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Syndicate 1861 Annual Report & Accounts

As at 31 December 2019

Contents

Syndicate 1861

Directors and Professional Advisors

MANAGING AGENT:
AmTrust Syndicates Limited (until 1 October 2019)

Directors

D J L Barrett		Resigned 30/04/2019
J E Cadle	Non-Executive Deputy Chairman	Resigned 02/10/2019
J A H G Cartwright		Resigned 02/10/2019
P Dewey	Chief Executive Officer	
J P Fox	Non-Executive Director	Resigned 02/10/2019
B J Jackson	Non-Executive Director	Resigned 02/10/2019
C Jarvis		Resigned 02/10/2019
S Lacy		Resigned 02/10/2019
N C T Pawson	Non-Executive Chairman	
S S Takhar		Appointed 01/05/2019 Resigned 02/10/2019

Registered office
Exchequer Court
33 St Mary Axe
London, EC3A 8AA

Managing Agent's registration No. 04434499

FCA firm registration No. 226696

MANAGING AGENT:
Canopius Managing Agents Limited (from 1 October 2019)

Directors

N J Betteridge		
P Ceurvorst	Non-Executive Director	
L Davison		
M P Duffy		
S J Gargrave	Non-Executive Director	Resigned 03/10/2019
P F Hazell	Non-Executive Director	
N S Meyer		
P Meader	Non-Executive Director	Appointed 07/11/2019
W R Monelle		Resigned 03/10/2019
G E Moss		Resigned 03/10/2019
I B Owen	Non-Executive Chairman	
B A Turner		Resigned 03/10/2019
M C Watson	Non-Executive Director	
S A Willmont		Resigned 03/10/2019

Registered office
Gallery 9
One Lime Street
London
EC3M 7HA

Managing Agent's registration No. 01514453

FCA firm registration No. 204847

Directors and Professional Advisors

SYNDICATE:

Active Underwriter and Joint Active Underwriters

C Jarvis	Resigned 01/02/2019	Reappointed 01/10/2019
D James	Appointed 01/02/2019	Resigned 01/10/2019
S A Willmont	Appointed 01/01/2020	

Bankers
Lloyds Bank PLC
Citibank N.A.
Royal Bank of Canada

Investment Manager
AII Insurance Management Limited

Statutory Auditor
Ernst & Young LLP ("EY")
25 Churchill Place, Canary Wharf, London, E14 5EY

Report of the Directors of the Managing Agent

The directors of Canopius Managing Agents Limited ('CMA'), the managing agent for Syndicate 1861, present the annual report and audited financial statements for the Syndicate for the year ended 31 December 2019.

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102"), Financial Reporting Standard 103, "Insurance Contracts" and the Companies Act 2006. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

Review of the business

The Syndicate's principal activity continues to be the transaction of general insurance and reinsurance business at Lloyd's, transacted through direct channels and via delegated underwriting. The Syndicate capacity for the 2019 year of account was £500m (2018: £540m).

Significant events

With effect from 1 October 2019, as part of Canopius' acquisition of AmTrust's non-life Lloyd's operations, the managing agency of the Syndicate, along with that of Syndicates 5820, 1206 and 44 was novated from AmTrust Syndicates Limited ('ASL') to CMA. At the same time, the Syndicate's sole capital provider Flectat 2 Ltd (formerly AmTrust Corporate Member Limited) was acquired by the Canopius Group.

During the third quarter, and in preparation for this transaction, the retained losses of £7.8m and £19.1m on the 2017 and 2018 years of account respectively at 31 December 2018 were called.

At 31 December 2019, in line with the run-off closure plan that they had been operating under since ceasing to underwrite at 1 January 2018, Syndicate 5820's and Syndicate 1206's 2017 years of account closed into the 2018 year of account of 1861 by way of a reinsurance to close transaction thus concluding the business of Syndicates 5820 and 1206.

Results and performance - key performance indicators ('KPIs')

The CMA Board monitors the progress of the syndicate by reference to the following KPIs:

	2019 £m	2018 £m
Gross premiums written	661.4	616.2
Earned premiums, net of reinsurance	488.4	346.8
Investment return	11.2	3.8
(Loss) / profit for the year	(23.5)	2.4
Total comprehensive (loss)/income	(22.0)	0.5
Gross claims ratio[1]	64.2%	54.3%
Net claims ratio[2]	61.9%	55.8%
Expense ratios[3]		
- Acquisition ratio	37.7%	37.1%
- Administrative Expense ratio	7.2%	7.6%
Combined operating ratio[4]	106.8%	100.5%
Investment return, on average invested balances[5]	3.5%	1.6%

[1]The gross claims ratio is the ratio of gross claims incurred to gross premiums earned gross of reinsurance and acquisition costs
[2]The net claims ratio is the ratio of net claims incurred to premiums earned net of reinsurance and gross of acquisition costs
[3]The expense ratios are the ratios of the acquisition cost and operating expenses to earned premiums net of reinsurance and gross of brokerage and commissions.
[4]The combined ratio is the ratio of net claims incurred, acquisition costs and net operating expenses to net premiums earned
[5]Investment return is calculated as the combined investment income for the period divided by the average of the opening and closing investments, cash and overseas deposit balances.

Report of the Directors of the Managing Agent

The results of the syndicate for the year are set out on pages 12 and 13. In 2019, Syndicate 1861 recorded a loss of £23.5m (2018: £2.4m Profit) with a combined ratio of 106.8% (2018: 100.5%).

Gross written premiums increased by £45.2m (7.3%) from 2018 following the significant increase in stamp capacity last year. Stamp capacity increased to £540m for the 2018 year of account from £245m on the 2017 year of account following ASL's decision to merge the operations of its non-life syndicates from 1 January 2018. Whilst capacity was reduced by £40m for the 2019 year of account, given the volume of delegated authority business written and the associated delayed inception profile, much of the growth in stamp on the 2018 year of account was experienced during the 2019 calendar year - £126.9m was written on the 2018 year of account this year compared to £55.3m written on the 2017 year last year. Gross written premiums on the 2019 year of account trail the 2018 year of account at the same stage of development by £31.4m, reflecting the reduction in stamp.

The impact of the delayed growth is more profound on earned premiums which increased by £141.6m from the previous year. Almost all of the growth relates to the 2018 year of account which earned £273.1m in the current year compared to £131.5m for the 2017 year of account in the prior year.

The key driver of the Syndicate results was the net claims performance – the net claims ratio for the current year is 61.9% - an increase from 2018 of 6.1%. This is reflected in the combined ratio which increased by 6.3% to 106.8% for the year. There was a moderate increase in the acquisition ratio of 0.6%, driven by higher acquisition cost relating to consumer products business, introduced for the 2018 year of account, earning through. This increase was partially offset by a reduction in the expense ratio of 0.4%.

The key driver of the Syndicate performance for 2019 was the claims activity on the 2017 and 2018 years of account. The 2019 year of account remains broadly in line with expectation.

The Property Binder account had material exposure to Hurricane Dorian which devastated the Bahamas during the third quarter as well as incurring strengthening to reserves in relation to 2018 events - Hurricanes Michael and Florence and Californian Wildfires. The Contingency account was also impacted the by 2019 natural catastrophes including Typhoon Hagibis. The Aviation and Space, Inwards Reinsurance and Specie accounts were impacted by some notable large market losses during the period, whilst the Non-Marine account saw an increase in the number of large losses reported and a strengthening to tail assumptions. There were partially offsetting improvements across the Energy, Marine and Political Risks accounts.

Syndicate 1861's investment portfolio achieved a return of £11.2m in 2019 (2018: £3.8m) as the Syndicate benefited from the reversal of previous period mark-to-market losses on the fixed income debt portfolio which heavily impacted the investment return in 2018. This reflects the impact of a reduction to the interest rate environment in the US on the fixed interest portfolio.

The 2017 year of account of Syndicate 1861 closed with a reported loss of £8.6m representing a loss of 3.5% on managed capacity. The 2018 year of account is forecast to make a loss of £5.8m equating to 1.1% of managed capacity. The 2019 year of account is currently forecast to make a profit of £18.7m representing 3.7% of managed capacity.

Report of the Directors of the Managing Agent

Business environment

Following a protracted period of soft market conditions, 2018 and 2019 have seen steady overall rate increases across the portfolio and the early part of 2020 has seen this positive momentum continue in selected classes. That said, trading conditions will continue to be highly competitive and challenging in the near future as the market deals with the effects of social inflation, climate change and other socio-economic factors.

Most investment markets performed strongly through 2019 as financial asset prices were supported by continued monetary stimulus from major central banks. In particular US interest rates fell over the year helping to drive strong returns on government and corporate bonds. We are aware of several risks that could have the potential to impact investment income adversely in 2020. These include an increase in inflation expectations causing nominal yields to back up, an escalation of the threat from coronavirus negatively impacting world GDP and a worsening US-China trade war situation.

Risks to UK economic growth remain, especially given the uncertainty surrounding the UK's future relationship with the EU. Whilst underwriting activities have been secured via use of the Lloyd's Brussels operation the impact on both the UK and European economies is not yet known and is a source of ongoing uncertainty.

Strategy

Combining the business of Syndicate 1861 with that of Syndicate 4444, another syndicate managed by CMA, through the acquisition of Flectat 2 Ltd (formerly AmTrust Corporate Member Ltd) and the novation of the managing agency from ASL to CMA, is a major step towards realising our strategy to make Canopius one of the leading insurers in the our market.

