ERS DGB Limited
Consolidated Financial Statements

For the year ended

31 December 2019

Company Number 08333916

Contents

Directors and Officers

Directors

Jeffrey W Greenberg (Chair)
Amanda J Blanc
Kunal Gujadhur
Robert P Gullett
Ian D Parker
Ignace L.G. van Waesberghe
Christopher E Watson

Company Secretary

David C Turner

Registered Office

21 Lombard Street
London
EC3V 9AH

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London
SE1 2RT

Group Strategic report

For the year ended 31 December 2019

The directors present their Strategic report for the year ended 31 December 2019.

Review of the business

The Company is an insurance holding company and the principal activity of its subsidiary undertakings is to underwrite motor insurance business at Lloyd's.

The principal activity for the Group is to underwrite motor business at Lloyd's, this is through the Group's participation in Syndicate 218 ("the Syndicate").

The Syndicate retains its clear strategy of being a specialist motor only, broker only insurer, focused on delivering sustainable profitable returns. It operates under a strong brand name, ERS, and offers a broad range of specialist motor insurance products for the UK personal lines and commercial segments. The broad product base provides risk diversity between the classes and assists in easing the performance impact of the cyclical nature of the UK motor insurance market.

The four key elements of ERS strategy remain unchanged, and are as follows:

- ERS is deliberately different. ERS is the largest specialist motor insurer in Lloyd's and the only motor focused syndicate. It focuses on drivers with needs that are different or more intricate, have a passion for their vehicle or depend upon it for their livelihood. Its investment in expert underwriters, data and analytics, and claims specialists creates an offering that is distinct from anyone else in the market;
- ERS has strong broker relationships and continues to be committed to distribution partnerships with specialist brokers. Their knowledge and understanding of their customers and market together with ERS' underwriting and claims capability and capacity continues to drive mutual and sustainable relationships. As more and more motor insurers move towards screen-only rated products, an opportunity exists for ERS to capitalise on those segments where there are fewer insurance alternatives for the customer where real underwriting expertise is required;
- ERS continues to enhance its capabilities and will adopt technology where it improves the customers' experience, the efficacy of underwriting judgement, the efficiency of the insurance process, and the settlement of genuine claims. This includes investment in management information and technical pricing capabilities, developing fraud prevention interventions and improvements in risk selection and leakage prevention. ERS continues to leverage and develop its previous investment in a state-of- the-art IT system to support its growth; and
- ERS remains committed to be a sustainable business whose consistent underwriting approach provides brokers and their customers' protection in what continues to be a volatile market. ERS benefits from the Lloyd's credit rating which has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very Strong) rating from Fitch Ratings. ERS believes credit strength has become a more important placing consideration for brokers, especially given recent events where a number of motor underwriters have exited UK Motor as a class.

Market overview

The UK domestic motor insurance market remained competitive in 2019. Market pricing has lagged claims inflation with prices more-or-less flat for the past couple of years; and according to a December 2019 press release from EY, claims inflation was widely reported at around 6% during the year. *Source: EY UK press release (article: 'The UK motor insurance market to record underwriting loss in 2019 following record-breaking year' dated 2 December 2019).*

Motor claims severity inflation remained high in 2019 driven primarily by the higher cost of repairing or replacing parts exacerbated by the technology in modern vehicles. While technology has improved safety and, as a result, reduced accident frequency, it has led to an increase in the frequency of thefts. Several cars are vulnerable to thieves intercepting the signal between the keyless fob and the car in order to gain access and start the engine. Police records continue to show an increase in vehicle related theft, with no indications that this trend will slow anytime soon.

