
Net premium earned	(898)	12,967	12,069	48,504	78,331	138,904	140,992
Net claims incurred	18,506	(3,586)	14,920	(23,402)	(69,932)	(78,414)	(100,817)
Acquisition costs	452	(3,716)	(3,264)	(15,908)	(20,468)	(39,640)	(40,075)
	18,060	5,665	23,725	9,194	(12,069)	20,850	100
Operating expenses	(48)	(5,472)	(5,520)	(949)	(6,629)	(13,098)	(16,532)
Investment income	-	1,644	1,644	129	57	1,830	12,788
Non-technical account foreign currency adjustment	(481)	134	(347)	(148)	297	(198)	381
Annual accounted (loss)/profit	17,531	1,971	19,502	8,226	(18,344)	9,384	(3,263)
Currency translation differences	967	846	1,813	(928)	(1,013)	(128)	(3,406)
Total Comprehensive Income	18,498	2,817	21,315	7,298	(19,357)	9,256	(6,669)
As previously reported	-	11,699	11,699	(21,941)	-	(10,242)	43,579
Cumulative pure year result	18,498	14,516	33,014	(14,643)	(19,357)	(986)	36,910
Net annual accounting ratios:							
Claims ratio						56%	72%
Expense ratio						38%	40%
Combined ratio						94%	112%

MANAGING AGENT'S REPORT

continued

2018	Gross Written Premium £'000	Net Written Premium £'000	Net Earned Premium £'000	Underwriting Profit/(Loss) £'000
Property Direct	30,831	25,582	22,202	8,363
Reinsurance property	87,769	58,380	57,411	(9,002)
Marine	7,765	7,394	6,296	2,069
Motor and specialist	36,052	35,590	36,226	5,423
Liability	8,551	8,559	8,856	501
Accident and health	7,999	7,990	7,913	398
Total	178,967	143,495	138,904	7,752

2017	Gross Written Premium £'000	Net Written Premium £'000	Net Earned Premium £'000	Underwriting (Loss)/Profit £'000
Property Direct	24,919	20,990	19,674	962
Reinsurance property	79,305	60,456	60,445	(17,131)
Marine	5,599	5,249	5,367	(1,592)
Motor and specialist	52,660	39,980	40,066	(4,047)
Liability	8,054	8,059	7,751	6,359
Accident and health	8,811	8,803	7,689	(983)
Total	179,348	143,537	140,992	(16,432)

2018 Overview

As indicated in last year's report, the market failed to move significantly following the poor experience of 2017: indeed, by "doubling down" so readily capital providers effectively negated the opportunity to re-price business. Consequently, it was very difficult for businesses like MAP, which rely on market dislocation to re-underwrite other people's mistakes, to make any meaningful headway. Interestingly, catastrophe incidence was similarly elevated in 2018, with hurricanes Florence and Michael impacting the US, four significant loss events in Asia, followed by a repeat of the Californian Wildfires. Once again we have out-performed the market, (particularly in Japan and the Californian wildfires), and the back years contributed a positive return, sufficient to offset the pure year loss.

Across all years of account we are projecting ultimate gross catastrophe losses of \$56.5m, with a year-end incurred of \$32.2m. Ultimate net losses are projected to be \$50.3m, which represents over 22 percentage points on net earned premium

MANAGING AGENT'S REPORT

continued

FINANCIAL REPORT

Investment return

The investment return for 2018 was 0.9%, £2.7m (2017: 3.8%, £14.7m). Net of investment expenses the return was 0.7%, £1.8m (2017: 3.3%, £12.8m.)

2018 was a year when nearly all investment classes produced negative returns and our decision in 2017 to remove the long equities from our portfolio has been a good call with the S&P500 down by 6.2% in 2018. During the year we had opted to further reduce risk in the portfolio by selling all corporate bonds from our core portfolio and moving to the more conservative short dated US Treasury securities. The reduction in corporate exposure decision was taken in light of the excess return on such debt falling well below the median historical average; we didn't think we were being paid an adequate premium for owning such assets.

Furthermore we initiated a full redemption of the investment in our remaining Long/Short hedge fund in 2018 with a settlement date of early 2019. We have invested in this fund since 2007 and in that time it has returned over 125%, +\$25m of the original investment. The decision was taken due to the reduced size of our investment portfolio which made the fund's relative illiquidity no longer practical. The investment portfolio has been gradually shrinking on the back of decent profit distributions from previous years of account combined with the claim payments associated with the catastrophe events of the last two years.

With our portfolio comprising mainly short dated US Treasuries and cash liquidity funds the prospect for significant excess returns will be largely dependent on the performance of the 7.3% of the investment assets which are held in a 20 year duration US Treasury portfolio. We hold this portion of the portfolio as we are concerned the huge level of US (and worldwide) government borrowings will act as a dampener on economic growth, which in turn could push global inflation lower than expected. In times of low growth and low inflationary expectations the safety of longer dated US Treasury securities is often sought by investors.

The investment assets are £301m at year end and the position of the Investment Committee is to maintain a defensive stance until opportunities present themselves for risk deployment. There is no participation in the use of any derivative contracts and the Committee ensure that liabilities are matched by assets in the same currency. The Euro assets have failed to produce a positive return in 2018 due to the negative yields at the short end of the Euro yield curve. The Committee's decision is to not hunt for further yield given the risks of the Eurozone. Fortunately, we conduct the majority of our business in US dollars (89% of the portfolio at Dec 2018 was US dollars) and with the aforementioned debt laden economic pressures essentially removing the ability of US Federal reserve to increase the funds rate, we should hopefully be able to enjoy the embedded yield of around 2.5% for 2019, even more if the economic outlook starts to darken and the Federal reserve takes the action of dropping the rates.

MANAGING AGENT'S REPORT

continued

The table below sets out the returns by asset class in our portfolio:

Asset class	2018		2017	
	Return %	Closing assets as a proportion of portfolio %	Return %	Closing assets as a proportion of portfolio %
Cash/cash liquidity funds	0.7	19.3	0.5	25.0
Equities Long	-	-	20.1	-
Equities Long Short	9.1	3.9	21.3	4.1
US Government bonds	0.6	69.4	2.7	35.6
US agency bonds	-	-	-	-
US corporate debt	(0.1)	-	2.3	26.8
Credit bond funds	0.8	2.3	8.0	3.9
Overseas regulatory trust funds	0.6	5.1	0.5	4.6
Return	0.9		3.8	
Return after charges	0.7		3.3	

The key characteristics for each class are described below:

Cash and cash liquidity funds

These comprise either cash at bank, money market sweep accounts or in liquidity funds with a duration of less than one year. The cash is spread across five different major banks.

Equities

The fund we invested in throughout 2018 had the ability to sell equities short to manage exposure during falling markets as well as holding equities of firms that were undervalued. As mentioned earlier, a full redemption was initiated in 2018 with a settlement date of early 2019.

Credit funds

We invest in one open ended distressed credit hedge fund managed by an external specialist manager.

US Government bonds

These comprise of US Treasury notes and bills. Treasury Inflation Protected Securities (TIPS) were used in the first half of the year but the majority of the portfolio has now simplified to a 2 year monthly rolling US Treasury portfolio and a portion in 20 year US Treasury bonds. Two large external US investment managers are engaged to run our debt portfolio, with one specializing in the long end of the curve. The Government bonds have an average overall duration of around 3.5 years (2017: 6.7 years).

US corporate debt

These were managed by a single manager and comprise senior and subordinate bonds issued by industrial and financial companies, mainly US based. Exposure to US Corporate Debt was strategically decreased to zero in 2018.

Overseas regulated trust funds

Separately regulated trust funds set up to satisfy local regulatory requirements. Each of these funds is managed conservatively by Lloyd's.

MANAGING AGENT'S REPORT

continued

Valuation risk

Investments are marked to market at bid prices at each period end with all changes taken through the underwriting account. Prices are supplied by external custodians for all investments. The custodians obtain prices from independent sources, with each custodian having an audit of their pricing and control systems. In accordance with the custodian systems, prices are supplied by at least two pricing vendor sources. The pricing sources use market prices, or where it is more appropriate in illiquid markets, pricing models. We reconcile the custodian's overall prices to our bond manager's records to check for reasonableness. Additional sample checks are made using Bloomberg or exchange market prices. We also conduct a review of the proportion of assets that each manager deems to have a restricted market for valuation purposes. These reviews revealed no significant pricing issues.

Rating and the future

The credit rating of our assets is set out below:

31 December 2018	Rating						Total
	AAA	AA	A	BBB	<BBB	Not Rated	
Shares and other variable yield securities and unit trusts	10,537	-	16,870	-	-	-	27,407
Debt securities	-	208,553	-	-	-	-	208,553
Participation in investment pools	3,056	13,109	-	-	-	18,587	34,752
Loans with credit institutions	-	-	-	-	-	-	-
Loans and deposits with credit institutions	-	-	1,822	-	-	-	1,822
Overseas deposits as investments	-	10,948	-	23	120	4,176	15,267
Reinsurers' share of claims outstanding	-	-	58,989	-	-	94	59,083
Cash at bank and in hand	-	-	12,674	-	-	-	12,674
Accrued interest	-	809	-	-	-	-	809
Total credit risk	13,593	233,419	90,355	23	120	22,857	360,367

31 December 2017	Rating						Total
	AAA	AA	A	BBB	<BBB	Not Rated	
Shares and other variable yield securities and unit trusts	11,991	12,054	322	24,639	-	-	49,006
Debt securities	5,054	135,590	60,071	5,825	-	4,323	210,863
Participation in investment pools	2,816	14,411	3,914	-	-	26,924	48,065
Loans with credit institutions	-	-	-	-	-	-	-
Loans and deposits with credit institutions	-	-	1,770	-	-	-	1,770
Overseas deposits as investments	-	11,000	-	-	14	4,354	15,368
Reinsurers' share of claims outstanding	-	-	60,680	-	-	1,245	61,925
Cash at bank and in hand	-	-	12,465	-	-	-	12,465
Accrued Interest	45	434	394	51	-	16	940
Total credit risk	19,906	173,489	139,616	30,515	14	36,862	400,402

Of the £59.1m (2017: £61.9m) reinsurers' share of claims outstanding, £Nil (2017: £3.6m) is backed by undrawn trust fund assets.

MANAGING AGENT'S REPORT

continued

The syndicate does not undertake securities lending or exchange rate management. Lloyd's are custodians of our overseas deposits over which we have no direct investment control.