The 2020 year of account of Syndicate 1861 will operate on a 'split-stamp' basis with Syndicate 4444. This arrangement allows both syndicates to benefit from the increased scale of the combined platform, with £1.6bn of capacity under management, as well as the increased operational efficiency of underwriting both syndicates on a fully consistent basis.

The combination brings together two complementary businesses allowing both Syndicates to leverage additional underwriting expertise and increase diversity through a broader product offering.

The combined business continues to focus hard on underwriting profitability. In 2019 the results have been adversely impacted in a small number of non catastrophe related areas and management actions have already been taken with a view to swift remediation.

Operational excellence remains a core objective, delivered through efficient use of capital, development of modern technology solutions and a scalable, streamlined business model.

CMA remains committed to developing a first-class culture to attract, retain and develop a market leading workforce. We encourage an open and honest working environment, focused on results and with a strong team ethic.

Principal risks and uncertainties

Until 1 October 2019 the Syndicate was subject to the risk management framework of ASL. Following novation, the Syndicate operated under CMA's risk management framework.

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. Risk management is an on-going process providing for the systematic analysis, handling and reporting of risks and their comparisons with risk appetites, effectiveness of controls, risk events and near misses as well as emerging risks. This process also includes setting and monitoring actions to mitigate risk and to return metrics to within appetite.

All policies are subject to Board approval and ongoing review by management, risk management and internal audit. The Audit Committee is responsible for satisfying itself that an effective internal control framework exists to manage financial risks and that controls operate effectively.

Report of the Directors of the Managing Agent

CMA's governance structure ensures a clear definition of responsibility for the management and oversight of the many risks faced by the business. CMA has established an Enterprise Risk Management (ERM) framework that is designed to identify, assess, measure, mitigate, monitor and report all material financial and non-financial risk.

A description of the principal risks and uncertainties facing the Syndicate is set out in Note 5 to the financial statements (management of risk).

Future developments

Syndicate 1861's allocated capacity for the 2020 year of account has increased by £50.0m from the 2019 year of account to £550.0m.

Going concern

After making enquiries, the directors have a reasonable expectation that continued capital support will be in place such that the Syndicate is able to continue to write new business in future underwriting years of account. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Directors

The directors of the managing agents who served from 1 January 2019 to the date of this report are shown on pages 2 and 3. None of the directors had an allocated premium limit on the syndicate, on either an unlimited or limited liability basis, for any of the 2017 to 2019 years of account.

Statement of disclosure of information to auditors

In the case of each of the persons who are directors of the managing agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the syndicate's auditor in connection with the auditor's report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the directors of the managing agent to prepare syndicate annual accounts each year which give a true and fair view, in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing those financial statements, the managing agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate accounts; and
- Prepare the syndicate accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to do so.

The managing agent confirms that it has complied with the above requirements in preparing the syndicate accounts. The directors of the managing agent are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate accounts comply with the 2008 Regulations. The managing agent is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Directors of the Managing Agent

Independent Auditors

During the year the managing agent appointed Ernst & Young LLP as the auditors for the Syndicate.

In accordance with section 14(2) of Schedule 1 of the Lloyd's Regulations 2008, the auditor, Ernst & Young LLP, will be deemed to be reappointed and therefore continue in office.

By order of the Board of the managing agent.

N S Meyer
Chief Financial Officer
London
5 March 2020

Independent Auditor’s Report to the Members of Syndicate 1861

for the year ended 31 December 2019

Opinion

We have audited the syndicate annual accounts of syndicate 1861 (‘the syndicate’) for the year ended 31 December 2019 which comprise the Income Statement, the Statement of Changes in Member’s Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 29, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 ‘The Financial Reporting Standard applicable in the UK and Republic of Ireland’ and FRS 103 ‘Insurance Contracts’ (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the syndicate annual accounts:

- give a true and fair view of the syndicate’s affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the syndicate annual accounts section of our report below. We are independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, including the FRC’s Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

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

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

Independent Auditor’s Report to the Members of Syndicate 1861

for the year ended 31 December 2019

Other information

The other information comprises the information included in the Annual Report and Accounts, other than the syndicate annual accounts and our auditor’s report thereon. The directors of the managing agent are responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

- the information given in the managing agent’s report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts; and
- the managing agent’s report has been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Independent Auditor's Report to the Members of Syndicate 1861

for the year ended 31 December 2019

Responsibilities of the directors of the managing agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the managing agent is responsible for the preparation of the syndicate annual accounts and for being satisfied that they give a true and fair view, and for such internal control as the managing agent determines is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

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

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

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

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

Use of our report

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

Michael Purrington (Senior statutory auditor)

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

London

5 March 2020

Income Statement: Technical Account – General Business

for the year ended 31 December 2019

	Notes	2019 £000	2019 £000	2018 £000	2018 £000
Earned premiums, net of reinsurance					
Gross premiums written	7	661,367		616,207	
Outward reinsurance premiums		(135,961)		(107,982)	
Net premiums written		525,406		508,225	
Change in the provision for unearned premiums:					
Gross amount	24	(49,748)		(175,628)	
Reinsurers' share	24	12,703		14,192	
Change in the net provision for unearned premiums		(37,045)		(161,436)	
Earned premiums, net of reinsurance			488,361		346,789
Allocated investment return transferred from the non-technical account	14		11,162		3,834
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(190,429)		(133,899)	
Reinsurers' share		53,546		38,378	
Net claims paid		(136,883)		(95,521)	
Change in the provision for claims					
Gross amount	24	(202,344)		(105,237)	
Reinsurers' share	24	36,774		7,212	
Change in the net provisions for claims		(165,570)		(98,025)	
Claims incurred, net of reinsurance			(302,453)		(193,546)
Net operating expenses	10, 11		(219,243)		(155,060)
Balance on the technical account for general business			(22,173)		2,017

All of the above amounts are derived from continuing operations.

Income Statement: Non-technical Account

for the year ended 31 December 2019

	Notes	*2019* *£000*	*2018* *£000*
Balance on the general business technical account		(22,173)	2,017
Investment income	14	3,048	5,826
Realised gains / (losses) on investments	14	6,072	(1,000)
Net unrealised gains / (losses) investments	14	2,397	(765)
Investment expenses and charges	14	(355)	(227)
Allocated investment return transferred to the general business technical account		(11,162)	(3,834)
(Loss) / Profit on exchange	10	(1,329)	391
(Loss) / profit for the year		(23,502)	2,408
Other comprehensive income - Currency translation differences		1,546	(1,881)
Total comprehensive (loss) / income		**(21,956)**	**527**

All of the above amounts are derived from continuing operations.

Statement of Change in Member's Balances

for the year ended 31 December 2019

	2019 *£000*	*2018* *£000*
Member's balances at 1 January	(30,748)	(50,632)
Total comprehensive (loss) / income for financial year	(21,956)	527
Amount received from member's personal reserve fund	30,748	19,357
Movement in non-standard personal expenses	(8)	-
Member's balances at 31 December	**(21,964)**	**(30,748)**

Statement of Financial Position – Assets

at 31 December 2019

	Notes	2019 £000	2019 £000	2018 £000	2018 £000
Investments					
Other financial investments	15		212,467		263,270
Deposits with ceding undertakings					
Reinsurers' share of technical provisions					
Provision for unearned premiums	24	63,204		57,618	
Claims outstanding	24	98,844		160,776	
			162,048		218,394
Debtors					
Debtors arising out of direct insurance operations	16	314,742		246,958	
Debtors arising out of reinsurance operations	17	25,948		14,110	
Other debtors	18	712		830	
			341,402		261,898
Other assets					
Cash at bank and in hand			75,694		17,178
Overseas deposits	19		35,731		27,564
Prepayments and accrued income					
Deferred acquisition costs	23	126,688		128,669	
Other prepayments and accrued income		2,997		11,838	
			129,685		140,507
Total assets			957,027		928,811

Statement of Financial Position – Liabilities

at 31 December 2019

	Notes	2019 £000	2019 £000	2018 £000	2018 £000
Capital and reserves					
Members' balances	2		(21,964)		(30,748)
Technical provisions					
Provision for unearned premiums	24	387,735		362,603	
Claims outstanding	24	456,646		510,238	
			844,381		872,841
Creditors					
Creditors arising out of direct insurance operations	20	43,362		19,223	
Creditors arising out of reinsurance operations	21	75,394		61,328	
Other creditors	22	15,854		6,167	
			134,610		86,718
Accruals and deferred income			-		-
Total liabilities			957,027		928,811

The financial statements on pages 12 to 43 were approved by the Board of CMA on 3 March 2020 and were signed on its behalf by:

N S Meyer
Chief Financial Officer
5 March 2020

Statement of Cash Flows

for the year ended 31 December 2019

	2019		*2018*	
	£000	***£000***	*£000*	*£000*
Cash flows from operating activities				
Loss/(profit) for the year	(23,502)		2,408	
(Decrease)/increase in gross technical provisions	(28,460)		312,803	
Decrease/(increase) in reinsurers' share of gross technical provisions	56,346		(31,152)	
Increase in debtors	(79,504)		(132,219)	
Increase in creditors	47,892		36,719	
Movement in other assets/liabilities	10,822		(83,118)	
Investment return	(11,162)		(3,834)	
Foreign exchange	3,956		(161)	
Other comprehensive income / (loss)	1,546		(1,881)	
Net cash (outflows) / inflows from operating activities		(22,066)		99,565
Cash flows from investing activities				
Purchase of equity and debt instruments	(409,757)		(361,080)	
Sale of equity and debt instruments	454,669		265,682	
Investment income received	8,766		6,500	
Foreign exchange	8,287		(8,888)	
Movement in overseas deposits	(8,167)		(7,467)	
Net cash inflows / (outflows) from investing activities		53,798		(105,253)
Cash flows from financing activities				
Amount received from member's personal reserve funds	30,748		19,357	
Net cash outflows from financing activities		30,748		19,357
Foreign exchange on cash and cash equivalents	(3,956)		161	
Other	(8)		-	
Net increase in cash and cash equivalents		58,516		13,830
Cash at bank and in hand				
Cash and cash equivalents at beginning of year		17,178		3,348
Cash at bank and in hand				
Cash and cash equivalents at end of year		75,694		17,178

Notes to the Financial Statements

for the year ended 31 December 2019

1. Statement of compliance & basis of preparation

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS102"), Financial Reporting Standard 103, "Insurance Contracts" 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. Furthermore, these financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations"). The directors of the managing agent have prepared the financial statements on the basis that the syndicate will continue to write future business.