Market overview (continued)

The continuing claims inflation, together with the impact of the July Ogden discount rate change, will have worsened motor loss ratios. Furthermore, the motor excess-of-loss reinsurance cost increases (+5% to +35% per a 2019 reinsurance prices review performed by the Financial Times in January 2020) and increases to the levies imposed by the Motor Insurers' Bureau will put pressure on margins for those affected. Both factors should push insurers to increase prices. *Source: Financial Times (article: 'Reinsurance renewal prices hold the line in face of disasters' dated 2 January 2020).*

Contrarily, the market has grappled with the implementation of sweeping reforms to the personal injury compensation system as well as various regulatory interventions that are expected to have a deflationary effect; this has led to some participants continuing to price below inflation.

Market conditions have led to several motor insurers and managing general agents ("MGAs") exiting the market during the year. Capacity has decreased in the market as a result, which should provide opportunity for price increases.

Brexit

The UK's exit from the European Union on 31 January 2020 will have a limited impact on ERS's ability to trade because its business is focused on UK motor insurance. Arrangements are in place to continue to service the small number of customers with vehicles outside of the UK, mostly in the Republic of Ireland. There remains a risk to the supply chain for car manufacturers and car parts suppliers, which may further exacerbate the claims inflation that has been seen in the last period. ERS launched a self-service portal for Green Cards on 7 March 2019 to allow brokers to produce Green Cards as requested by customers for travel outside the UK and this remains in operation in the event of a hard or a no-deal Brexit.

Coronavirus

As at the reported year end, 31 December 2019, a very limited number of cases of the Covid-19 coronavirus had been reported to the World Health Organisation. Since then it has been declared a global pandemic and has spread to more than 190 countries, causing significant disruption.

The health and safety of our employees and their families are paramount. Consistent with government advice, ERS employees are working remotely from home as from March 16 for London and March 20 for Swansea. Our business continuity planning had envisaged such a scenario and as such operational disruption has not occurred during this period.

While it is appropriate to comment in these financial reports on the pandemic given its potential implications post balance sheet, multiple dimensions of the crisis are unprecedented and unknowable making predictions particularly challenging.

The government's implementation of social distancing measures to physically disrupt the contagion has severed the flow of goods and people. Cabinet Office data shows road traffic dropped by 73% by March 29 compared to pre-outbreak levels, at April 27 road traffic had increased with data showing a 56% fall. The number of large lorries has declined by just 40% as essential supplies continue to be transported. The lower road traffic and vehicle usage is expected to lead to fewer accidents and drive down the numbers of insurance claims.

Differently, revenue is expected to fall in some segments. The legal requirement for insurance will mean renewals of existing business on retail products should be less affected because vehicle owners are unlikely to sell their vehicles, but growth is expected to be impeded as new car sales will stall as car dealerships are closed during the lockdown. Commercial products expect to see businesses laying up vehicles where demand has dried up, for example self-drive hire, coach and bus, and taxi businesses. Although opportunities exist in other segments where demand has increased, for example agriculture, courier and transportation.

Market overview (continued)

Coronavirus (continued)

Furthermore, global financial markets reacted strongly to the pandemic and economic contagion is spreading as fast as the disease itself. While our investment portfolios were not immune, the low-risk strategy has dampened the fall in asset values. As at April 30, the group investments were down 0.26%, while the Syndicate investments were down 0.25%. These are largely mark-to-market losses, however, and as the portfolio is predominantly fixed-interest securities with a reasonable portfolio yield, returns are expected to improve if assets can be held to maturity. The outlook for investments is dependent on the path of the shock and recovery, whether economies will be able to return to their pre-shock output levels and growth rates, and whether there will be any structural legacy from the coronavirus crisis.

The fall in the Funds at Lloyds investment portfolio value meant that the group breached its Letter of Credit covenant gearing test at March 31, 2020. It was 35.4% versus the facility threshold of 35%. The banks (RBS and ING) have approved a waiver of the gearing test for Q1 2020. At the June "coming into line" date additional capital will be transferred into the Funds at Lloyd's investment portfolio providing headroom of £6.9m against the LoC gearing threshold. Investment valuations would need to fall 6.4% to trigger a future breach. This is 4-5 times as much as the fall observed in March 2020 and therefore considered a reasonable margin for the risk that there is additional volatility.