Currency Translation Differences

Around 80% of the syndicate's assets are held in US dollars but, as results are published in sterling, changes in the £:USD exchange rate can significantly alter the reported sterling result. However, capital providers receive distributions in both currencies and are therefore unaffected by the accounting exchange gain booked.

The accounting exchange loss for the year is £0.1m (2017 loss: £3.4m). This principally reflects the strengthening of the US Dollar against sterling from the opening rate of 1.35 to the current year end rate of 1.27 on a deficit balance and is further detailed in note 13. We do not seek to hedge exchange exposure.

Reinsurance Balances

There are no provisions for bad debts on the syndicates' reinsurance balances.

An analysis of the security rating for the reinsurance balances on our statement of financial position at 31 December is set out below:

Debt table by security rating

	On paid claims	On outstanding claims	On IBNR	2018 Total	2017 Total
Standard & Poor's rating	£m	£m	£m	£m	£m
A	16.5	31.3	27.7	75.5	66.8
Not rated	(0.1)	-	0.1	-	1.1
	16.4	31.3	27.8	75.5	67.9

Of the total reinsurance debtors rated A in the table above, the amounts owed by Syndicate 6103 are £14.6m.

The negative paid claim figure in the not rated rating is a repayment due to one of our reinsurers caused by a reduction on a previously paid claim.

Our reinsurance security committee has authorised the use of a number of the insurance companies set up after the 2005 hurricanes. These companies have either no, or a low, Standard and Poor's security rating. As a result they are only accepted on to the syndicate's reinsurance programme if they offer acceptable alternative direct security (Letters of Credit or syndicate specific trust accounts).

Solvency Capital Requirement

The Managing Agent is required to provide a solvency capital assessment (SCR) to Lloyd's which sets the capital required to be held by the members of the syndicate for the prospective underwriting year. Lloyd's syndicate SCRs are combined to provide the basis of the Lloyd's internal model which the Prudential Regulation Authority originally approved in December 2016.

This amount is derived from the syndicate's loss distribution, which is calculated internally. It is the loss at the 99.5% confidence level, 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 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 for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Requirement (ECR). 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 2019 is 35% (2018: 35%) of the member SCR 'to ultimate'.

The syndicate current capital assessment has been established using our internal Solvency II model which has been run within the capital regime as prescribed by Lloyd's. The internal model uses sophisticated mathematical models reflecting key risks within the syndicate. The risks are principally Insurance (catastrophes, pricing and reserving), Market (equity, liquidity, currency, interest rate and spread), Credit (brokers, investment and reinsurance) and Operational.

MANAGING AGENT'S REPORT

continued

The following table sets out the syndicate's ECR which is unaudited:

	2019	2018
	£m	£m
2791	240.6	247.6

ECR capital is provided by the members of the syndicate from syndicate own funds (retained profits) set under Solvency II regulations plus additional contributed assets held and managed by Lloyd's of London, known as Funds at Lloyd's or FAL.

European Union business

In order to ensure continued market access to European (re)insurance business following the U.K.'s exit from the European Union, Lloyd's has established a Belgian subsidiary - Lloyd's Insurance Company S.A.

More commonly known as 'Lloyd's Brussels', this subsidiary is authorised and regulated as an insurance entity by the National Bank of Belgium and regulated by the Financial Services and Markets Authority.

Lloyd's Brussels is capitalised in accordance with Solvency II rules and is licensed to write non-life risks across the European Economic Area (EEA), the UK and Monaco.

Lloyd's Brussels benefits from Lloyd's central resources, including the Lloyd's Central Fund. As all Lloyd's Brussels policies are 100% reinsured back to Lloyd's syndicates, they are ultimately backed by Lloyd's unique capital structure, often referred to as the Chain of Security.

All European non-life business incepting and/or renewing on or after 1 January 2019 will now be placed with Lloyd's Brussels and the structure of Lloyd's Brussels enables business partners and policyholders to retain access to the underwriting expertise of the Lloyd's market via established distribution channels of brokers, coverholders, and syndicates.

Lloyd's has publicly committed that its syndicates will continue to pay all valid claims on historic policies and that before the end of 2020 all legacy EEA business will be moved to Lloyd's Brussels via a Part VII transfer.

All direct European Union business written from 1 January 2019 will be presented as reinsurance accepted in the annual accounts.

This business is subject to a 2.75% charge and as an illustration on this year's business written of £4m a charge of £0.1m would be incurred to Lloyd's Brussels subsidiary.

Future Developments

The syndicate continues to transact the majority of its business in the classes of general insurance and reinsurance that it has transacted historically.

Research and Development

The type of insurance risk the syndicate writes are often bespoke to an insured and in the ordinary course of business we develop and research new policies, wording or coverages to meet our insured's needs.

MANAGING AGENT'S REPORT

continued

RISK MANAGEMENT

We have established a risk management framework whose primary objective is to protect the syndicate from events which negatively impact current and future returns.

Principal Risks and Uncertainties

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover, that the frequency or severity of insured events will be higher than expected, or that estimates of claims subsequently prove to be insufficient. Underwriting strategy is agreed by the Board and set out in the Syndicate Business Plan which is submitted to Lloyd's each year. Processes are in place to identify, quantify and manage aggregate exposures and technical prices within each of our underwriting classes. Reinsurance is purchased where appropriate to our risk appetite and reduces the retained financial impact of catastrophic loss. Reserves set are subject to stress testing and independent review.

Credit risk

Credit risk is the risk of default or the inability of one or more of the syndicate's reinsurers or brokers to settle their debts as they fall due.

Reinsurance is only placed with security that meets the criteria agreed by the Board where possible collateral in the form of trust funds is requested before reinsurance is placed with some reinsurers. Use is made of independent rating agencies. Business is only accepted through accredited Lloyd's brokers who are reviewed by the Agency's Security Committee and business accepted via binding authority is subject to a process of rolling review. Aggregate exposure to any counterparty is monitored regularly and a robust system of credit control is in place, itself subject to the internal Security Committee. Exposure to investment counterparties is monitored by a specialist investment reporting company and reviewed by the Investment Committee. This Committee includes a non-executive director with expertise in US fund management. Investment guidelines are set and monitored in view of the syndicate's liability exposures and their durations.

Liquidity risk

This is the risk that the syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. Liquidity management forms an important part of the financial management practices of the syndicate. Cash flow projections and budgetary controls are maintained and reported upon to the Board.

Market risk

Market risk is the potential adverse financial impact of changes in value of financial instruments caused by fluctuations in foreign currency, interest rates or equity prices. The potential impact of market risk elements is reported to the Board and the potential financial impact of changes in market value is monitored through the use of an economic scenario generator in the capital setting process. This risk is managed by spreading the investments over a number of investment managers who each specialise in a market sector or type of investment evaluation.

Foreign currency exchange risk

We operate from the United Kingdom but over 90% of our premiums and claims are settled in currencies other than sterling. Our reported financial results are denominated in sterling and are therefore affected by the exchange rate against sterling of our main currency assets (US dollars, Euros and Canadian dollars). The syndicate settles its surplus assets in both sterling and US dollars as each underwriting year closes or earlier if a solvency transfer is approved. We do not therefore seek to hedge the US dollars exposure. Other currencies are tracked against sterling to ensure the amount of exposure is monitored and if needed appropriate action taken.

Interest rate risk

Interest rate risk is the potential adverse financial impact of changes in value of assets and liabilities caused by rising or falling market interest rates. For example, debt and fixed income securities are exposed to actual fluctuations or changes in market perception of current or future interest rates. Exposure to interest rate risk is monitored through the use of Value-at-Risk analysis, scenario testing, stress testing and duration reviews. Interest rate risk is managed by matching of assets and liabilities to within five years.

MANAGING AGENT'S REPORT

continued

Operational risk

Operational risk is the potential adverse financial and reputational impact of inadequate or failed internal processes, people and systems or from external events. An internal risk assessment process has been developed to assess the potential impact and probability of certain events and a system of internal controls has been implemented to mitigate the risks. These controls have been monitored by Senior Management and the Board whilst their ongoing effectiveness is validated through both the ongoing risk assessment and internal audit process.

Regulatory risk

The Managing Agent and the syndicate are required to comply with the requirements of the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agent has a director of risk and assurance who monitors regulatory developments and assesses the impact on agency policy supported by an assistant who carries out a compliance monitoring programme.

CORPORATE GOVERNANCE

Directors and Directors' Interests

The Directors of the Managing Agent who served during the year ended 31 December 2018 together with their participations on the syndicate were as follows:

	2018 year of account £'000	2017 year of account £'000
K Allchorne (Non-executive)	-	-
C E Dandridge (Non-executive)	-	-
J D Denoon Duncan ^{(1) (2)}	859	859
A S Foote (Non-executive) ⁽¹⁾	500	-
T P Froehlich (Non-executive appointed 27 July 2017)	-	-
A Kong ^{(1) (2)}	2,485	2,485
P Langridge	-	-
A J T Milligan (Non-executive resigned 31 October 2018)	-	-
D E S Shipley (Chairman) ⁽¹⁾	6,139	6,139
C Smelt ^{(1) (2)}	2,353	2,353
R J Sumner ⁽¹⁾	1,355	1,355
R K Trubshaw (Active Underwriter) ⁽¹⁾	9,881	9,880

(1) Participate via MAP Capital Limited and/or Nomina 208 LLP, unaligned corporate members.

(2) Include participations of related parties.

The total capacity of the 2018 year of account of the syndicate was £399.5m.

Governance Framework

MAP maintains a clear organisational and governance framework with the role and responsibility of the Board, sub-committees, directors and senior staff clearly defined and documented.

An established risk management framework operates in respect of the identification, assessment, management and monitoring of all core areas of risk to which the business is exposed in its day-to-day activities (insurance risk, market risk, reserving risk, credit risk, liquidity risk and operational risk) with defined and articulated risk appetites in all areas.