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

The financial statements are presented in sterling, the presentation currency, and rounded to the nearest £'000. The functional currency of the syndicate is US dollars.

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.

Following the novation of the management of the Syndicate from ASL to CMA during the year, the financial statements have been prepared on a basis consistent with CMA's other managed syndicates. As a result, certain disclosures differ in their basis of preparation from those presented in the prior year financial statements and consequently the prior year comparatives have been re-presented. All such applicable notes are denoted by '*'. There have been no restatements.

2. Members' balances and Funds at Lloyd's ("FAL")

The members' balances on the balance sheet shows a deficit of £22.0m (2018: deficit £30.7m). The ability of the syndicate to meet its obligations as they fall due is underpinned by the members' Funds at Lloyd's and the support provided by the Lloyd's chain of security for any members who are unable to meet their underwriting liabilities. FAL is further explained in Note 29.

3. Summary of significant accounting policies

a. Insurance contracts

Insurance contracts (including inwards reinsurance contracts) are defined as those that transfer significant insurance risk. Insurance risk is considered significant if, and only if, an insured event could cause an insurer to pay significant additional benefits above the premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire.

Contracts that do not transfer significant insurance risk are accounted for as financial transactions. The Syndicate adopts an annual basis of accounting for insurance contracts whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance.

Gross premiums written, stated gross of acquisition costs and exclusive of premium taxes, relate to business incepted during the year and adjustments to premiums booked in prior years and includes estimates, based on underwriting estimates or past experience, of premiums due but not yet receivable or notified to the syndicate by intermediaries. Additional or return premiums are treated as a re-measurement of the initial premium.

Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date, calculated by reference to the expected incidence of risk over the period of cover.

Written outwards reinsurance premiums comprise the total premiums payable for contracts entered into during the period and are recognised on the date on which the policy incepts.

3. Summary of significant accounting policies (continued)

a. Insurance contracts (continued)

Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience. Where written premiums are subject to a re-measurement retrospectively they are recognised as soon as there is an obligation to the reinsurer.

Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured within the parameters of the reinsurance contract terms.

The provision for reinsurers' share of unearned premiums represents that part of reinsurance premiums written which is estimated to be earned in the following financial years.

There are a number of different types of business written by the syndicate, including property, liability and marine business, broadly categorised as either "short tail" or "long tail" business. The syndicate also writes reinsurance business. The characteristics of this business mirror those of the underlying business ceded to the syndicate.

The accounting policies for insurance claims and claims settlement expenses are considered in Note 4 (Critical accounting judgements and estimation uncertainty).

Short Tail Business

For "short tail" business there is typically no significant delay between the occurrence of the claim and the claim being reported. The costs of claims notified at the balance sheet date are estimated on a case-by-case basis to reflect the individual circumstances of each claim. The ultimate expected cost of claims, including provisions for claims incurred but not reported ("IBNR"), is projected from this data by reference to statistics, which show how estimates of claims incurred in previous periods have developed over time.

Longer tail business

For longer tail business there is typically a delay between the occurrence of a claim and the claim being reported. Consequently a larger element of the claims provision relates to IBNR claims. Claims estimates for business in this category are derived from a combination of loss ratio based estimates and estimates based upon actual claims experience, using a predetermined formula whereby greater weight is given to actual claims experience as time passes. The initial estimates of the claims provisions are based on the experience of previous years and benchmarks adjusted for factors such as premium rate changes and claims inflation. For liability claims, the assessment of claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. The liability classes of business are also subject to the emergence of new types of latent claims.

b. Unexpired risk reserves

At each balance sheet date tests are performed to ensure the adequacy of the unearned premium reserve, net of associated deferred acquisition costs, to cover future claims liabilities. In performing these tests, estimates of future premiums and claims cash flows, claims handling expenses and investment income from the assets backing such liabilities are considered and compared to the balances in the unearned premium reserve and deferred acquisition costs. Provision is made for any deficiencies by establishing an unexpired risk reserve.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. Unexpired risk reserves, where relevant, are included within "claims outstanding" in the balance sheet.

At 31 December 2019 the Syndicate did not have an unexpired risks provision (31 December 2018: £Nil)

3. Summary of significant accounting policies (continued)

c. Deferred acquisition costs

Acquisition costs comprise costs arising from the inception of insurance contracts. They include both direct costs, such as intermediary commissions and indirect costs, such as the administrative expenses associated with the issuing of policies.

Deferred acquisition costs represent the proportion of commission and other acquisition costs relating to policies in force at the period-end, that cover subsequent reporting periods. These are amortised over the period in which the related premiums are earned.

d. Reinsurance to close ("RITC")

Each syndicate's underwriting year of account is normally closed after the end of the third year by means of reinsurance into the following underwriting year of account, which reinsures all liabilities for the closed year in return for a premium determined by the syndicate's managing agent.

Third party RITCs, either inwards or outwards, are not reported as income but recognised as a transfer of assets and liabilities.

e. Outwards reinsurance contracts

Outwards reinsurance contracts are contracts entered into by the syndicate with reinsurers whereby the syndicate may recover a proportion of losses on contracts written by the syndicate. Contracts that do not transfer significant insurance risk are accounted for as financial transactions.

The benefits to which the syndicate is entitled under its outwards reinsurance contracts are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers as well as longer term receivables that are dependent on the expected claims and benefits arising under the related insurance contracts. These balances are based on calculated amounts of outstanding claims and projections for IBNR, having regard to the reinsurance programme in place for the class of business and the claims experience for the period, net of estimated irrecoverable amounts after assessing the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts.

The syndicate assesses its reinsurance assets for impairment. If there is evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the profit and loss account.

f. Receivables and payables related to insurance contracts

Receivables and payables include amounts due to and from agents, brokers and insurance contract holders. If there is evidence that the insurance receivable is impaired, the syndicate reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the profit and loss account.

g. Financial assets

The syndicate states financial assets at fair value.

The syndicate classifies its financial assets into the following categories: financial assets at fair value through profit and loss, and loans and receivables. The syndicate does not invest in derivative financial instruments and there are no assets classified as available for sale.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(i) Financial assets at fair value through profit and loss

The syndicate classifies its investments at fair value through profit and loss.

Purchases and sales of investments are accounted for at their fair values (normally their cost of acquisition or proceeds of disposal) on the trade date, which is the date the syndicate commits to purchase or sell the assets.

3. Summary of significant accounting policies (continued)

g. Financial assets (continued)

The fair value of quoted investments is based on quoted bid prices. Realised and unrealised gains and losses arising from the changes in fair values are included in investment return in the profit and loss account in the period in which they arise. Unquoted investments are initially carried at cost as the best estimate of fair value, which is adjusted using appropriate valuation techniques and having regard to subsequent events or changes in circumstances.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, are not intended to be sold in the short term and do not fall into the other categories of financial assets as described above. Loans and receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the syndicate will not be able to collect all amounts due according to their original terms. These are reversed if the payment is received. Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables.

(iii) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Lloyd’s overseas deposits are not included within the balance of cash at bank and in hand on the Balance Sheet. These are recognised separately in their own category within other assets.

h. Foreign currencies

In accordance with FRS102, the functional currency is the currency of the primary economic environment in which the syndicate operates. The functional currency for Syndicate 1861 is the US Dollar. The statutory report and accounts are presented in Sterling. Foreign exchange resulting from translating balances in functional currency into Sterling is recorded through Other Comprehensive Income. FRS 102 requires all foreign currency transactions to be translated into the functional currency at the transactional rate of exchange. Transactions in Sterling, Canadian dollars, Euros and Australian dollars are translated to US Dollars 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.

At the period end, the monetary foreign currency items are translated to US Dollars at the closing rate with any difference being recorded in the non-technical account. For the purposes of applying the requirements of Section 30 Foreign Currency Translation of FRS 102, all assets and liabilities arising from insurance contracts are treated as monetary items.

i. 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 is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States federal income tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading “other debtors”.

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

4. Critical accounting judgements and estimation uncertainty

Insurance claims and claims settlement expenses

Insurance claims and claims settlement expenses comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for IBNR and related expenses, together with any other adjustments to claims from prior years.