The business cash flows continue to be managed daily, including working closely with brokers and suppliers, and ERS expects to fully maintain its 135% solvency position during this period.

Ogden discount rate ("Ogden")

The Ogden discount rate is used by the courts to determine lump sum awards to compensate claimants for future losses and cost of care in personal injury cases. The Lord Chancellor announced on 15 July 2019 a change in the Ogden discount rate from minus 0.75% to minus 0.25% to be effective from 5 August 2019. Under the Civil Liability Act 2018 the discount rate will be reviewed again within a five-year period.

The change in the Ogden discount rate was to a lower rate than the 0% assumed in the technical claims reserves, in common with some other insurers, which itself was driven by guidance from the Ministry of Justice. Updating the claims provisions to a minus 0.25% Ogden discount rate decreased the 2019 calendar year underwriting result by £3.6m (ERS share: £2.3m).

Results and performance

The results of the Group for the year, as set out on pages 26 and 27 show a profit on ordinary activities before taxation of £10.6m (2018: £7.0m). The shareholders' funds of the Group total £125.9m (2018: £112.9m).

The Group result before tax for the year by activity is shown in the following table:

	2019 £000	2018 £000
Underwriting	**10,059**	5,261
Corporate	**587**	1,781
Group profit before tax	**10,646**	7,042

The Group results are impacted by the performance of its underwriting activities through its participation in Syndicate 218. For 2019 these underwriting activities have delivered a trading profit of £10.1m (2018: £5.3m). This profit recognised by the Group's corporate member is made up of the Group's share of the results for Syndicate 218 plus recoveries from the Adverse Development Cover ("ADC") and Funds at Lloyd's income.

Results and performance (continued)

Underwriting performance

The Syndicate 2019 financial year result was an operating profit of £13.9m (ERS share: £8.0m profit) which is an improvement on the previous year profit of £11.1m (ERS share: £6.0m profit) and is the largest financial year profit since change of control to Aquiline in 2013.

Gross written premiums increased by 9.3% (2018: -12.4%) to £360.0m (2018: £243.4m), ERS share: £243.4m (2018: £222.5m) and the number of vehicles on cover grew by 13% (2018: -20%). This growth arose from better new business trading following the successful completion of distribution and pricing initiatives introduced the previous year.

A new product targeting non-standard retail customers via price comparison websites, using a broker, launched in December 18 was a key source of the new premium income. Income also benefitted from an in-house e-trade solution allowing brokers to access several other ERS specialist products online.

ERS has continued to focus on profitability by maintaining pricing discipline and employing developments that leverage additional data sources and modern analytical methods to more accurately assess risk and validate customers' details. In addition, ERS made significant technology investments to build on its legacy-free IT applications including:

- Insurer Hosted Pricing ("IHP") rolling out across more products, helping get prices to market faster and providing more risk data than ever;
- Data Enrichment enhancements providing underwriters more confidence that the risk is as presented by the broker; and
- 12% of ERS' Commercial new business premium is now traded online through e-trade, turning the platform to a multi-million pound distribution platform within 10 months.

The combined operating ratio was 99.7% (2018: 96.1%). Last year, the 2018 financial year's loss ratio benefitted from a £7.9m one-off release in reserves from a change in the Ogden rate assumption from minus 0.75% to 0%. Conversely, the 2019 financial year had a £3.6m strengthening of reserves from the Ogden rate changing to minus 0.25%.

The loss ratio increased to 68.8% (2018: 63.7%) from the previous year. This is attributable principally to the following factors:

- High claims inflation – The cost of accidental damage claims increased during the year ahead of our price increases. This was driven by ongoing above trend inflation in the cost of replacing parts and repairing vehicles from more severe accidents and an increase in the frequency of theft claims, particularly of vehicles using keyless technology;
- Higher number of larger bodily injury claims – There has been an unusually high number of larger bodily injury claims notified during the last quarter of the year. Analysis of the circumstances surrounding each of these cases does not indicate any identifiable trend; and
- Ogden rate change – Last year, the 2018 financial year's loss ratio benefitted from a £7.9m release in reserves from a change in our assumptions in the rate from minus 0.75% to 0%, while the 2019 financial year's loss ratio was impacted by a £3.6m increase in reserves from the July Ogden rate change to minus 0.25%.