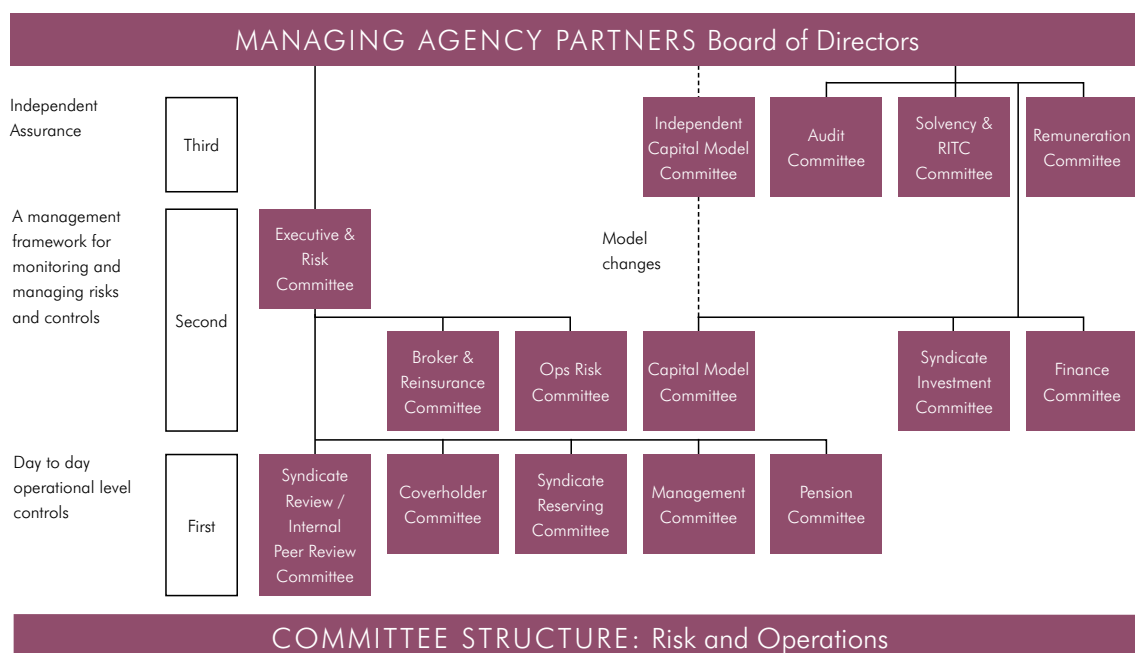
MANAGING AGENT'S REPORT

continued

MAP operates a three lines of defence approach to the overall governance of its operations. The first line of defence is the day to day operational level controls; the second line of defence being a framework for monitoring and managing risks and controls; and the third being challenge through both:

- oversight committees each comprising a majority of non-executive directors; and
- independent assurance review through the Internal Audit Function.

This is depicted in the following Committee Structure diagram:



Reappointment of Auditors

Ernst & Young LLP were not be reappointed as auditors. The audit committee undertook a tender process in respect of external audit services during 2017 and it was concluded that Deloitte LLP would be appointed as auditors for 2018 onwards. Deloitte LLP will be reappointed for 2019.

Disclosure of Information to the Auditors

So far as each person who was a director of the managing agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he/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 auditor is aware of that information.

Annual General Meeting

As permitted under the Syndicate Meetings (Amendment No.1) Byelaw (No.18 of 2000) MAP does not propose holding a Syndicate Annual General Meeting of the members of the syndicate. Members may object to this proposal within 21 days of the issue of these accounts. Any such objection should be addressed to P Langridge, Risk & Assurance Director at the registered office of Managing Agency Partners Limited.

This managing agent's report was approved by the Board of Managing Agency Partners Limited on 19 March 2019 and signed on its behalf by:

R K Trubshaw
Active Underwriter
Managing Agency Partners Limited
London
19 March 2019

P Langridge
Company Secretary

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the syndicate annual accounts in accordance with applicable law and regulations.

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

In preparing the syndicate annual accounts, the managing agent is required to:

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

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

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 in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT

to the Members of Syndicate 2791

Independent auditor's report to the members of Syndicate 2791

Report on the audit of the syndicate annual financial statements.

Opinion

In our opinion the syndicate annual financial statements of Syndicate 2791 (the 'syndicate'):

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

We have audited the syndicate annual financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of changes to members' balances;
- the statement of financial position;
- the statement of cash flow; and
- the related notes 1 to 29.

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

Basis for opinion

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

We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

We have nothing to report in respect of these matters.

Other information

The managing agent is responsible for the other information. The other information comprises the information included in the annual report, 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.

INDEPENDENT AUDITOR'S REPORT

continued

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

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

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

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

Report on other legal and regulatory requirements

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

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

- the information given in the managing agent's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the managing agent's report has 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.

Use of our report

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

Andrew Downes (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, UK

19 March 2019

INCOME STATEMENT TECHNICAL ACCOUNT – GENERAL BUSINESS

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Earned premiums, net of reinsurance			
Gross premiums written	4	178,967	179,348
Outward reinsurance premiums		(35,472)	(35,811)
Net premiums written		143,495	143,537
Change in the provision for unearned premiums:			
Gross amount		(2,407)	(261)
Reinsurers' share		(2,184)	(2,284)
Change in the net provision for unearned premiums		(4,591)	(2,545)
Earned premiums, net of reinsurance		138,904	140,992
Allocated investment return transferred from the non-technical account		1,830	12,788
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	4,6	(104,755)	(115,079)
Reinsurers' share		24,471	12,265
Net claims paid		(80,284)	(102,814)
Change in the provision for claims			
Gross amount	4	6,822	(20,571)
Reinsurers' share		(4,952)	22,568
Change in the net provision for claims		1,870	1,997
Claims incurred, net of reinsurance		(78,414)	(100,817)
Acquisition expenses		(40,962)	(40,646)
Change in deferred acquisition expenses	7	1,322	571
Reinsurers' commissions and profit participations		1,488	(293)
Administrative expenses	8	(14,586)	(16,239)
Net operating expenses	4	(52,738)	(56,607)
Balance on the technical account for general business		9,582	(3,644)

All operations are continuing.

INCOME STATEMENT NON-TECHNICAL ACCOUNT

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Balance on the general business technical account		9,582	(3,644)
Investment return	11	1,830	12,788
Allocated investment return transferred to general business technical account		(1,830)	(12,788)
Non-technical account foreign exchange		(198)	381
Profit/(Loss) for the financial year		9,384	(3,263)

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Profit/(Loss) for the financial year		9,384	(3,263)
Exchange differences on foreign currency translation	13	(128)	(3,406)
Total comprehensive income for the year		9,256	(6,669)

STATEMENT OF CHANGES IN MEMBERS' BALANCES

for the year ended 31 December 2018

	2018 £'000	2017 £'000
Members' balances brought forward at 1 January 2018	36,910	105,544
Total comprehensive income for the year	9,256	(6,669)
Members' agents fees 2015 (2014) year of account	(2,111)	(2,388)
Payments of profit to members' personal reserve funds for the 2015 (2014) year of account	(45,041)	(59,577)
Members' balances carried forward at 31 December 2018	(986)	36,910

STATEMENT OF FINANCIAL POSITION ASSETS

as at 31 December 2018

	Note	2018 £'000	2017 £'000
Investments			
Financial investments	14	287,801	325,072
Reinsurers' share of technical provisions			
Provision for unearned premiums	5	8,988	10,682
Claims outstanding	6	59,083	61,925
		68,071	72,607
Debtors			
Debtors arising out of direct insurance operations	15	17,434	13,028
Debtors arising out of reinsurance operations	15	58,169	41,534
Other debtors	16	9,329	9,121
		84,932	63,683
Other assets			
Cash at bank and in hand		12,674	12,465
Prepayments and accrued income			
Accrued interest		809	940
Deferred acquisition costs	7	16,738	14,628
Other prepayments and accrued income		2,698	1,700
		20,245	17,268
Total assets		473,723	491,095

STATEMENT OF FINANCIAL POSITION LIABILITIES

as at 31 December 2018

	Note	2018 £'000	2017 £'000
Capital and reserves			
Members' balances		(986)	36,910
Technical provisions			
Provision for unearned premiums	5	58,886	53,457
Claims outstanding	6	360,684	350,548
		419,570	404,005
Creditors			
Creditors arising out of direct insurance operations	17	3,996	4,029
Creditors arising out of reinsurance operations	17	37,654	25,448
Other creditors	18	9,275	15,263
		50,925	44,740
Accruals and deferred income			
		4,214	5,440
Total liabilities			
		473,723	491,095

The financial statements on pages 49 to 78 were approved by the Board of Managing Agency Partners Limited on 19 March 2019 and were signed on its behalf by:

R K Trubshaw
Active Underwriter

R J Sumner
Finance Director

19 March 2019

STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Operating profit/(loss) on ordinary activities		9,384	(3,263)
Movement in gross technical provisions		15,565	(2,590)
Movement in reinsurers' share of gross technical provisions		4,536	(19,201)
Movement in debtors		(24,226)	9,792
Movement in creditors		4,959	(26,217)
Investment return		(1,830)	(12,788)
Members' agents' fee advances		(2,111)	(2,388)
Exchange differences on foreign currency translation		(8,729)	15,552
Net cash (outflow) from operating activities		(2,452)	(41,103)
Cash flows from investing activities			
Purchase of equity and debt instruments		(326,814)	(260,750)
Sale of equity and debt instruments		370,022	336,818
Investment income received		4,416	19,201
Movement in overseas deposits		565	2,853
Movement in cash equivalents		(81)	151
Net cash inflow from investing activities		48,108	98,273
Cash flows from financing activities			
Payments of profit to members' personal reserve funds		(45,041)	(59,577)
Net Cash (outflow) from financing activities		(45,041)	(59,577)
Movement in cash and equivalents		615	(2,407)
Cash and cash equivalents at 1 January		12,616	15,380
Exchange differences on opening cash		(487)	(357)
Cash and cash equivalents at 31 December	19	12,744	12,616

NOTES TO THE ACCOUNTS

for the year ended 31 December 2018

1. Basis of Preparation and Statement of Compliance

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The 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. 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.

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

The result for the year is determined on the annual basis of accounting in accordance with UK GAAP.

Syndicate 2791 cedes business under a quota-share treaty to Syndicate 6103 which operates on a funds withheld basis with Syndicate 2791. Syndicate 6103 is also managed by the managing agent, MAP. Syndicate 6103 holds no cash or investments. All the syndicate's funds are held by Syndicate 2791 which makes payments of liabilities on Syndicate 6103's behalf. Debtors and creditors between the syndicates are grossed up in the syndicate statement of financial position and upon the closure of each year of account, normally after 36 months, the assets and liabilities of that closing year are netted off as part of the commutation settlement with Syndicate 6103.

2. Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements require management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position 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.