Provision is made at the period-end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported to the syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries. There is inherent uncertainty in establishing claims provisions and it is likely that the final outcome will prove to be different from the original estimate of the liability. Adjustments to the amounts of claims provisions established in prior years are included in the financial statements in the period in which the adjustments are made. The claims provisions are reviewed regularly.

Estimating claims IBNR is inherently more uncertain than the cost of claims notified, for which more information about the claim event is generally available.

Classes of business where the IBNR proportion of the total claims provisions is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility in the claims provisions.

Where possible the syndicate adopts multiple techniques to estimate the required level of claims provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections given by the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each underwriting year of account.

Allowance is made for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in the business environment or processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from prior periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims and catastrophe events impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

Claims provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers. An assessment is also made of the recoverability of reinsurance recoveries having regard to available data on the financial strength of each of the reinsurance companies.

Claims reserved as non-life annuities are discounted for investment earnings that may be expected to arise in the future on funds retained to meet the future liabilities. All other claims provisions are undiscounted.

4. Critical accounting judgements and estimation uncertainty (continued)

Premium estimates

Gross written premiums include an estimate of the total premiums expected to be received under each insurance and reinsurance contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips, is calculated based on the estimated underlying inception profile of each contract and, therefore, this premium recognition is judgmental. Further adjustments to estimates from previous years are also included in the reported premiums for the relevant underwriting years.

Reinstatement premiums are estimated in accordance with the contract terms and recorded based upon paid losses and claims reserves.

Premium estimation uses expert judgement, the quality of the estimate being influenced by the nature and maturity of the portfolio, availability of timely data, relevant underwriting input to the estimating process and management review. Gross written premium estimates are reviewed regularly using underwriter estimates and actuarial projections.

Financial investments

The syndicate uses prices provided by third party suppliers, investment managers and counterparty banks in determining the fair value of financial assets. Depending on the methods and assumptions used, for example, in the fair valuation of Level 2 and Level 3 financial assets, the fair valuation can be subject to estimation uncertainty. These methods and assumptions are described in Note 5 below.

5. Management of risk

The syndicate has identified the principal risks and uncertainties arising from its activities and has established policies and procedures to manage these items in accordance with its risk appetite. The sections below explain how the syndicate defines and manages each category of risk.

a. Insurance risk

Insurance risk is defined as the risk of fluctuations in the timing, frequency and severity of insured events and claims settlements, relative to expectations. Syndicate 1861's exposure to insurance risk arises from underwriting/pricing, insurance concentrations, reserving and reinsurance. The Board of CMA seeks to mitigate insurance risk by analysing historical pricing and claims experience, setting a tolerance to concentration risk, monitoring performance, and conducting in-house actuarial reviews of claims provisions, independent of the underwriting teams.
The syndicate has formal controls in place to ensure that business is underwritten in a controlled environment by reference to both the annual business plan and in line with underwriting policy. Preventative controls include underwriting authority limits which are agreed and signed off by the Active Underwriter, divisional and Group underwriting guidelines and benchmark ratings for all underwriting divisions. Detection controls include exception reports where authority limits are exceeded, expert review procedures, peer reviews and internal audit reviews.

Syndicate 1861 is exposed to potentially significant losses arising from natural catastrophe events such as windstorm, earthquake or flood. CMA quantifies catastrophe risk exposures using proprietary modelling software in conjunction with the principal underwriting systems to assess and model catastrophe exposures. The modelling tools are used in conjunction with CMA's knowledge of the business, historical loss information and geographic accumulations to monitor aggregation and to simulate catastrophe losses. The range of scenarios considered includes natural catastrophe, property, marine, liability and terrorism events.

CMA's capital setting methodology enables modelling to be performed in a sophisticated, but practical, manner particularly in determining the correlations between catastrophe exposed classes of business. Stochastic models use event tables which capture directly the different geographic distributions of risk in the various lines of business.

5. Management of risk (continued)

a. Insurance risk (continued)

Effective risk management in non core areas and from non modelled perils is ensured using a suite of exposure accumulation and aggregation monitoring techniques and proprietary deterministic models.

As a guide to the level of concentration of exposure the Syndicate writes, the following table shows the Syndicate's 1:100 probabilistic modelled exposure to its three largest natural catastrophe perils during 2019:

Peril	Gross Loss £m	Final Net Loss £m
North Atlantic Hurricane	238.5	66.5
US Earthquake	115.7	24.4
North America Tornado	34.3	27.6

The managing agent manages insurance risks on behalf of the syndicate, including the following:

- inappropriate underwriting activities and cycle management;
- inadequate catastrophe exposure management; and
- inadequate or insufficient reinsurance protection.

The underwriters, supported by the actuarial pricing team, use their expertise and experience to determine the likely claims cost and, therefore, the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit in line with the agreed business plan.

Due to the nature of insurance risk, however, the premium charged may not be sufficient to cover the cost of claims. The shortfall may result from insufficient premium being calculated and charged or from an unexpected or unprecedented high level of claims.

A number of controls are employed to limit insurance exposures. Each year a business plan is prepared and agreed by the Board which sets the premium income targets and exposures to be written in total and for each class of business. Progress against this plan is monitored by the Board during the year.

Insurance liabilities are assumed through individual risk acceptances, reinsurance treaties or binding authorities. Binding authorities delegate underwriting authority to other underwriters, or agents acting as coverholders, who use their judgement to write risks on Syndicate 1861's behalf under clear authority levels. In such situations, the coverholders' activities are closely monitored and reviewed, and periodic on-site audits are carried out to ensure that the terms of the delegated authorities are being adhered to.

The syndicate is also exposed to the risk of:

- inappropriate claims reserves;
- inappropriate payment of claims.

All claims arising are reserved upon notification. The entire portfolio of business is subject to a quarterly reserving process whereby levels of paid and outstanding claims are reviewed. Potential future claims are assessed with a provision for IBNR claims being made. The quarterly review process is overseen by the Reserving Committee. Whilst a detailed and disciplined reserving exercise is carried out, known claims can develop beyond the level of reserves held.

Furthermore, there is increased uncertainty around the provision for IBNR claims. Consequently, there is a possibility that claims may arise which in aggregate exceed the reserve provision established. In the event that claims do not develop in line with expectations, the Reserving Committee will seek to release any redundant reserves.

The syndicate purchases specific reinsurances to protect against single risk losses. The syndicate also purchases general excess of loss reinsurance to protect from severe losses.

5. Management of risk (continued)

a. *Insurance risk (continued)*

The structure of the programme and type of protection bought will vary from year to year depending on risk appetite and the availability and price of cover.

(i) Development of claims

The claims provisions established can be more or less than adequate to meet eventual claims. The level of uncertainty varies from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be a £3.6m gain/loss (2018: £3.5m gain/loss).

(ii) Claims development tables

The development of insurance liabilities provides a measure of the syndicate's ability to estimate the ultimate value of claims. Historic development includes a mix of prior year releases and deteriorations, and in 2019 gross and net deteriorations occurred.

The tables below are presented at the exchange rates prevailing at 31 December 2019.

At 31 December 2019 **Gross of reinsurance**	***2017*** ***£000***	***2018*** ***£000***	***2019*** ***£000***	***Total*** ***£000***
At end of underwriting year	102,794	139,941	140,049	382,784
One year later	194,361	358,505	-	552,866
Two years later	216,540	-	-	216,540
Gross ultimate claims on premium earned to date	216,540	358,505	140,049	715,094
Cumulative payments	(100,528)	(136,693)	(21,227)	(258,448)
Gross claim reserve	116,012	221,812	118,822	456,646

At 31 December 2019 **Net of reinsurance**	***2017*** ***£000***	***2018*** ***£000***	***2019*** ***£000***	***Total*** ***£000***
At end of underwriting year	65,517	111,430	109,752	286,699
One year later	139,608	274,517	-	414,125
Two years later	161,091	-	-	161,091
Net ultimate claims on premium earned to date	161,091	274,517	109,752	545,360
Cumulative payments	(73,043)	(97,414)	(17,101)	(187,558)
Net claim reserve	88,048	177,103	92,651	357,802

Claims development is expected over the first 3 years of a year of account as the business written, and as yet unwritten, writes and earns. At the current year end the 2017 – 2019 years of account have the following estimated unwritten and unearned premiums net of acquisition costs:

At 31 December 2019 **Gross of reinsurance**	***2017*** ***£000***	***2018*** ***£000***	***2019*** ***£000***	***Total*** ***£000***
Gross forecast unwritten premiums (net of acquisition costs)	112	1,636	53,807	55,555
Gross unearned premiums (net of acquisition costs)	5,124	61,889	206,183	273,196

At 31 December 2019 **Net of reinsurance**	***2017*** ***£000***	***2018*** ***£000***	***2019*** ***£000***	***Total*** ***£000***
Net forecast unwritten premiums (net of reinsurance and acquisition costs)	112	1,415	44,288	45,815
Net unearned premiums (net of reinsurance and acquisition costs)	3,063	51,755	155,062	209,880

5. Management of risk (continued)

b. Financial risk

The syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts. An analysis of the syndicate's exposure to the significant components of financial risk is given below split between:

(i) Market risk (including interest rate risk and equity price risk);
(ii) Credit risk (including Fair Value Hierarchy);
(iii) Currency risk; and
(iv) Liquidity risk.