ERS has improved its cost efficiency during the year and the expense ratio has reduced to 16.6% (2018: 17.2%).

The 2018 reinsurance coverage with Third Point Reinsurance Company Ltd ("TPRe") was commuted and replaced with a new contract bound effective on 30 June 2019. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2019 underwriting and accident years, with a stop loss to protect the 2019 and 2020 underwriting years in the 2020 accident year.

ERS purchased excess of loss reinsurance cover protecting losses from business written in 2019 subject to a deductible of £2.5m per event.

Group Strategic report (continued)
For the year ended 31 December 2019

Results and performance (continued)
Corporate performance
The trading result for the corporate businesses for the year was a profit of £0.6m (2018: £1.8m), this deterioration is principally down to the £1.3m costs incurred in the strategic review of the business by the Group's majority owner Aquiline that was concluded in 2019. The primary driver of this profit is the Group share of the managing agent's fees.

Investment performance
The Group's investments performed strongly. Returns of £9.6m, equivalent to a 3.4% rate of return, were reported for the financial year 2019. Markets rebounded substantially in the year following sharp falls on world markets and extreme levels of investor pessimism in late 2018, which caused investment losses of £2.1m for the 2018 financial year, equivalent to a minus 0.3% rate of return.

The strong investment performance in 2019 compared to a weak 2018 was largely due to the following developments in the market:

- The first four months of 2019 brought strong returns as central banks signalled that rather than raise interest rates they would provide yet more stimuli to try to keep the economic expansion intact;
- The fourth quarter saw two significant political risks avoided. Firstly, the US tariffs on China were scheduled to increase on 15 December but a trade deal avoided that outcome and provided significant relief for equity markets; and secondly the general elections in December meant that the UK could pass a European Union withdrawal bill, activating a transition period during which little will change until the end of 2020. The combination of these election implications helped lift UK stocks and sterling over the quarter; and
- ERS employed a hedging strategy on part of the portfolio to manage the anticipated higher market volatility from Brexit and political uncertainty. The hedge was used on two occasions, first between 7 March 2019 to 26 April 2019 and then from 18 October 2019 to 3 January 2020.

Group Investment assets increased to £279.6m as at 31 December 2019 from £268.7m in 2018 excluding the collateralised assets of £122m deposited by Third Point Re. The increase in investment assets resulted from an increase in the Group's share of Syndicate 218 assets of £26.6m, and a decrease in the Group's Funds at Lloyd's investment portfolio of £15.7m following the settlement of the 2016 YOA loss. These investments are required to support the underwriting activities of ERS Corporate Member Limited. Excluding the loss settlement the increase in investment assets was principally down to the strong unrealised investment gains during the year.

Results and performance (continued)

Business environment

Underwriting outlook

The 2019 underwriting year is developing into a positive year showing both growth in gross written premiums and better loss and commission ratios compared to the previous underwriting year. Business written during 2019 benefited from distribution and underwriting initiatives and the investments made in 2018 to improve risk selection and pricing. IHP technology that has been implemented across several products enables ERS to deliver quotations to brokers and customers in real-time, improving the cost efficiency of the process while providing the ability to effect price changes instantly. Income also benefitted from ERS' e-trade solution for brokers to access many of our other specialist products online.

The business is structured around products and classes. The most significant areas of growth were in the Fleet and Non-Standard Retail classes. Our new product targeting non-standard private car customers launched in 2018 on price comparison websites was a key source of the new premium income for the Non-Standard Retail class. Steady rates of growth were also seen in the Commercial class.