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

Insurance contract technical provisions

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

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder, Bornheutter-Ferguson methods and individual reserving at contract level.

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from pricing and other models of the business accepted and assessments of underwriting conditions.

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. In addition, where contracts are yet to expire, or where losses are not settled until several years after the expiration of the policy in question, the estimates are considered to be more volatile and consequently are subjected to additional management judgemental prudence adjustments. The methods used, and the estimates made, are reviewed regularly.

Where the amount of any material salvage and subrogation recoveries is separately identified it is reported as an asset.

NOTES TO THE ACCOUNTS

continued

2. Judgements and Key Sources of Estimation Uncertainty *continued*

Insurance contract technical provisions continued

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Estimates include an element of judgement with regard to the level of claims affected future premiums receivable by the syndicate. The methods used for assessing future premiums generally involve projecting from past experience, based on the development of claims and the related inwards premiums receivable against these claims. The directors consider whether the estimates of gross future premium are fairly stated on the basis of the information available currently to them. However, the ultimate premium receivable can vary as a result of subsequent information or events and this may result in significant adjustments.

In addition, the most recent underwriting year estimates are considered to be more volatile and consequently are subjected to judgemental management adjustments.

Expense provisions – Unallocated loss adjustment provisions and legal provisions

Estimates of future expenses to be incurred in respect of settlement transaction costs and administering or adjusting expenses in respect of claim provisions are made at each statement of financial position date. The main assumptions underlying these provisions are that direct claim administration costs will be as budgeted, inflation rates will be in line with historical rates and claim payment patterns will reflect historical experience by line of business.

Expense provisions are also made in respect of legal disputes anticipated to be incurred in the normal course of business defending the syndicate position. These provisions are based on historical average costs or direct individual case estimates.

Changes in assumptions, quantum or complexity of future claims can affect the value of these provisions.

Fair value of financial assets and derivatives determined using valuation techniques

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques.

These valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on estimates. It incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details are given in Note 14.

3. Accounting Policies

Insurance contracts

An insurance contract (including inwards reinsurance contracts) is defined as a contract containing significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause the syndicate to pay significant additional benefits. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Estimates are made for pipeline premiums, representing amounts due to the syndicate not yet received at the statement of financial position. Differences between such estimates and actual amounts will be recorded in the period in which the actual amounts are determined.

Premiums are disclosed before the deduction of acquisition costs and taxes or duties levied on them.

Premiums for contracts where the syndicate delegates underwriting authority to another party (e.g. binding authorities, lineslips or proportional treaties) use an estimate of the proportion of premiums incepted at the reference date as an estimate based on historical inception patterns, if no pattern exists business is assumed to incept evenly over the term of the delegated authority.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Unearned gross premiums

Written premiums are recognised evenly over the term of the contract for those contracts where the incidence of risk does not vary over the term. Contracts where the incidence of risk differs over the term are earned based on the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the statement of financial position date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Acquisition costs and deferred acquisition costs

Acquisition costs, comprising commission and other direct or indirect costs related to the acquisition of insurance contracts are deferred to the extent that they are attributable to premiums unearned at the statement of financial position date. The value of commission paid to insurance intermediaries is determined based on the contractual amounts recorded in all contracts. Where, however, policies are issued and the insured agrees to pay a fee directly to the intermediary without reference to the insurer, the written premium comprises the premium payable to the insurer and accounting for broker acquisition costs is inappropriate.

Reinsurance premium ceded

Outwards reinsurance purchased consists of excess of loss contracts and proportional reinsurance contracts. Initial excess of loss premiums are accounted for in the year of inception. Premiums ceded to reinstate reinsurance cover or additional premiums payable on loss are recognised when they may be assessed with reasonable certainty. Proportional outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Reinsurers' commissions and profit participations

Overrides and fees due from reinsurers are accrued in accordance with the contractual terms of each arrangement and earned over the policy contract period.

Profit commission receivable from reinsurers is accounted for in the period the related profit is recognised.

Unearned reinsurance premium

Reinsurance premiums paid to purchase excess of loss reinsurance contracts are earned evenly over the period at risk. Proportional reinsurance premiums are earned in the same accounting period as the inwards business being reinsured.

Claims provisions and related recoveries

Claims paid comprise claims and claim handling expenses paid during the period.

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. The provision for claims outstanding is assessed on an individual case and class basis, as appropriate, and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the statement of financial position date based on statistical methods. Separate reserves are established for each year of account.

Minor loss funds are simply treated as claims paid. Where material, loss fund cash flows are reflected as debtors within prepayments and accrued income. Related claims paid are subsequently booked within the income statement with equivalent rolling cash top-ups maintaining the quantum of the loss fund. As claims paid develop and outstanding liabilities reduce, the level of the loss funds held in the balance sheet is reduced and funds returned to the syndicate.

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

Future unallocated loss adjustment expenses

An accrual for all future unallocated loss adjustment expenses ('ULAE') is made. The ULAE is comprised of those costs which are related to the settlement of earned claims but which are not directly attributable to individual claims. ULAE expenses are undiscounted and include the expenses of managing the run-off of the business on the basis the business is a going concern. Costs of administration of the reinsurance programme are included in the gross ULAE. Separate reserves are established for each year of account.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Legal provisions

The syndicate may be subject to legal disputes in the normal course of business. Provisions for such events and their related costs are recognised where there is an expected present obligation relating to a past event or evidence exists of the requirement for a general provision that can be measured reliably and it is probable that an outflow of economic benefit will be required to settle an obligation.

The directors of the managing agent do not expect the outcome of these claims, either individually or in aggregate, to have a material effect upon the syndicate's operations or financial position. As allowed by FRS 102, further disclosure has not been given as it may seriously prejudice the outcome of any legal proceedings.

Insurance receivables and payables

Insurance receivables and payables are recognised when due and measured on initial recognition at the fair value of the consideration received. They are derecognised when the obligation is settled, cancelled or expired.

Bad debt

Bad debts are provided for only where specific information becomes available to suggest a debtor may be unable or unwilling to settle its debts to the syndicate. Specific information may be directly attributed to the debtor company or may be indirect information from a rating agency or other source. The provision is calculated on a case by case basis.

Unexpired risks provision

A provision for unexpired risks may be made, if necessary, where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date exceed unearned premiums and premiums receivable, after the deduction of any deferred acquisition costs.

The assessment of whether an unexpired risk provision is required is based on information available at the statement of financial position date, which may include evidence of relevant previous claims experience on similar contracts. The assessment is not required to take into account any new claims events occurring after the statement of financial position date as these are non-adjusting events.

The provision for unexpired risks is calculated by reference to all classes of business, which are all managed together on a year of account basis, after taking into account relevant future investment return. The provision for unexpired risks is included in technical provisions in the statement of financial position.

Foreign currency translation

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 in US dollars. We have chosen to maintain our presentational currency as sterling as the syndicate is based in the UK, complies with UK reporting standards and to enable simpler comparisons to other Lloyd's insurance syndicates.

The syndicate records transactions in four settlement currencies being Sterling, US dollars, Canadian dollars and Euros and when reported these currencies are translated in the income statement at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

As permitted by FRS 103, 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 from the functional currency (US dollars) arising from the retranslation of opening balances and between average and year-end rates to the presentational currency are included in the statement of comprehensive income.

All other exchange differences are included in the general business non-technical account.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Foreign currency translation continued

The following rates of exchange have been used in the preparation of these accounts.

	2018		2017	
	Year end	Average	Year end	Average
USD	1.27	1.34	1.35	1.29
CAD	1.74	1.73	1.70	1.67
EUR	1.11	1.13	1.13	1.14

Financial investments

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

Financial instruments recognition and derecognition

Financial instruments are recognised in the statement of financial position at such time as the syndicate becomes a party to the contractual provisions of the financial instrument. Purchases and sales of financial assets are recognised on the trade date, which is the date the syndicate commits to purchase or sell the asset. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the group's obligations specified in the contract expire, are discharged or cancelled.

Derivative financial instruments

The syndicate does not have any derivative financial instruments. As the syndicate has no derivatives it has not designated any derivatives as fair value hedges, cash flow hedges or net investment hedges.

Investment values

Financial investments are valued at fair value. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Listed investments

Listed and other quoted investments are stated at current bid value at the statement of financial position date. For this purpose listed and quoted investments are stated at market value and deposits with credit institutions are stated at cost.

The cost of syndicate investments is the amount paid on the purchase date for those investments still held at the statement of financial position date.

Deposits

All deposits with credit institutions are stated at cost.

Unlisted investments

Some investments are not listed, or in a market not regarded as active because:

- quoted prices are not readily and regularly available; or
- prices do not represent actual and regularly occurring market transactions on an arm's length basis.

In such circumstances the syndicate then seeks to establish fair value by using third party administrators with experience in valuing such assets using valuation techniques as described below:

- using recent arm's length transactions between knowledgeable, willing parties (if available);
- reference to the current fair value of other instruments that are substantially the same; and
- discounted cash flow analyses and option pricing models.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on estimates. It incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial investment.

The syndicate participates in a number of hedge/credit funds and related financial instruments for which there are no available quoted market prices. The valuation of these hedge funds is based on fair value techniques (as described above). The fair value of the hedge/credit fund portfolio is calculated by reference to the underlying net asset values (NAVs) of each of the individual funds. Consideration is also given to adjusting such NAV valuations for any restriction applied to distributions, the existence of side pocket provisions, and the timing of the latest available valuations.

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

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 statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Fair value of financial assets

The syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets that we can assess at the valuation date.

Level 2: other techniques used for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques are used which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets held in investment funds with limited look through to individual underlying assets the syndicate has adopted the following rules for the fair value hierarchy:

Rules for Funds	Fair value level adopted
1. If the underlying assets security is 100% short term bonds or cash.	Level 1
2. If the security is a fund which is subscribed/redeemed on a daily basis.	Level 2
3. If the security is a non-publically tradable fund which has fair value statement available and 95%+ of the fund is determined by the administrator to be Level 1.	Level 2
4. If security is a fund which has a lock up period of 3 months or more.	Level 3
5. If the security is a non-publically tradable fund which has a fair value statement available and less than 95% of the fund is determined by the administrator to be Level 1.	Level 3

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.

Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment management expenses, charges and interest payable.

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

Movements in unrealised gains and losses on investments represent the difference between their valuation at the statement of financial position date and their purchase price or, if they have been previously valued, their valuation at the last statement of financial position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

As detailed above with regard to funds withheld on behalf of Syndicate 6103, investment income earned in the period is reduced by the amount payable to Syndicate 6103.