(i) Market risk

Market risk arises from fluctuations in values of, or income from, assets or in interest or exchange rates and is derived primarily from the syndicate's investment of trust fund monies and from currency exposures. The Board has agreed an investment strategy commensurate with the syndicate's risk appetite.

Interest rate risk

CMA manages sensitivity to market conditions by reference to interest rate risk. Since the majority of the syndicate's investments comprise cash, overseas deposits and fixed income securities, the fair value of the portfolio is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the syndicate's fixed income securities tends to rise and vice versa. The fair value of fixed income investments in the syndicate's balance sheet at 31 December 2019 was £158.3m (2018: £261.3m) with an average duration 3.0 years (2018: 4.2 years). If interest rates were to rise/(fall) by 50 basis points at the balance sheet date, the fair value and therefore the profit for the financial year and members' balances would decrease/(increase) by approximately £1.7m (2018: £5.2m).

The syndicate manages interest rate risk by investing in financial investments, cash and overseas deposits with an average duration of less than four years. The Investment Committee monitors the duration of these assets on a regular basis.

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

(ii) Credit risk

Credit risk is the risk that the syndicate becomes exposed to loss if a counterparty fails to perform its contractual obligations. Credit risk could, therefore, impact upon the syndicate's ability to meet its claims as they fall due. The syndicate has in place policies and procedures designed to manage its credit risk exposures.

The primary sources of credit risk for the syndicate are:

- amounts due from reinsurers,
- amounts due from insurance intermediaries, and
- counterparty risk with respect to investments including cash and cash equivalents.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security by CMA's Reinsurance Security Committee, prior to the purchase of reinsurance contracts. Guidelines are set and monitored, that limit the purchase of reinsurance based on Standard & Poor's or appropriate alternative ratings for each reinsurer. The credit risk in respect of reinsurers is primarily managed by CMA's reinsurance support team. Provisions are made against the amounts due from certain reinsurers, depending on the current rating assigned to the reinsurer. Some reinsurers provide collateral, either through deposits held in designated trust accounts or through letters of credit, to protect the syndicate in the event of non-payment of debt. As this collateral effectively guarantees the debt, these reinsurers are zero-rated for bad debt provisions. The recovery of debt from reinsurers is administered by the credit management team.

The credit risk in respect of insurance intermediaries is managed by the credit management function with the aid of the underwriting support team and a dedicated binder management team.

5. Management of risk (continued)

(ii) Credit risk (continued)

To transact business with the syndicate the insurance intermediary must first comply with internal guidelines that include approval (where relevant) by both the PRA and Lloyd's, to have a satisfactory credit rating and to have in place a terms of business agreement or a binding authority agreement with the syndicate. The position is then monitored through ongoing review of the amount of debt outstanding to terms, and by regular cover-holder audits.

The Finance Group regularly reviews inwards premiums debtors and reinsurance debtors by reference to the age of the debt. The objective of the Finance Group is to ensure robust balance sheet management, financial accounting and regulatory reporting oversight and to maintain a strong governance and control framework.

Debts from insurance intermediaries fall due according to the terms of trade; debts from reinsurers crystallise in line with the reinsurance contract terms.

An analysis of amounts past due from insurance intermediaries and reinsurers by age is presented below.

At 31 December 2019	***Neither past due nor impaired***	***Up to 3 months***	***3 – 6 months***	***6 – 12 months***	***More than 12 months***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Debtors arising out of direct insurance operations	313,928	814	-	-	-	314,742
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	963	-	-	-	-	963
Reinsurance recoverables on paid claims	-	15,839	5,904	2,475	767	24,985
Total	314,891	16,653	5,904	2,475	767	340,690

At 31 December 2018	***Neither past due nor impaired***	***Up to 3 months***	***3 – 6 months***	***6 – 12 months***	***More than 12 months***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Debtors arising out of direct insurance operations	244,716	6	433	1,764	39	246,958
Debtors arising out of reinsurance operations:						
Due from intermediaries under reinsurance business	112	-	-	-	-	112
Reinsurance recoverables on paid claims	-	7,127	3,959	2,272	640	13,998
Total	244,828	7,133	4,392	4,036	679	261,068

Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by setting minimum credit worthiness of investments and ensuring diversification of the holdings.

5. Management of risk (continued)

(ii) Credit risk (continued)

An analysis of the syndicate's major exposure to counterparty credit risk and credit risk with the investment funds and cash, based on Standard & Poor's or equivalent rating, is presented below. These assets are neither overdue nor impaired.

At 31 December 2019	***AAA***	***AA***	***A***	**BBB/ BB**	***Other/Not rated***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Reinsurers' share of claims outstanding	-	7,488	86,100	-	5,256	98,844
Debt and other fixed income securities	20,600	51,246	34,783	51,631	-	158,260
Shares and other variable yield securities and units in unit trusts	52,174	-	2,033	-	-	54,207
Overseas deposits	22,349	3,880	6,609	2,829	64	35,731
Cash	-	-	75,694	-	-	75,694
Total	95,123	62,614	205,219	54,460	5,320	422,736

At 31 December 2018	***AAA***	***AA***	***A***	***BBB/ BB***	***Other/Not rated***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Reinsurers' share of claims outstanding	--	17,478	138,656	--	62,260	218,394
Debt and other fixed income securities	27,270	45,724	77,851	95,271	15,183	261,299
Shares and other variable yield securities and units in unit trusts	1,971	-	-	-	-	1,971
Overseas deposits	-	9,994	14,663	2,664	243	27,564
Cash	-	-	17,178	-	-	17,178
Total	29,241	73,196	248,348	97,935	77,686	526,406

The carrying values represent the maximum exposure to credit risk at the balance sheet date in respect of the above assets. The analysis above does not include insurance debtors from direct insurance operations as the majority of these assets are in respect of premiums for which the information is not readily available. Those reinsurance reserves with unrated counterparties are fully collateralised.

Fair Value Hierarchy

The syndicate has classified its financial instruments in accordance with the requirements of paragraph 16 to the March 2016 amendment to FRS102 and has adopted an approach consistent with IFRS13, Fair Value Measurement. The fair value hierarchy classifies financial instruments into Level 1 to 3 based on the significance of the inputs used in measuring their fair value.

The levels within the fair value hierarchy are defined as follows:

- Level 1 - Based on unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement.
- Level 2 - Based on inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3 - Where inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

5. Management of risk (continued)

Fair Value Hierarchy (continued)

At 31 December 2019	***Level 1***	***Level 2***	***Level 3***	***Total***
	£000	***£000***	***£000***	***£000***
Shares and other variable yield securities	-	52,174	2,033	54,207
Debt and other fixed income securities	19,539	138,721	-	158,260
Other financial investments	19,539	190,895	2,033	212,467
Overseas Deposits	9,102	26,629	-	35,731
Total	28,641	217,524	2,033	248,198

At 31 December 2018	***Level 1***	***Level 2***	***Level 3***	***Total***
	£000	***£000***	***£000***	***£000***
Shares and other variable yield securities	-	1,971	-	1,971
Debt and other fixed income securities	27,310	233,989	-	261,299
Other financial investments	27,310	235,960	-	263,270
Overseas Deposits	14,164	13,400	-	27,564
Total	41,474	249,360	-	290,834

The level within the hierarchy that a financial instrument is placed is based on the lowest level of any input that is significant to its fair value measurement. Quoted prices for corporate bonds are based on a limited number of transactions for those securities and as such are considered to meet the definition of level 2 assets.

Values for assets which have no market value have been valued at cost and are considered level 3 assets. At 31 December 2019 these represent the loan to the central fund, no further level 3 disclosure is provided on the grounds of materiality.

(iii) Currency risk

Policyholders' assets are held in the five principal Lloyd's settlement currencies (Sterling, Euros, US, Australian and Canadian dollars) which represent the vast majority of the syndicate's liabilities by currency. A significant proportion of the syndicate's business is transacted in US dollars. The Syndicate's functional currency is US dollars and, therefore, foreign exchange risk also arises when non-US dollar profits are converted into US dollars.

CMA has a group policy to mitigate foreign exchange risk and this policy is managed by the Finance team and overseen by the Finance Group which is headed by the CFO.

The syndicate is exposed to foreign exchange risk primarily with respect to the Sterling, Euro Australian and Canadian dollar. The syndicate mitigates this risk by endeavouring to match assets and liabilities in foreign currency. The Managing Agent's Finance Group reviews currency matching quarterly.

In certain circumstances, the syndicate is exposed to a subsidiary foreign exchange risk where regulators demand that the syndicate holds US, Australian and Canadian dollar currency assets to match liabilities measured on a regulatory basis, rather than best estimate.

For the avoidance of doubt, the syndicate is not positioned to take speculative currency positions to make gains; the purpose of its foreign exchange risk policy is to protect against the downside.