The competitive environment and the requirements to be successful differ in each product and the role of the respective heads of class and product managers is to understand these and react accordingly. ERS targets market segments that are less commoditised and where the specialist knowledge of its underwriting and claims teams are factors in the performance and profitability of its products.

The UK motor market remained competitive in 2019 as insurers adopted different pricing strategies in anticipation of and as a result of the July Ogden rate change, and uncertainties in the outcome of the Civil Liabilities Act and whiplash reforms. ERS has continued to focus on profitability by maintaining pricing discipline and employing developments that leverage additional data sources and modern analytical methods to more accurately assess risk and validate customers' details.

The estimated overall loss ratio for the 2017 underwriting year is set to be one of the best since 2013. This is as a result of a combination of improved data informing risk selection, more sophisticated pricing and stronger rating strength. Greater stability service delivery and improved propositions promoted by sales and marketing initiatives has attracted better quality business. Furthermore, 2017 underwriting year benefitted from favourable large loss claims development during the period.

The outlook for 2020 is that the UK motor insurance market will continue to be competitive. However, margins are reduced as a result of the ongoing above trend motor claims inflation, increases in excess of loss reinsurance costs, increases in levies from the Motor Insurers Bureau, and reduced insurer capacity which combined we expect to put upward pressure on prices. The deflationary effects of the whiplash reforms may lead some participants to underprice business. On balance, though, our expectation is of an increase in premium rates during 2020 with some segments still providing opportunities for growth in volume and profitability for ERS.

Agriculture
The Agriculture class covers farms, estates, parks, allied rural and enterprises that require the use of agricultural vehicles. This includes golf courses and educational facilities.

ERS is recognised by brokers as the leading Agricultural motor insurer in a market dominated by the NFU Mutual, a direct insurer. Following investments in our proposition over recent years, 2019 has delivered strong underlying growth after accounting for the run-off of one larger broker account.

The 2019 loss ratio is much improved over the prior year having returned to the long-term average following poorer experience from the extreme weather in 2018 leading to a number of large fire and bodily injury losses.

The plan for 2020 is to grow the book in a controlled manner through a wider panel of specialist brokers by harnessing specialist expertise and experience in underwriting, pricing and claims management.

Business environment (continued)

Class of business spotlight

Bespoke

The Bespoke class encompasses a range of service-led speciality personal lines products. These include supercars, enthusiast vehicles such as classic cars, motorhome and kit cars, and high-risk distressed drivers. The class also incorporates several bespoke schemes and affinity accounts.

The Prestige offering includes supercars and professional sports and entertainment products. During 2019, Prestige improved its product offering which led to a 17% increase in premium income and strengthened its position in the market. Improvements included establishing a dedicated prestige claims team with superior service, growing its team of specialist underwriters and increasing its regional presence. Furthermore, Prestige have sought to leverage its wider investments in data and analytics to increase pricing sophistication and to grow further in 2020.

Enthusiast has a high customer retention rate and the product continues to deliver good underwriting results. The use of the IHP technology has enabled wider distribution, improved efficiency and more responsive pricing. In 2020, Enthusiast will utilise the established distribution and sophisticated pricing capabilities to automate more of the process and create more time for its specialist underwriters to focus on those larger, more complex cases where they can add greater value to its customers.

The High-Risk segment of the book focuses on drivers with distressed features such as motoring or criminal convictions. Market conditions in this segment have become more competitive and margins reducing. ERS has focused on profitability by maintaining underwriting and pricing discipline. ERS has continued to invest in alternative data sources to validate and assess risks and to improve the accuracy of our pricing. As a result, the risk profile of the book has improved which in turn has improved its profitability.

Schemes and Affinities targets niche customer groups who find it challenging to purchase car insurance through normal distribution channels. ERS believe that this offering presents an opportunity for profitable growth in 2020, both through growing existing schemes and from designing solutions for new customer groups. For example, ERS is developing a solution for customers who need short-term insurance cover. This market segment is a rapidly growing one in which ERS has the capability to provide a valuable specialist offering.