Purchases and sales of investments are recognised on the trade date, which is the date the syndicate commits to purchase or sell the assets. Funds receivable or payable after the trade date are recorded in debtors and creditors respectively until settled.

Allocation of investment return

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

NOTES TO THE ACCOUNTS

continued

3. Accounting Policies *continued*

Investment management expenses

These comprise contractual fees and profit commissions payable to external third party investment managers for managing the syndicate's investment funds. They are accrued in the period to which they relate.

Overseas deposits

Overseas deposits lodged as a condition of conducting underwriting business in certain countries in compliance with Lloyd's licences are stated at the market value, based on a bid price, ruling at the statement of financial position date.

Operating expenses

Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

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.

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 year are included in the statement of financial position under the heading 'other debtors'.

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

Pension costs

MAP operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Profit commission

Profit commission is charged by the managing agent at a rate of 20.0% for each of the underwriting years of account, subject to the operation of a deficit clause. This is charged to the syndicate as incurred on an earned basis but does not become payable until after the appropriate year of account closes, normally at 36 months.

NOTES TO THE ACCOUNTS

continued

4. Segmental Analysis

An analysis of the technical account before investment return is set out below:

2018	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expense £'000	Reinsurance balance £'000	Net technical result £'000	Net technical result	
							of prior accident year £'000	Net technical provisions £'000
Direct insurance								
Accident and health	7,857	7,760	(3,383)	(3,624)	(8)	745	757	12,051
Motor (third party liability)	292	321	1,119	(209)	(760)	471	9	5,872
Motor (other classes)	27,412	31,161	(16,011)	(10,136)	(2,087)	2,927	3,864	43,566
Marine, aviation and transport	8,484	7,133	(2,605)	(2,287)	(225)	2,016	2,054	22,106
Fire and other damage to property	24,714	22,706	1,328	(9,335)	(7,437)	7,262	8,014	23,601
Third party liability	5,520	5,454	(2,448)	(2,107)	(170)	729	461	27,352
Miscellaneous	794	883	(613)	(286)	-	(16)	(285)	3,181
	75,073	75,418	(22,613)	(27,984)	(10,687)	14,134	14,874	137,729
Reinsurance accepted	103,894	101,142	(75,320)	(24,754)	(7,450)	(6,382)	9,539	213,770
Total	178,967	176,560	(97,933)	(52,738)	(18,137)	7,752	24,413	351,499

2017	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expense £'000	Reinsurance balance £'000	Net technical result £'000	Net technical result	
							of prior accident year £'000	Net technical provisions £'000
Direct insurance								
Accident and health	8,651	7,519	(5,197)	(3,511)	(6)	(1,195)	(1,244)	11,576
Motor (third party liability)	247	239	(151)	(77)	(5)	6	362	8,632
Motor (other classes)	43,404	45,660	(39,080)	(13,723)	3,120	(4,023)	1,621	39,711
Marine, aviation and transport	6,845	7,052	(5,035)	(2,440)	(269)	(692)	(1,194)	20,044
Fire and other damage to property	22,856	21,270	(13,165)	(8,651)	(874)	(1,420)	3,663	28,073
Third party liability	4,026	3,773	(411)	(2,013)	(31)	1,318	2,158	25,835
Miscellaneous	987	898	(1,170)	(279)	-	(551)	(594)	2,705
	87,016	86,411	(64,209)	(30,694)	1,935	(6,557)	4,772	136,576
Reinsurance accepted	92,332	92,676	(71,441)	(25,913)	(5,197)	(9,875)	7,865	194,822
Total	179,348	179,087	(135,650)	(56,607)	(3,262)	(16,432)	12,637	331,398

All premiums were concluded in the UK.

The business class split reported is a statutory reporting requirement but the business is managed by its own business classes and hence an element of allocation is used.

Net operating expenses include reinsurers' commissions and profit participations.

	2018 £'000	2017 £'000
Total commissions on gross direct premiums earned	20,316	21,601

NOTES TO THE ACCOUNTS

continued

4. Segmental Analysis *continued*

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

	Direct	Reinsurance	2018 £'000
UK	20,770	1,633	22,403
Other EU countries	2,415	1,656	4,071
US	40,507	88,699	129,206
Other	11,381	11,906	23,287
Total	75,073	103,894	178,967

	Direct	Reinsurance	Revised 2017 £'000
UK	12,477	1,060	13,537
Other EU countries	29,745	1,214	30,959
US	36,444	80,479	116,923
Other	8,350	9,579	17,929
Total	87,016	92,332	179,348

5. Provision for Unearned Premiums

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2018	53,457	(10,682)	42,775
Premiums written in year	178,967	(35,472)	143,495
Premiums earned in year	(176,560)	37,656	(138,904)
Foreign exchange	3,022	(490)	2,532
At 31 December 2018	58,886	(8,988)	49,898
At 1 January 2017	56,329	(13,368)	42,961
Premiums written in year	179,348	(35,811)	143,537
Premiums earned in year	(179,087)	38,095	(140,992)
Foreign exchange	(3,133)	402	(2,731)
At 31 December 2017	53,457	(10,682)	42,775

Provision for unearned premiums include £1.5m (2017: £0.4m) in respect of Syndicate 6103.

6. Claims Outstanding

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2018	350,548	(61,925)	288,623
Claims incurred in current underwriting year	97,933	(19,519)	78,414
Claims paid during year	(104,755)	24,471	(80,284)
Foreign exchange	16,958	(2,110)	14,848
At 31 December 2018	360,684	(59,083)	301,601
At 1 January 2017	350,266	(40,038)	310,228
Claims incurred in current underwriting year	135,650	(34,833)	100,817
Claims paid during year	(115,079)	12,265	(102,814)
Foreign exchange	(20,289)	681	(19,608)
At 31 December 2017	350,548	(61,925)	288,623

Claims outstanding includes £11.0m (2017: £1.9m) in respect of Syndicate 6103.

NOTES TO THE ACCOUNTS

continued

7. Deferred acquisition costs

	2018 £'000	2017 £'000
At 1 January 2018	14,628	14,894
Change in deferred acquisition costs	1,322	571
Foreign exchange	788	(837)
At 31 December 2018	16,738	14,628

8. Administrative Expenses

	2018 £'000	2017 £'000
Personal expenses	3,353	3,439
Profit commission payable to managing agent	4,939	4,754
Other administrative expenses	6,296	8,133
Gross operating expenses	14,588	16,326
Expense recoveries from reinsurers	(2)	(87)
Net operating expenses	14,586	16,239

2018	2791 £'000	6103 £'000	Total £'000
Administrative expenses include:			
Auditors' remuneration			
Fees for the audit of the syndicate	170	14	184
Audit related assurance	87	19	106
Taxation compliance services	8	-	8
Other non-audit services	-	-	-
	265	33	298

2017	2791 £'000	6103 £'000	Total £'000
Administrative expenses include:			
Auditors' remuneration			
Fees for the audit of the syndicate	229	32	261
Audit related assurance	104	27	131
Taxation compliance services	5	1	6
Other non-audit services	203	32	235
	541	92	633

Audit related assurance includes reporting required by law and regulation, reviews of interim financial information and reporting on regulatory returns

The comparatives include non-audit service fees incurred by syndicate actuaries employed by the former auditors Ernst & Young LLP.

These fees relate to actuarial valuation services and for the provision of the Syndicate Actuarial Opinions (SAO) to Lloyd's and HMRC.

Personal expenses comprise managing agent's fees, Lloyd's subscriptions and central fund contributions.

Lloyd's is a member of the Motor Insurers' Bureau of Ireland (MIBI) and is charged a membership levy based on the Irish motor liability premiums written by all Lloyd's syndicates. Lloyd's share is based upon its share of the total market. Lloyd's receive an invoice directly from MIBI which is then allocated proportionally to each relevant syndicate's share. Syndicate 2791 can recover 62.50% of these expenses under the terms of a reinsurance contract. These recoveries are disclosed as expense recoveries from reinsurers within net operating expenses.

9. Staff Costs and Numbers

All staff are employed by the managing agent. The following amounts were recharged to the syndicate in respect of salary costs:

	2018 £'000	2017 £'000
Wages and salaries	4,498	4,406
Social security costs	530	518
Other pension costs	313	378
	5,341	5,302

Included above are the employment costs of underwriters attributable to acquisition of business and those of claims staff treated within the technical account as Acquisition Costs and Loss Adjustment Expenses respectively.

NOTES TO THE ACCOUNTS

continued

9. Staff Numbers and Costs *continued*

The average number of employees employed by the managing agent but working for the syndicate during the year was as follows:

	2018	2017
Administration and finance	18	19
Underwriting	25	24
Claims	5	4
	48	47

Profit related remuneration in respect of all directors and staff is wholly paid and borne by the managing agent.

10. Emoluments of the Directors of Managing Agency Partners Ltd

The directors of MAP received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2018 £'000	2017 £'000
Emoluments	1,119	1,041

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

	2018 £'000	2017 £'000
Emoluments – R K Trubshaw	297	290

11. Investment Return

	2018 £'000	2017 £'000
Investment income		
Income from investments	4,485	5,137
Gains on the realisation of investments	3,475	16,560
Losses on the realisation of investments	(3,544)	(2,496)
	4,416	19,201
Net unrealised gains and losses on investments	(1,757)	(4,491)
Investment expenses and charges		
Investment management expenses, including interest payable	(841)	(1,765)
Investment return payable to Syndicate 6103	12	(157)
	(829)	(1,922)
Total Investment Return	1,830	12,788

All investment return arises from investments designated as fair value through profit and loss.

The syndicate is now disclosing losses on the realisation of investments within investment income rather than investment expenses and charges. There is no change to the total investment return.