5. Management of risk (continued)

(iii) Currency risk (continued)

The profile of the syndicate's assets and liabilities, categorised by currency, was as follows:

At 31 December 2019	***Sterling & Other***	***US dollar***	***Euro***	***CAD***	***AUD***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Financial investments	13,747	148,296	26,423	24,001	-	212,467
Overseas deposits	13,674	3,246	-	4,697	14,114	35,731
Reinsurers' share of technical provisions	5,532	144,760	8,517	2,216	1,023	162,048
Insurance and reinsurance receivables	49,348	247,076	26,656	9,336	8,274	340,690
Cash and cash equivalents	27,308	34,895	10,217	-	3,274	75,694
Other assets	52,035	60,191	11,381	4,149	2,641	130,397
Total assets	161,644	638,464	83,194	44,399	29,326	957,027
Technical provisions	(157,125)	(560,763)	(76,454)	(26,287)	(23,752)	(844,381)
Insurance and reinsurance payables	(7,954)	(97,528)	(7,278)	(2,584)	(3,412)	(118,756)
Other creditors	(15,651)	(203)	-	-	-	(15,854)
Total liabilities	(180,730)	(658,494)	(83,732)	(28,871)	(27,164)	(978,991)

At 31 December 2018	***Sterling & Other***	***US dollar***	***Euro***	***CAD***	***AUD***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Financial investments	2,557	227,284	19,213	14,216	-	263,270
Overseas deposits	19,051	3,769	-	3,395	1,349	27,564
Reinsurers' share of technical provisions	18,253	171,139	25,414	2,211	1,377	218,394
Insurance and reinsurance receivables	52,161	185,788	14,571	4,655	3,893	261,068
Cash and cash equivalents	4,712	6,347	2,505	-	3,614	17,178
Other assets	72,168	57,389	6,970	2,888	1,922	141,337
Total assets	168,902	651,716	68,673	27,365	12,155	928,811
Technical provisions	(171,300)	(596,702)	(77,205)	(17,628)	(10,006)	(872,841)
Insurance and reinsurance payables	(6,068)	(63,112)	(7,967)	(1,789)	(1,615)	(80,551)
Other creditors	(5,762)	503	(908)	-	-	(6,167)
Total liabilities	(183,130)	(659,311)	(86,080)	(19,417)	(11,621)	(959,559)

5. Management of risk (continued)

(iv) Liquidity risk

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

All valid claims must be paid as they fall due and, therefore, it is essential that the syndicate maintains an appropriate level of liquidity at all times. As a consequence, cash is managed closely by the Treasury team. The syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities.

The syndicate's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. The availability of liquidity in the event of a major disaster is regularly tested using internal cash flow forecasts and realistic disaster scenarios.

The majority of the syndicate's investments are in highly liquid assets which could be converted into cash promptly and at minimal expense. Cash and overseas deposits are generally bank deposits and money market funds.

In addition, the duration of assets is maintained at a level to manage liability durations and in recognition of the syndicate's catastrophe exposures. Greater levels of cash and/or liquid assets may be held when determined by market conditions and is considered appropriate by the Chief Investment Officer.

The tables below show the maturity profile of the Syndicate's financial liabilities.

At 31 December 2019	*No stated maturity*	*0-1 year*	*1-3 years*	*3-5 years*	*>5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Creditors	-	134,610	-	-	-	134,610
Claims outstanding	-	154,231	179,474	73,755	49,186	456,646
Total	-	288,841	179,474	73,755	49,186	591,256

At 31 December 2018	*No stated maturity*	*0-1 year*	*1-3 years*	*3-5 years*	*>5 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Creditors	-	86,718	-	-	-	86,718
Claims outstanding	-	172,385	119,066	154,285	64,502	510,238
Total	-	259,103	119,066	154,285	64,502	596,956

5. Management of risk (continued)

c. Group risk

Group risk arises from the potential impact of risk events, of any nature, arising in or from membership of a corporate group. CMA is part of the Canopius Group Limited (“CGL”), a global underwriter of insurance and reinsurance business transacted both through direct channels and via delegated underwriting. CGL has established a risk management framework to protect the Group’s stakeholders, including Syndicate members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Management recognises the critical importance of having efficient and effective risk management systems in place.

A clear organisational structure is in place with delegated authorities and clear responsibilities. A Group policy framework is in place which sets out the risk management, internal control and business conduct standards for the Group’s operations. Group risk management policies set out the identification of risk and its interpretation, limit its structure to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the corporate goals, and specify reporting requirements. Each policy has a member of senior management charged with overseeing compliance throughout the Group and the CGL Board meet regularly to approve any commercial, regulatory and organisational requirements of such policies.

d. Operational risk

Operational risk is the risk of inadequate or failed internal processes, people systems, or external events that have an adverse impact on the business. The syndicate manages these risks through a framework of robust systems and controls. CMA’s objective for operational risk management is to identify, assess, manage, monitor and report risks and to prevent or reduce any failures or inadequacies in systems and controls. To this end, CMA has established key policies and controls that include:

- regular meetings of the Board of directors at which key aspects of the managing agent’s and syndicate’s businesses are reviewed, including review of reports from various sub-committees of the Board
- underwriting procedures guidelines
- claims management policies and guidelines
- risk registers which are reviewed and signed off by the risk and control owners on a regular basis
- a suite of risk policies for major risk categories relating to the activities of the syndicate
- an internal audit function whose audit plan is aligned with CMA’s risk framework
- human resources policies and guidelines designed to ensure that the operations are adequately resourced by sufficiently skilled and trained people, who are appropriately remunerated
- financial policies and controls that cover:
    - maintaining segregated funds for the syndicate’s assets
    - investment of funds
    - expense management
    - establishing adequate provisions for unpaid claims
    - credit risk, including debt collection and managing counter-party exposures
    - cash flow and other financial projections
    - regular review and reconciliation of the entity's financial records.

In addition, the managing agent has an established and integrated capital and planning cycle. This provides an assessment of the significant financial and non-financial risks, as identified by the managing agent’s risk management framework. The capital requirement is assessed in accordance with applicable requirements through the use of deterministic and stochastic modelling and further challenged using a comprehensive validation process which includes the use of stress and scenario tests. This process assesses the capital required to meet a 1 in 200 level extreme outcome from the aggregation of all recognised sources of risk.

5. Management of risk (continued)

e. Regulatory risk

Regulatory risk is the risk that the syndicate fails to meet the regulatory requirements of the Prudential Regulatory Authority ("PRA"), the Financial Conduct Authority ("FCA"), Lloyd's and those of overseas regulators in jurisdictions where Lloyd's syndicates are licensed to trade.

Regulatory risk is a key area of focus for the risk and compliance teams to ensure legislative and regulatory changes are understood and observed.

6. Capital setting, capital management policies and objectives

The syndicate's objectives in managing its capital are to:

- satisfy the requirements of its policyholders and regulators; and
- allocate capital efficiently to support strategic objectives.

The Society of Lloyd's applies capital requirements at member level and in aggregate to ensure that Lloyd's complies with all regulatory requirements such as Solvency II, whilst meeting its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1861 is not disclosed in these financial statements.

The PRA and Lloyd's oversee the capital setting regime that requires syndicates to calculate their own capital requirements through a Solvency Capital Requirement ("SCR"). The SCR must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member, operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment ("ECA"). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2019 was 35% of the member's SCR 'to ultimate'.

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 14, are included in resources available to meet members' and Lloyd's capital requirements.

The syndicate maintains models in accordance with this regime, and also operates an Own Risk & Solvency Assessment ("ORSA") process which it reports on at least annually.

6. Capital setting, capital management policies and objectives (continued)

Key elements of CMA's capital methodology include:

- risk identification;
- the articulation of risk bearing capacity and establishment of risk appetite;
- identification of capital requirement for all significant risks;
- sensitivity analysis and 'reasonableness checks';
- aggregation and correlation of risks;
- comparison with other benchmarks e.g. prior years' internal SCRs, standard formula SCR results, the PRA published calculations based on industry SCR submissions and market surveys/studies; and
- Board review and challenge.

The SCR represents the equivalent of minimum regulatory capital, as is required by the PRA and Lloyd's, and does not represent the amount of economic capital required to support and maintain Lloyd's ratings. The SCR process produces a result that is uplifted by Lloyd's to the capital required to maintain their rating, currently 'A+ (strong)' by Standard & Poor's.

To improve the risk management capability, and the assessment of capital requirements, CMA has developed a stochastic model to analyse the potential performance of its main underwriting operations. Stress and scenario analysis is also performed for those risks that cannot be easily modelled quantitatively and where more subjective judgement is required (for example, operational risk) as well as to challenge the output of the stochastic model.

Using its detailed measurement of risk exposures, the syndicate allocates capital to support the business according to the risk appetite and expected returns. The syndicate has complied with all capital requirements during the year.

CMA regularly reviews and enhances its risk management processes and their enabling governance structures to ensure that CMA can demonstrate continuous compliance with regulatory and Lloyd's requirements.