12. Calendar Year Investment Yield

Average syndicate funds available for investment:

	2018 £'000	2017 £'000
Sterling	16,322	24,627
US dollars	331,366	406,237
Canadian dollars	22,853	27,714
Euros	30,974	32,494
Combined sterling average syndicate funds available for investment	304,230	384,638
Investment return – gross of investment expenses and return payable to Syndicate 6103	2,659	14,710

Analysis of calendar year investment yield by currency, before investment expenses:

	2018	2017
Sterling	0.1%	0.3%
US dollars	1.1%	4.6%
Canadian dollars	1.4%	0.7%
Euros	(0.5)%	0.3%
Combined	0.9%	3.8%

NOTES TO THE ACCOUNTS

continued

13. Exchange Differences on Foreign Currency Translation

Exchange differences on foreign currency translation arise as follows:

	2018 £'000	2017 £'000
On balances brought forward	(913)	(3,117)
On transactions during 2018: from average to year end rates	587	92
Non technical account foreign exchange	198	(381)
	(128)	(3,406)

14. Financial Investments

	Market value		Cost	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Investments:				
Shares and other variable yield securities and units in unit trusts				
	27,407	49,006	27,339	48,636
Debt securities and other fixed income securities	208,553	210,863	210,518	213,087
Participation in investment pools	16,165	21,142	16,079	21,120
Deposits with credit institutions	1,822	1,770	1,822	1,770
Overseas deposits as investments	15,267	15,368	15,287	15,593
	269,214	298,149	271,045	300,206
Hedge Funds/Alternative Assets:				
Shares and other variable yield securities and units in unit trusts				
	-	-	-	-
Debt securities and other fixed income securities	-	-	-	-
Participation in investment pools	18,587	26,923	10,736	17,262
Deposits with credit institutions	-	-	-	-
Overseas deposits as investments	-	-	-	-
	18,587	26,923	10,736	17,262
Total Investments:				
Shares and other variable yield securities and units in unit trusts				
	27,407	49,006	27,339	48,636
Debt securities and other fixed income securities	208,553	210,863	210,518	213,087
Participation in investment pools	34,752	48,065	26,815	38,382
Deposits with credit institutions	1,822	1,770	1,822	1,770
Overseas deposits as investments	15,267	15,368	15,287	15,593
	287,801	325,072	281,781	317,468

Within "Shares and other variable yield securities and units in unit trusts" and "Participation in investment pools" £19.0m (2017: £36.7m) are listed on a recognised exchange. These comprise 6.6% (2017: 11.3%) of the total market value of investments.

NOTES TO THE ACCOUNTS

continued

14. Financial Investments *continued*

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

2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	973	26,434	-	27,407
Debt securities and other fixed income securities	-	208,553	-	208,553
Participation in investment pools	-	16,165	18,587	34,752
Loans and deposits with credit institutions	1,822	-	-	1,822
Overseas deposits	-	327	14,940	15,267
Total	2,795	251,479	33,527	287,801

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	-	49,006	-	49,006
Debt securities and other fixed income securities	-	210,863	-	210,863
Participation in investment pools	-	18,326	29,739	48,065
Loans and deposits with credit institutions	1,770	-	-	1,770
Overseas deposits	-	4,353	11,015	15,368
Total	1,770	282,548	40,754	325,072

15. Debtors Arising Out of Insurance Operations

	2018 £'000	2017 £'000
Arising out of direct insurance		
Due from intermediaries – within one year	17,434	13,028
Due from intermediaries – after one year	-	-
	17,434	13,028
Arising out of reinsurance operations		
Due from intermediaries – within one year	46,351	37,189
Due from intermediaries – after one year	11,818	4,345
	58,169	41,534

Debtors arising out of reinsurance operations of £58.2m (2017: £41.5m) include funds due in respect of Syndicate 6103 of £14.6m (2017: £5.6m).

NOTES TO THE ACCOUNTS

continued

16. Other Debtors

	2018 £'000	2017 £'000
Due within one year		
Outstanding settlements on investments	-	72
Inter-syndicate loan	157	20
Reinsurers' profit commissions and overrider receivable	301	263
Non-standard personal expenses due from members (overseas taxation)	110	404
Members' agents fees funded	2,141	2,111
Expense recoveries from reinsurers	711	870
Sundry debtors	2	22
	3,422	3,762
Due after one year		
Inter-syndicate loan	445	238
Reinsurers' profit commissions and overrider receivable	1,317	952
Non-standard personal expenses due from members (overseas taxation)	3,008	3,683
Members' agents fees funded	1,137	486
	5,907	5,359
	9,329	9,121

17. Creditors Arising Out of Insurance Operations

	2018 £'000	2017 £'000
Arising out of direct insurance operations		
Intermediaries – due within one year	3,996	4,029
– due after one year	-	-
	3,996	4,029
Arising out of reinsurance operations		
Reinsurance accepted – due within one year	4,745	3,619
– due after one year	-	-
Reinsurance ceded – due within one year	9,530	12,089
– due after one year	23,379	9,740
	37,654	25,448

Creditors in respect of reinsurance operations of £37.7m (2017: £25.5m) include withheld funds due to Syndicate 6103 of £28.5m (2017: £15.0m).

18. Other Creditors

	2018 £'000	2017 £'000
Managing agents profit commissions	8,253	14,712
Reinsurers' profit commission payable	1,015	502
Outstanding settlements on investments	-	2
Sundry creditors	7	47
	9,275	15,263

Of the managing agent's profit commission creditors above £Nil (2017: £2.9m) fall due after one year.

NOTES TO THE ACCOUNTS

continued

19. Cash and Cash Equivalents

	2018 £'000	2017 £'000
Cash at bank and in hand	12,674	12,465
Short term deposits with financial institutions	70	151
	12,744	12,616

20. Related Parties

The managing agent, MAP, is a wholly owned subsidiary of Managing Agency Partners Holdings Limited, the equity of which is 90.1% owned by MAP Equity Limited, a company that is entirely owned by the staff of the managing agent and syndicate.

MAP also manages Syndicate 6103. The underwriting business of Syndicate 6103 is derived solely under a reinsurance contract with Syndicate 2791. Under the terms of this contract, Syndicate 6103 is obliged to accept 30% for 2018 year of account and 10% for 2016 and 2017 years of account (2017:10%) of all business written by Syndicate 2791 under certain categories of its property catastrophe book depending on the year of account. Syndicate 2791 retains the balance of these contracts net for its own account.

Syndicate 2791 receives a ceding commission of 5% and an overriding commission of 1% of gross written premiums ceded to Syndicate 6103 to cover personal expenses of Syndicate 6103 names borne by Syndicate 2791. A profit commission of 15% of profits, as defined in the contract, is payable to MAP. All funds are retained and invested by Syndicate 2791 on behalf of Syndicate 6103 and interest is payable (or charged on negative balances) to Syndicate 6103 at rates agreed.

During the year, the following transactions between the syndicates occurred:

	2018 £'000	2017 £'000
Premiums Receivable	(17,240)	(5,098)
Paid claims	8,132	3,790
Ceding commission	832	255
Overriding commission	159	46
Net interest received	12	(157)
Reinsurance to close premium – 2015 (2014) year of account	28	(47)
Balance owed by/(to) Syndicate 2791 to Syndicate 6103 at the end of the period:		
due within one year	2,908	3,833
due after one year	(2,157)	2,163

Profit commission in respect of Syndicate 6103 at the end of the period of £0.5m (2017: £1.2m) will be settled by Syndicate 2791 from funds withheld as each year of account is commuted.

Managing agency fees amounting to £2.2m were paid to MAP during 2018 (2017: £2.2m) and profit commission of £4.9m (2017: £4.8m) is also due to the managing agent in respect of the results for this calendar year. Expenses totalling £8.9m (2017: £9.1m) have been recharged during the year.

The key management compensation charged to the syndicate is disclosed in note 10.

The directors' interests in the ordinary share capital of MAP Equity Limited, which has an issued share capital of 250,000 £1 shares, during the year, were as follows:

	A Shares (voting)	B Shares (non-voting)
R K Trubshaw	33,000	–
A Kong	22,000	–
J D Denoon Duncan	–	8,333
P Langridge	–	2,500
C J Smelt	5,000	2,500
R J Sumner	–	10,000

NOTES TO THE ACCOUNTS

continued

20. Related Parties *continued*

Messrs. Shipley, Denoon Duncan, Kong, Trubshaw, Sumner and Smelt, or their related parties, participate on Syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member MAP Capital Limited. MAP Capital Limited commenced underwriting on the 2001 year of account. For the 2018 year of account MAP Capital Limited provided £68.6m of capacity on Syndicate 2791 (2017: £68.7m) representing 17.2% of capacity (2017: 17.3%). MAP has no direct or indirect interest in the share capital of MAP Capital Limited.

For the 2018 year of account, these directors plus Mr Foote also participate on Syndicate 2791 via a dedicated, but unaligned to the managing agent, corporate member, Nomina No 208 LLP. For the 2018 year of account it has provided £11.8m (2017: £11.3m) of capacity representing 3.0% (2017: 2.9%) of capacity. MAP has no direct or indirect interest in Nomina No 208 LLP.

Separately, a fund (Steadfast Capital LP) under the management of Steadfast Capital Management Limited participates in the syndicate through a corporate vehicle – the syndicate does not invest in this fund.

There are no other transactions or arrangements requiring disclosure.

21. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating 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 able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

22. Contingent Liabilities

Letters of credit

The syndicate has provided letters of credit to certain insureds and reinsureds to cover losses that might arise on their contracts written in the ordinary course of business. These amount to US\$2.3m; the letters of credit are fully collateralised with cash deposits held by Citibank, on the syndicate's account, of US\$2.3m.

23. Events After the Reporting Period

In accordance with the reinsurance contract with Syndicate 6103, the 2016 year of account of that syndicate will be commuted. An RITC will be effected with this syndicate and the reserves carried for the 2016 year of account (amounting to £0.05m) transferred to this syndicate during 2019.

The syndicate commenced writing EU business on the Lloyd's Brussels platform from 1 January 2019 and due to this change EU business written from 1 January 2019 will be presented as reinsurance accepted in the financial statements.

24. Reinsurance to Close Premium Received from Syndicate 6103

At 1 January 2018, Syndicate 2791 accepted a Reinsurance to Close Premium from Syndicate 6103 in respect of Syndicate 6103's 2015 year of account. In addition, the reinsurance contact between Syndicate 2791 and Syndicate 6103 for the 2015 year of account has been commuted with Syndicate 2791 being paid in full for the liabilities assumed as at 1 January 2018.

25. Items not Disclosed in the Statement of Financial Position

The syndicate has the right to drawdown on collateral provided by certain reinsurers to the value of £Nil (2017: £3.6m). The collateral can be cash mutual funds or treasuries. As those rights have not been exercised this contingent asset has not been recorded in the Statement of Financial Position. The syndicate has not been party to any other arrangement which is not reflected in its statement of financial position.

26. Risk Management

Insurance risk

The principal risk the syndicate faces under insurance contracts is that the actual claims and benefit payments, or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

NOTES TO THE ACCOUNTS

continued

26. Risk Management *continued*

Insurance risk continued

The syndicate purchases reinsurance as part of its risk mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The syndicate has proportional reinsurance from two main sources, firstly a surplus treaty on direct property and per risk reinsurance and from Special Purpose Arrangement 6103 (SPA 6103) on its Catastrophe reinsurance book susceptible to United States losses. Both types of proportional reinsurance are taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the syndicate's net exposure to only catastrophe losses.

Retention limits for the excess-of-loss reinsurance vary by line of business, loss type and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The syndicate principally issues the following types of general insurance contracts: accident and health, motor, third-party liability, marine and property both direct and reinsurance. Risks usually cover twelve months duration.

The most significant insurance risks arise from natural disasters, claim inflation on longer term liabilities and the potential for under-pricing of insurance risk. Insurance risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all procedures put in place to reduce the risk exposure of the syndicate. The syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities. The syndicate uses its own proprietary pricing models which set a technical price for each risk based on a required profitability margin. These models are actively back tested against underwriting performance by line of business and at individual risk level to ensure compliance with the syndicate's pricing strategy.

The syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the syndicate's risk appetite as decided by management.

The overall aim is to limit the downside risk to a 10% ultimate loss on Stamp capacity following any one of the Lloyd's prescribed Realistic Disaster Scenarios (RDS). The downside risk takes into account the net RDS loss, a reinsurance failure rate, a reinsurance margin over time (i.e. reinsurers will expect pay-back on gross losses) less anticipated profit on non-catastrophe exposed business – known as inside profit.

The Board monitors and reviews the inside profit calculation which alters due to market conditions and other factors. The syndicate uses its own proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the syndicate, the following table shows hypothetical claims arising for various realistic disaster scenarios based on the syndicate's risk exposures at 1 January 2019.

RDS	Market Loss (insured) £m	Estimated Gross Claims £m	Estimated Net Claims (after Reinst) £m
Miami Dade	140,482	164	25
Pinellas (West Coast Florida Windstorm)	131,809	207	46
Gulf of Mexico	109,981	150	26
North East USA Hurricane	80,269	183	34
San Andreas (San Francisco)	45,961	141	30
Elsinore (Los Angeles)	40,562	115	33

NOTES TO THE ACCOUNTS

continued

26. Risk Management *continued*

Insurance risk continued

The table below sets out the concentration of outstanding liabilities by line of business:

	Gross Technical Provisions £'000	Reinsurance Technical Provisions £'000	Net Technical Provisions £'000
31 December 2018			
Accident and health	12,053	2	12,051
Motor (third party liability)	14,515	8,643	5,872
Motor (other classes)	67,908	24,342	43,566
Marine, aviation and transport	22,256	150	22,106
Fire and other damage to property	26,479	2,878	23,601
Third party liability	27,405	53	27,352
Miscellaneous	3,181	-	3,181
Reinsurance acceptances	245,773	32,003	213,770
	419,570	68,071	351,499
31 December 2017			
Accident and health	11,578	2	11,576
Motor (third party liability)	19,622	10,990	8,632
Motor (other classes)	70,739	31,028	39,711
Marine, aviation and transport	20,165	121	20,044
Fire and other damage to property	32,988	4,915	28,073
Third party liability	26,059	224	25,835
Miscellaneous	2,705	-	2,705
Reinsurance acceptances	220,149	25,327	194,822
	404,005	72,607	331,398

The geographical concentration of the outstanding liabilities is noted below. The disclosure is based on the currency of the regions in which the business is written. The analysis would not be materially different if based on the countries in which the risk or counterparties were situated.

	Gross Technical Provisions £'000	Reinsurance Technical Provisions £'000	Net Technical Provisions £'000
31 December 2018			
UK	13,586	28	13,558
EU	59,008	32,863	26,145
USA	319,657	33,837	285,820
Canada	9,509	244	9,265
Australia/Japan/Other	17,810	1,099	16,711
	419,570	68,071	351,499

NOTES TO THE ACCOUNTS

continued

26. Risk Management *continued*

Insurance risk continued

	Gross Technical Provisions £'000	Reinsurance Technical Provisions £'000	Net Technical Provisions £'000
31 December 2017			
UK	13,788	19	13,769
EU	76,212	41,908	34,304
USA	285,377	29,970	255,407
Canada	11,881	195	11,686
Australia/Japan/Other	16,747	515	16,232
	404,005	72,607	331,398

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of individual and average claim costs, claim handling costs, claim inflation factors for each line of business and underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one off occurrences; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation could affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process. The 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.

The underlying sensitivity analysis is performed by underwriting year and separately for large losses, those impacting or likely to impact our excess of loss reinsurance programme and those claims not covered by excess of loss reinsurance. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes, the assumptions were changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

Claim sensitivity

	2018 £'000	Revised 2017 £'000
Gross outstanding claims	360,684	350,548
Net outstanding claims	301,601	288,623
Impact of 10% increase in gross outstanding claims	35,151	38,401
Impact of 10% increase in net outstanding claims	28,862	32,211
Impact of 10% increase in long-tail casualty (gross and net) outstanding claims	10,881	11,098
Impact of 10% increase in gross 2018 (2017) CAT losses	4,449	3,841
Impact of 10% increase in net 2018 (2017) CAT losses	3,962	1,117

Long-tail casualty liabilities are both direct and reinsurance liabilities for the following lines of business: Directors and officers, errors and omissions, medical malpractice and other casualty.

The impact on both profit and members' balances of the gross reserves is the figure shown above less profit commission of £5.8m (2017: £6.8m).

The impact on both profit and members' balances of the net reserves is the figure shown above less profit commission of £4.9m (2017: £5.8m).

The impact on both profit and members' balances of the long tail casualty reserves is the figure shown above less profit commission of £2.0m (2017: £2.2m).

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

The syndicate has material exposure to the Hurricanes Florence, Michael and California wildfires in the 2018 year of account. This increases the uncertainty of the syndicate's total reserves, but does not increase that uncertainty in an adverse direction significantly beyond the normal range of uncertainty for insurance liabilities at this stage of development. For the avoidance of doubt, the syndicate has no material exposure to these hurricanes on the 2016 or 2017 years of account.

NOTES TO THE ACCOUNTS

continued

26. Risk Management *continued*

The syndicate has material exposure to Irish Motor bodily injury claims in the 2016 and prior years of account. However, this exposure does not lead to a material increase in the uncertainty of the syndicate's total reserves in an adverse direction. For the avoidance of doubt, the syndicate has no material exposure to these claims in the 2017 and 2018 years of account.

Claims development table

The following tables show the estimates of ultimate claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The ultimate claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied to the Statement of Financial Position at the end of the current underwriting year. Each prior year is restated at the current exchange rates to provide a consistent view of changes to ultimate claims reserves.

The ultimate claims are adjusted for the unearned proportion of claims, any unallocated future expense claims costs and cumulative payments to date to provide the reconciliation to the syndicate's gross and net statement of financial position reserves.

The syndicate took advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption in 2015. The claims development information disclosed is being increased from eight years to ten years over the period 2018-2020.

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

The syndicate has accepted additional liabilities by way of reinsurance to close from Syndicate 6103 at each 36 months and 1 day for the underwriting years 2007 to 2015 inclusive. These liabilities are shown in the claims triangles below as if they had always been the liabilities of 2791 from the commencement of any underwriting year which has accepted reinsurance from Syndicate 6103.

Claim triangles

Gross insurance contract outstanding claims provision as at 31 December 2018

	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of Gross										
Ultimate Claims										
12 months		197,765	211,981	118,230	93,939	88,439	90,310	123,253	132,523	
24 months		140,729	190,066	99,948	84,193	80,510	107,088	120,652	-	
36 months		153,011	188,553	97,980	85,815	79,072	101,598	-	-	
48 months		165,192	193,994	95,109	83,926	79,313	-	-	-	
60 months		159,167	191,004	92,599	83,374	-	-	-	-	
72 months		157,003	187,070	91,985	-	-	-	-	-	
84 months		154,819	183,965	-	-	-	-	-	-	
96 months		154,556	-	-	-	-	-	-	-	
Total Ultimate losses		154,556	183,965	91,985	83,374	79,313	101,598	120,652	132,523	
Less cumulative paid claims		(131,314)	(147,015)	(76,492)	(60,306)	(46,335)	(56,757)	(77,672)	(28,682)	
Less unearned portion of ultimate losses		-	-	-	-	-	-	(3,985)	(39,953)	
Add ULAE provision at 31 December		805	840	442	678	959	1,115	974	1,130	
Gross claims liabilities	74,286	24,047	37,790	15,935	23,746	33,937	45,956	39,969	65,018	360,684

NOTES TO THE ACCOUNTS

continued

26. Risk Management *continued*

Claims development table continued

Net insurance contract outstanding claims provision as at 31 December 2018

	2010 and prior £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	Total £'000
Estimate of Net										
Ultimate Claims										
12 months		184,874	197,770	105,591	81,278	77,610	73,595	105,100	108,967	
24 months		133,850	178,458	87,497	69,511	64,542	79,827	102,863	-	
36 months		145,324	175,386	84,739	70,425	63,681	76,930	-	-	
48 months		155,591	179,027	81,566	70,526	65,305	-	-	-	
60 months		151,932	175,763	79,235	70,411	-	-	-	-	
72 months		150,403	171,832	78,646	-	-	-	-	-	
84 months		148,014	168,840	-	-	-	-	-	-	
96 months		147,875	-	-	-	-	-	-	-	
Total Ultimate losses		147,875	168,840	78,646	70,411	65,305	76,930	102,863	108,967	
Less cumulative paid claims		(124,801)	(137,612)	(66,009)	(52,573)	(41,222)	(48,724)	(64,977)	(21,581)	
Less unearned portion of ultimate losses		-	-	-	-	-	-	(3,948)	(36,620)	
Add ULAE provision at 31 December		805	840	442	678	959	1,115	974	1,130	
Net claims liabilities	72,888	23,879	32,068	13,079	18,516	25,042	29,321	34,912	51,896	301,601

In 2018, there has been an overall net surplus in ultimate claims of £3.2m (2017: £2.9m) due to lower than expected incurred movements across most classes of business.

27. Risk Management of Currency Risk

The tables below set out the underlying currency exposure to the syndicate although it should be noted that profits are only paid out in sterling and US dollars.