7. Segmental analysis

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

2019	***Gross written premiums***	***Gross premiums earned***	***Gross claims incurred***	***Net operating expenses***	***[1]Re-insurance Balance***	***Total***
	£000	***£000***	***£000***	***£000***	***£000***	***£000***
Direct Insurance:						
Accident and health	41,998	41,383	(28,195)	(16,733)	(1,969)	(5,514)
Energy	29,538	30,184	(19,890)	(8,747)	(6,653)	(5,106)
Marine, Aviation & Transport	25,283	35,262	(40,674)	(8,505)	5,900	(8,017)
Fire & other damage to property	174,924	175,224	(108,325)	(69,302)	(8,766)	(11,169)
Third party liability	213,232	199,295	(116,777)	(68,268)	(12,473)	1,777
Pecuniary Loss	49,581	44,905	(29,980)	(14,795)	2,614	2,744
Others	1,617	2,019	(1,193)	(992)	(11)	(177)
Total Direct	536,173	528,272	(345,034)	(187,342)	(21,358)	(25,462)
Reinsurance inwards	125,194	83,347	(47,739)	(31,901)	(11,580)	(7,873)
Total	661,367	611,619	(392,773)	(219,243)	(32,938)	(33,335)

*2018**	Gross written premiums	Gross premiums earned	Gross claims incurred	Net operating expenses	[1]Re-insurance Balance	Total
	£000	£000	£000	£000	£000	£000
Direct Insurance:						
Accident and health	40,691	27,952	(14,665)	(10,974)	(1,722)	591
Energy	13,416	12,753	(5,687)	(2,549)	(1,189)	3,328
Marine, Aviation & Transport	45,250	46,135	(42,081)	(13,220)	(5,313)	(14,479)
Fire & other damage to property	156,297	83,015	(39,164)	(35,973)	(16,512)	(8,634)
Third party liability	162,910	137,266	(68,012)	(50,089)	(15,685)	3,480
Pecuniary Loss	72,360	36,415	(15,091)	(15,316)	(2,308)	3,700
Others	1,445	626	257	(308)	(27)	548
Total Direct	492,369	344,162	(184,443)	(128,429)	(42,756)	(11,466)
Reinsurance inwards	123,838	96,417	(54,693)	(26,631)	(5,444)	9,649
Total	616,207	440,579	(239,136)	(155,060)	(48,200)	(1,817)

[1]Reinsurance balance represents the (charge)/credit to the technical account from the aggregate of all items relating to reinsurance outwards. All premiums were concluded in the United Kingdom.

7. Segmental analysis (continued)

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

	2019 £000	2018* £000
US	273,878	188,121
UK	194,873	251,838
EU	44,879	34,950
Australia	30,931	52,424
Canada	30,535	12,704
Norway	9,441	28,943
UAE	5,968	2,716
Republic of South Korea	3,719	1,149
Other	67,143	43,362
Total	661,367	616,207

8. Currency rates of exchange

Foreign exchange rates to US dollar functional currency:

	31 Dec 19	Average for 2019	31 Dec 18	Average for 2018
GBP £	0.76	0.78	0.78	0.75
Euro €	0.89	0.89	0.87	0.84
Canadian $	1.30	1.33	1.36	1.30
Australian $	1.43	1.44	1.42	1.34

The same US dollar : GBP foreign exchange rates were applied to the converted US dollar functional currency amounts in arriving at the presentational GBP amounts included within these financial statements.

9. Net claims outstanding

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and reinsurers' share thereof. Included within net claims incurred of £302.5m (2018: £193.5m) is a deterioration of £8.4m (2018: improvement of £9.6m) to claims reserves established at the prior year end principally due to unfavourable developments on Property, Third party liability, Accident and Health Energy and Marine classes with partially offsetting favourable developments across the other classes.

10. Net operating expenses

	2019 ***£000***	*2018* *£000*
Commissions on direct business	161,589	179,799
Other acquisition costs	27,544	24,891
Change in deferred acquisition costs	(4,853)	(76,136)
Administrative expenses	26,674	17,002
Personal expenses (see note 11)	8,289	9,504
Total expenses – technical account	219,243	155,060
Loss / (profit) on exchange – non technical account	(1,329)	391
Total expenses	217,914	155,451

Administrative expenses include:

	2019 ***£000***	*2018* *£000*
Auditors' remuneration		
Audit of syndicate accounts	225	161
Other services pursuant to Regulations and Lloyd's Byelaws	179	64
Other non-audit services	72	-
Total audit and non-audit fees	476	225

11. Personal Expenses

	2019 ***£000***	*2018* *£000*
Members' standard personal expenses	4,267	5,198
Managing Agent's fee	4,022	4,306
Total	8,289	9,504

12. Staff numbers and costs

All staff are employed by a group service company and associated costs are charged to the Syndicate. Prior to novation staff costs were charged from AmTrust Management Services Limited and following novation on 1 October 2019 from ASL to CMA, staff costs were charged from Canopius Services Limited ('CSL'). The following amounts were recharged to the syndicate in respect of salary costs:

	2019	*2018*
	£000	*£000*
Wages and salaries	28,386	19,236
Social security costs	3,547	2,720
Pension contributions to money purchase schemes	1,178	1,079
Total	33,111	23,035

The average number of employees employed by the managing agents working on the syndicate's affairs during the year was as follows:

	2019	*2018*
Underwriting	79	93
Insurance Services	22	10
Other	96	73
Total	197	176

13. Emoluments of the directors of the Managing Agents

The directors of CMA and ASL, excluding the Active Underwriter, received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2019	*2018*
	£000	*£000*
Emoluments	690	928
Pension contributions to money purchase schemes	40	25
Total	730	953

Retirement benefits are accruing to 9 directors (2018: 10) under money purchase schemes.

The Active Underwriter(s) received the following remuneration charged as a syndicate expense:

	2019	*2018*
	£000	*£000*
Emoluments	411	461
Total	411	461

Pension contributions amounting to £5k were charged to Syndicate 1861 on behalf of the active underwriter in 2019. (2018: £5k).

14. Net investment income recognised in profit or loss

	2019 £000	2018* £000
Interest and similar income		
From financial instruments designated at fair value through profit or loss	3,048	5,675
Interest on cash at bank	-	151
Investment expenses	(355)	(227)
Total interest and similar income	2,693	5,599
Other income from investments designated at fair value through profit or loss		
Realised gains / (losses) on investments	6,072	(1,000)
Unrealised gains/ (loss) on investments	2,397	(765)
Total other gain / (loss)	8,469	(1,765)
Net investment return	11,162	3,834

	2019 £000	2018 £000
Average amount of syndicate funds available for investment during the year	293,149	248,100
Gross aggregate investment return for the calendar year in Sterling	11,162	3,800
Gross calendar year investment yield	3.95%	1.64%

The syndicate classifies its investments at fair value through profit and loss. Financial assets classified into this category form a portfolio of financial assets which may be sold to meet the cash flow requirements of the syndicate or as investment conditions change. Amounts presented above are net of £3,843k of net investment return on assets held and subsequently disbursed during the period as partial consideration for the reinsurance to close of the 2016 & Prior years of account to a third party.

15. Other financial investments

	Fair value		Cost		Listed	
	2019	*2018*	***2019***	*2018**	***2019***	*2018**
	£000	*£000*	***£000***	*£000*	***£000***	*£000*
Shares and other variable yield securities and units in unit trusts	54,207	1,971	54,207	1,971	54,207	1,971
Debt and other fixed income securities	158,260	261,299	155,796	262,487	158,260	261,299
Total	212,467	263,270	210,003	264,458	212,467	263,270

Notes to the Financial Statements

for the year ended 31 December 2019

16. Debtors arising out of direct insurance operations

	2019 £000	2018 £000
Due within one year		
Intermediaries	314,672	246,919
	314,672	246,919
Due after more than one year and within five years		
Intermediaries	70	39
Total	314,742	246,958

17. Debtors arising out of reinsurance operations

	2019 £000	2018* £000
Due within one year		
Ceding insurers and intermediaries under reinsurance business	962	78
Reinsurance recoverable on paid claims net of bad debt provision	24,986	13,998
	25,948	14,076
Due after more than one year and within five years		
Ceding insurers and intermediaries under reinsurance business	-	34
Total	25,948	14,110

18. Other debtors

	2019 £000	2018 £000
Due within one year		
Amounts due from group undertakings	712	830
Total	712	830

19. Overseas deposits

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

20. Creditors arising out of direct insurance operations

	2019 £000	2018 £000
Due within one year		
Intermediaries	43,362	19,223
Total	43,362	19,223

21. Creditors arising out of reinsurance operations

	2019 £000	2018 £000
Due within one year		
Reinsurance ceded	75,394	61,328
Total	75,394	61,328

22. Other creditors

	2019	*2018*
	£000	*£000*
Due within one year		
Amounts due to group undertakings	15,854	6,167
Total	15,854	6,167

23. Deferred acquisition costs

The reconciliation of opening and closing deferred acquisition costs is as follows:

	2019	*2018*
	£000	*£000*
At 1 January	128,669	49,852
RITC adjustment[1]	(4,350)	-
Adjusted 1 January 2019	124,319	49,852
Change in deferred acquisition costs	4,853	76,136
Foreign exchange	(2,484)	2,681
At 31 December	126,688	128,669

[1]At 31 December 2018 the 2016 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2016 & Prior years of account.

24. Reconciliation of insurance balances

The reconciliation of opening and closing unearned premium provision is as follows:

	Gross		***Reinsurers' share***	
	2019	*2018*	*2019*	*2018*
	£000	*£000*	*£000*	*£000*
At 1 January	362,603	174,812	57,618	40,162
RITC adjustment[1]	(14,442)	-	(4,719)	-
Adjusted 1 January	348,161	174,812	52,899	40,162
Increase in provision	49,748	175,628	12,703	14,192
Foreign exchange	(10,174)	12,163	(2,398)	3,264
At 31 December	387,735	362,603	63,204	57,618

[1]At 31 December 2018 the 2016 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2016 & Prior years of account.

The reconciliation of opening and closing provision for claims is as follows:

	Gross		Reinsurers' share	
	2019	*2018*	***2019***	*2018*
	£000	*£000*	***£000***	*£000*
At 1 January	510,238	385,226	160,776	147,080
RITC adjustment[1]	(241,918)	-	(94,288)	-
Adjusted 1 January	268,320	385,226	66,488	147,080
Increase in provision	202,344	105,237	36,774	7,212
Foreign exchange	(14,018)	19,775	(4,418)	6,484
At 31 December	456,646	510,238	98,844	160,776

[1]At 31 December 2018 the 2016 & Prior years of account closed by way of an external reinsurance to close agreement. This was recorded as a balance sheet transaction in line with standard practice for a Lloyd's syndicate. An adjusted opening position has been presented to remove the brought forward technical provisions in relation to the 2016 & Prior years of account.

25. Post balance sheet events

On 13th February 2020 the Board of the Managing Agent authorised the closure of the 2017 years of account of Syndicates 1861, 5820 and 1206, by way of reinsurance to close agreements, into the 2018 year of account of Syndicate 1861. The net reinsurance to close premium payable to the Syndicate from 5820 and 1206 is £80.5m.

On the closure of the 2017 years of account an amount of £3.4m has been called from the member of Syndicates 1206 and 5820.

26. Pensions

Both ASL, until novation, and CSL, following novation, operated defined contribution pension schemes for the employees working on the syndicate's affairs during the year. The assets of the schemes are held separately from those of ASL and CSL in independently administered funds. The amounts recharged to the syndicate in respect of pensions are disclosed in Note 12.

27. Related parties

Lloyd's market regulations require that a managing agent be responsible for engaging underwriting staff and managing the affairs of each syndicate at Lloyd's on behalf of the Syndicate members. The managing agent of the Syndicate was AmTrust Syndicates Limited ('ASL') until novation on 1 October 2019 to Canopius Managing Agents Limited ('CMA').

In 2019 and 2018 a large proportion of the expenses incurred in operating the Syndicate were incurred by group service companies and were then recharged under intragroup service agreements, with ASL until 1 October 2019 and with CMA from this date, on a basis that reflected the Syndicate's usage of resources.

27. Related parties (continued)

Group recharges are charged on a cost basis and predominantly represent recharges of staff costs for employees working on syndicate business as well as associated other administrative expenses including accommodation, professional fees and information technology. These recharges, included within amounts disclosed as net operating expenses, acquisition costs and claims incurred were as follows:

	2019 £000	2018 £000
AmTrust Central Bureau of Services Limited	253	39,660
AmTrust Syndicate Holdings Limited ('ASH')	-	295
AmTrust Management Services Limited ('AMSL')	40,214	-
Canopius Services Limited ('CSL')	15,662	-
Total expenses recharged	**56,129**	**39,955**

The following amounts were outstanding at 31 December 2019 and 31 December 2018:

	2019 £000	2018 £000
CBS	-	(3,278)
AMSL	-	-
Flectat 2 Ltd (formerly AmTrust Corporate Member Limited (A	-	639
ASH	-	(272)
ASL	-	(1,899)
CSL	(15,662)	-
Total amount outstanding in relation to group recharges	**(15,662)**	**(4,810)**

Included within the recharges are amounts relating to the remuneration of directors of ASL and CMA. Profit-related remuneration for the Syndicate's active underwriter and ASL and CMA directors is not charged to the Syndicate.

The following directors of CMA during the period were also directors of CSL during the period: M C Watson, N S Meyer, L Davison and B A Turner (resigned from CMA board 3 October 2019).

CMA and CSL are both 100% subsidiaries of Canopius Holdings UK Limited ('CHUKL'). The following directors of CMA during the period were also directors of CHUKL during the period: M C Watson, N S Meyer and M P Duffy.

The following directors of ASL during the period were also directors of CBS, AMSL and ASH during the period: P Dewey and J E Cadle.

Member's expenses, being agent's fees and profit commission payable to the Managing Agent, and subscriptions and central fund contributions payable to Lloyd's, are charged on an underwriting year of account, rather than on a calendar year basis. For the 2019 underwriting year of account, ASL charged an agent's fee of 1.0% of stamp capacity (2018: 1.0%). Within the financial statements, fees of £4.0m (2018: £4.3m) have been charged. At 31 December 2019 there are no unpaid fees (2018: £nil). CMA has not charged an agent's fee to the 2019 year of account.

The Syndicate acts as consortium leader, with the managing agent as the consortium manager, for a number of consortia participated upon by Syndicate 5820. The Syndicate also participated on a Marine Hull consortium on which Syndicate 1206 is the consortium leader and the managing agent is the consortium manager. Both Syndicates 5820 and 1206 were also managed by ASL until novation to CMA on 1 October 2019, and share 100% commonality of capital with 1861 through Flectat 2 Ltd ('F2L'), known as AmTrust Corporate Member Limited ('ACML') until 25 October 2019.

27. Related parties (continued)

Until 1 October 2019, ACML and ASL were both subsidiaries of AmTrust Lloyd's Holdings Limited ('ALH') itself is a 100% indirect subsidiary of Evergreen Parent, L.P., the ultimate parent company of the AmTrust Group. On 1 October 2019 Fortuna Holdings Limited (Jersey) ('FHL'), a 100% indirect parent of CMA, acquired 100% of the share capital of ACML. AmTrust International Insurance Limited (Bermuda) ('AIIL'), a 100% indirect subsidiary of Evergreen Parent, became a significant minority shareholder in Fidentia Fortuna Holdings Limited (Cayman Islands), an indirect majority shareholder of FHL, as part of this transaction.

Immediately prior to the sale of F2L on 1 October 2019, 100% quota share reinsurance contracts were put in place ceding the company's syndicate participations on the 2017 and 2018 years of account of Syndicate 1861, as well as the 2017 years of account of Syndicates 5820 and 1206, to AIIL. At 31 December these contracts were novated to a third party.

During the period £0.8m (2018: £8.7m) was written by the Syndicate as consortium leader on behalf of Syndicate 5820. Fees are charged by the managing agent as the consortium manager on behalf of the Syndicate to the other consortium members. At 31 December 2019 the Syndicate had accrued income of £0.9m (2018: £2.9m) due from Syndicate 5820 in this respect. During the period £1.1m was written by 1861 through the 1206 led Hull consortium (2018: £(0.4)m premium adjustment). There we no fees due to 1206 in this respect at 31 December 2019 (2018: £nil).

The following directors of ASL during the period were also directors of F2L and ALH during the period: P Dewey (resigned from F2L on 2 October 2019) and J E Cadle (resigned from F2L on 2 October 2019).

The following directors of CMA during the period were also directors of F2L during the period: M C Watson (appointed to F2L on 3 October 2019), M P Duffy (appointed to F2L on 3 October 2019) and N S Meyer (appointed to F2L on 3 October 2019).

A proportion of the business written by the Syndicate is sourced from companies within the AmTrust Group as follows.

2019	ANV Global Services Inc.	ANV Global Services Ltd.	Assure Space, LLC	AmTrust Underwriting Limited	AMT Warranty Corp of Canada
Gross premium written	15,813	8,860	6,043	3,643	1,094
Commission	2,249	1,332	533	580	625
Receivable at 31 December 2019	3,144	1,866	7,126	1,685	903

2018	ANV Global Services Inc.	ANV Global Services Ltd.	Assure Space, LLC	AmTrust Underwriting Limited	AMT Warranty Corp of Canada
Gross premium written	13,572	16,251	6,972	1,000	736
Commission	1,804	2,441	615	400	421
Receivable at 31 December 2018	3,755	2,689	5,600	-	368

Commissions charged to the Syndicate by these companies are consistent with those payable to a third party for similar services.

27. Related parties (continued)

Cash Calls
On 12 September 2019 in preparation for the sale of F2L and novation of the syndicate management, ASL authorised cash calls of £7.8m and £19.1m, representing the retained loss at 31 December 2018 on the 2017 and 2018 years of account respectively, to be made from the Syndicate's 100% capital provider F2L.

Directors' interests
None of the directors nor the active underwriter participate on the Syndicate.

Nicholas Pawson, a non-executive director of ASL is a non-executive director of Starr Managing Agents Limited (SMAL). SMAL is a member of the Starr group, which includes Starr Underwriting Agents Limited, a company which has delegated underwriting authority for specific classes of business for Syndicate 1861. There are a number of contracts between the Syndicate and companies in the SMAL group. All such contracts are negotiated on an arm's length basis. Both the boards of SMAL and ASL have been advised of the potential conflict of interest.

Reinsurance to Close
The Board of CMA authorised the closure of the 2017 years of account of Syndicates 5820 and 1206 by way of reinsurance to close arrangements into Syndicate 1861's 2018 year of account.

Investment Managers
The Syndicate's investment manager until 31 December 2019 was AII Insurance Management Limited ('AIIM'). AIIM is a 100% indirect subsidiary of Evergreen Parent L.P. During the period fees of £310.7k were levied for investment management services (2018: £227.0k).

28. Immediate and ultimate parent undertaking and controlling party

As at 31 December 2019, Syndicate 1861 was managed by CMA. CMA's immediate UK parent is CHUKL, which is registered in England and Wales. CHUKL is part of CGL which is registered in Jersey. CMA's registered office is Gallery 9, One Lime Street, London EC3M 7HA.

The ultimate controlling parties of CGL are CCP GP Investors Holdings (Cayman) LP, Centerbridge Associates III, LP, CCP III Cayman GP Limited and CCP III SBS Cayman GP Limited.

29. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as 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 a member is required to maintain is determined by CMA and Lloyd's based on compliance with PRA requirements. The determination of the FAL requirement has regard to a number of factors including the nature and amount of insurance contracts to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since the assets in FAL are not owned by the syndicate, 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.