2018	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	JPY £'000	Other £'000	Total £'000
Financial investments	3,057	251,662	15,898	12,564	343	-	4,277	287,801
Reinsurers' share of technical provisions	28	33,837	32,863	244	159	22	918	68,071
Insurance and reinsurance receivables	2,675	65,456	3,553	800	344	223	2,552	75,603
Cash and cash equivalents	4,985	360	7,329	-	-	-	-	12,674
Other assets	7,710	18,236	1,720	1,017	147	39	705	29,574
Total assets	18,455	369,551	61,363	14,625	993	284	8,452	473,723
Technical provisions	(13,586)	(319,657)	(59,008)	(9,509)	(1,400)	(2,248)	(14,162)	(419,570)
Insurance and reinsurance payables	(1,298)	(38,106)	(262)	(173)	(157)	(46)	(1,608)	(41,650)
Other creditors	(1,884)	(11,323)	(279)	(3)	-	-	-	(13,489)
Total liabilities	(16,768)	(369,086)	(59,549)	(9,685)	(1,557)	(2,294)	(15,770)	(474,709)
Members' balances by currency	1,687	465	1,814	4,940	(564)	(2,010)	(7,318)	(986)

The largest currency within other financial investments are Swiss Francs £3.8m.

If sterling was to weaken by 10% and 20% the impact on the above converted sterling profit would be a decrease of £0.3m and £0.7m respectively.

The positive creditor in Canadian Dollars arises from reinsurer's profit commission where the overall converted sterling amount is payable as a creditor.

NOTES TO THE ACCOUNTS

continued

27. Risk Management of Currency Risk *continued*

2017	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	JPY £'000	Other £'000	Total £'000
Financial investments	12,054	266,826	24,638	16,766	467	–	4,321	325,072
Reinsurers' share of technical provisions	19	29,970	41,908	195	62	134	319	72,607
Insurance and reinsurance receivables	3,043	44,330	3,321	1,167	176	301	2,224	54,562
Cash and cash equivalents	5,373	372	6,720	–	–	–	–	12,465
Other assets	7,869	13,559	3,093	1,190	59	45	574	26,389
Total assets	28,358	355,057	79,680	19,318	764	480	7,438	491,095
Technical provisions	(13,788)	(285,377)	(76,212)	(11,881)	(915)	(2,992)	(12,840)	(404,005)
Insurance and reinsurance payables	(1,192)	(23,352)	(2,993)	(147)	(63)	(75)	(1,655)	(29,477)
Other creditors	(2,740)	(16,507)	(1,513)	57	–	–	–	(20,703)
Total liabilities	(17,720)	(325,236)	(80,718)	(11,971)	(978)	(3,067)	(14,495)	(454,185)
Members' balances by currency	10,638	29,821	(1,038)	7,347	(214)	(2,587)	(7,057)	36,910

The largest currency within other financial investments are Swiss Francs £3.9m.

If sterling had weakened by 10% and 20% the impact on the above comparative total converted sterling profit would have been an increase of £2.9m and £6.6m respectively.

28. Other Risk Management Matters

	2018 £'000	2017 £'000
<i>Interest rate risk</i>		
Impact of 50 basis point increase in interest rates on result	(3,675)	(5,224)
Impact of 50 basis point decrease in interest rates on result	3,678	5,160

The interest rate sensitivity analysis is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balances of the effects of changes in interest rates on:

- Fixed rate financial assets; and
- Variable rate financial assets.

The first of these measures the impact on profit or loss for the year (for items recorded at fair value, through the profit or loss) and on members' balances (for available for sale investments) that would arise in a reasonably possible change in interest rates at the reporting date on financial instruments at the period end. The second of these measures the change in interest income or expense over the period of the year attributable to a reasonably possible change in interest rates, based on floating rate assets and liabilities held at the reporting date.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis.

It should be noted that movements in these variables are non-linear.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

The syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

The impact of the above interest rate sensitivity is within our investment parameter guidelines and management tolerance.

NOTES TO THE ACCOUNTS

continued

28. Other Risk Management Matters *continued*

	2018 £'000	2017 £'000
<i>Equity price risk</i>		
Impact on result of 5% increase in Stock Market Prices	-	-

There is zero equity price risk in 2017 as the syndicate sold its holding in long only equity fund during the calendar year.

The market rate sensitivity analysis is performed for reasonably possible movements in market equity prices with all other variables held constant, showing the impact on profit and members' balances of the effects of changes in equity prices. The syndicate holds a limited portfolio of equities which are subject to price risk as shown in the table. This exposure benefits members through the enhanced longer term returns on equities compared with debt securities.

The exposure to equities is managed carefully to ensure that the syndicate's internal capital requirements are met at all times, as well as those mandated by the syndicate's external regulators.

The impact of the above market equity price sensitivity is within our investment parameter guidelines and management tolerance.

Maturity profiles

The maturity analysis presented in the table below shows the estimated contractual maturities for all syndicate assets and liabilities.

Those items with no stated maturity are in respect of accounting timing entries for prepayments, unearned gross and ceded premium plus related deferred acquisition costs. These four items by their nature generate no future cash flow.

The maturity of other assets is based on the earliest date on which the gross undiscounted assets are expected to be received assuming conditions are consistent with those at the reporting date. The estimated timing of premium debtor balances uses contracted settlement due dates.

The maturity of liabilities is based on undiscounted contractual obligations, including interest payable. The estimated timing of claim payments uses estimated cash flows from the syndicate's reserving analysis. Repayments which are subject to notice are treated as if notice were to be given immediately. Members' balances are analysed based on the syndicate closing each year of account 36 months from inception.

It should be noted that although the above table illustrates contractual durations of financial investments, the majority of these assets can be redeemed whenever necessary to meet settlement of liabilities as they fall due.

	No stated maturity £'000	Up to a year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
2018						
Financial investments	-	172,328	75,688	-	39,785	287,801
Reinsurer's share of technical provisions – provision for unearned premiums	8,988	-	-	-	-	8,988
Reinsurer's share of technical provisions – claims outstanding	-	14,927	20,724	12,041	11,391	59,083
Debtors	-	67,207	17,725	-	-	84,932
Cash at bank and in hand	-	12,674	-	-	-	12,674
Accrued interest	-	268	307	-	234	809
Deferred Acquisition costs	16,738	-	-	-	-	16,738
Other prepayments and accrued income	2,698	-	-	-	-	2,698
Total assets	28,424	267,404	114,444	12,041	51,410	473,723
Members' balances	-	33,014	(34,000)	-	-	(986)
Technical provisions – provision for unearned premiums	58,886	-	-	-	-	58,886
Technical provisions – claims outstanding	-	88,340	113,958	64,264	94,122	360,684
Creditors	-	27,546	23,379	-	-	50,925
Accruals and deferred income	4,214	-	-	-	-	4,214
Total liabilities	63,100	148,900	103,337	64,264	94,122	473,723

NOTES TO THE ACCOUNTS

continued

28. Other Risk Management Matters *continued*

Maturity profiles continued

	No stated maturity £'000	Up to a year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
2017						
Financial investments	–	137,512	72,198	67,802	47,560	325,072
Reinsurer's share of technical provisions – provision for unearned premiums	10,682	–	–	–	–	10,682
Reinsurer's share of technical provisions – claims outstanding	–	17,018	18,431	11,612	14,864	61,925
Debtors	–	53,980	9,703	–	–	63,683
Cash at bank and in hand	–	12,465	–	–	–	12,465
Accrued Interest	–	37	321	292	290	940
Deferred Acquisition costs	14,628	–	–	–	–	14,628
Other prepayments and accrued income	1,700	–	–	–	–	1,700
Total assets	27,010	221,012	100,653	79,706	62,714	491,095
Members' balances	–	47,152	(10,242)	–	–	36,910
Technical provisions – provision for unearned premiums	53,457	–	–	–	–	53,457
Technical provisions – claims outstanding	–	79,591	100,978	63,970	106,009	350,548
Creditors	–	32,075	12,665	–	–	44,740
Accruals and deferred income	5,440	–	–	–	–	5,440
Total liabilities	58,897	158,818	103,401	63,970	106,009	491,095

29. Credit Risk

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:

Credit risk – Aging and Impairment

	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
2018				
Other Financial investments:				
Shares and other variable yield securities and unit trusts	27,407	–	–	27,407
Debt securities	208,553	–	–	208,553
Participation in investment pools	34,752	–	–	34,752
Loans with credit institutions	–	–	–	–
Deposits with credit institutions	1,822	–	–	1,822
Overseas deposits as investments	15,267	–	–	15,267
Reinsurers' share of unearned premiums	8,988	–	–	8,988
Reinsurers' share of claims outstanding	59,083	–	–	59,083
Debtors arising out of direct insurance operations	13,945	3,489	–	17,434
Debtors arising out of reinsurance operations	54,514	3,655	–	58,169
Other debtors	9,329	–	–	9,329
Cash at bank and in hand	12,674	–	–	12,674
Prepayments and accrued income	20,245	–	–	20,245
Total credit risk	466,579	7,144	–	473,723

Of the £59.1m (2017: £61.9m) reinsurer's share of claims outstanding, £Nil (2017: £3.6m) is backed by undrawn trust fund assets.

NOTES TO THE ACCOUNTS

continued

29. Credit Risk *continued*

Credit risk – Aging and Impairment continued

2017	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Other Financial investments:				
Shares and other variable yield securities				
and unit trusts	49,006	–	–	49,006
Debt securities	210,863	–	–	210,863
Participation in investment pools	48,065	–	–	48,065
Loans with credit institutions	–	–	–	–
Deposits with credit institutions	1,770	–	–	1,770
Overseas deposits as investments	15,368	–	–	15,368
Reinsurers' share of unearned premiums	10,682	–	–	10,682
Reinsurers' share of claims outstanding	61,925	–	–	61,925
Debtors arising out of direct insurance operations	9,265	3,763	–	13,028
Debtors arising out of reinsurance operations	39,421	2,113	–	41,534
Other debtors	9,121	–	–	9,121
Cash at bank and in hand	12,465	–	–	12,465
Prepayments and accrued income	17,268	–	–	17,268
Total credit risk	485,219	5,876	–	491,095

The syndicate has debtors that are past due but not impaired at the reporting date. The syndicate does not consider these debtors to be impaired on the basis of the stage of collection of amounts owed to the syndicate.

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