The priority for the Bespoke class in 2020 is to maintain profitability through good risk selection and pricing discipline and capitalise on profitable opportunities where they arise; and therefore, there are modest growth expectations.

Commercial Motor

The Commercial class covers a variety of specialist commercial vehicles. These include taxis, minibuses, haulage, buses, coaches, showman's vehicles, and other specialist commercial vehicles such as catering vehicles or private ambulances.

The profile of the book as remained relatively consistent over 2019. The use of IHP technology has improved efficiency and the responsiveness of pricing across most of the commercial products. Focus continued on profitability, at the expense of growth, by maintaining pricing discipline and leveraging additional data sources and analytical methods to more accurately assess risk.

The estimated loss ratio for 2019 improved on prior years and ERS expects to see incremental improvements in the loss ratio in 2020 as data is used more effectively in decision making.

ERS will look for opportunities to grow in 2020 by leveraging its new e-trade platform for brokers to be able to access several of its commercial products electronically.

Business environment (continued)

Class of business spotlight (continued)

Fleet

The Fleet class provides cover for fleets of five or more vehicles. It is made up of four propositions: Own Goods and Trades, Passenger Transport, Goods for Hire and Reward, and Non-Conventional Arrangements. These are traded on both a retail and London market wholesale basis.

During 2019, Fleet delivered profitable growth from a targeted approach to new business and effective management of the renewal portfolio, which was underpinned by a "Protect, Improve and Lose" strategy to optimise rate increases and risk profile improvements.

The successful trading performance was supported by investments in its underwriting capability and pricing sophistication and an improved customer journey from process and technology enhancements.

The competitor landscape in 2019 remained dynamic. In general, MGA's and composite insurers continued to be competitive on price and often packaged up risks with property and liability covers. While Lloyd's market insurers tended to reduce their risk appetites and maintain pricing discipline in favour of profitability.

In 2020, ERS will to continue to improve its underwriting capability, trading performance and profitability by building on the investments we have made in data and pricing analytics. ERS will continue to enhance its propositions to increase market penetration from an improved customer journey, while utilising commercial data enrichment in risk selection and pricing to remain agile in what is expected to remain a competitive fleet market.

Motor Cycle

The Motorcycle class continues to target the classic bike insurance market and related specialist affinity customer segments.

These segments have historically performed much better in terms of loss ratio than the modern bike accounts and that has continued to be the case in 2019. The focus on classic bikes supports ERS's relationships with many of our core classic car brokers. This will remain the strategy in 2020 and we expect the account to remain small but profitable.

Motor Breakdown

During 2019, the Motor Breakdown portfolio grew positively after time was spent improving internal systems and processes. The improvements included better performance data and management information and targeted pricing changes were applied to improve the underlying profitability of the account.

In 2020, ERS will make further improvements to the online distribution platform and market the product to support growth.

Non-Standard Retail

The Non-Standard Retail class targets private cars and vans with risk characteristics that are less standard in nature. Following a pilot in 2018, a new private car product was launched on price comparison websites via one broker to target these non-standard segments using a proprietary rating structure and our IHP technology allowing dynamic pricing changes to be implemented quickly. In 2019, confidence in the product's performance has grown as ERS further enriched the data used to assess, validate and price risk, and has implemented a more advanced generation of machine learning module to support its pricing algorithm. This is expected to be the first of many as ERS continues to develop its data analytics capabilities.

Focus has been on the product's profitability by maintaining underwriting and pricing discipline, and frequent price changes were made during 2019 to ensure adequate levels of rate were carried to deliver targeted profitability.

In 2020, ERS will continue to leverage the investments in technology and data science techniques to deliver competitive yet profitable rates to market, whilst continuing to target areas where other insurers are less willing to compete.

Group Strategic report (continued)

For the year ended 31 December 2019

Key performance indicators ("KPIs")

The Group's key financial performance indicators during the year are standard within the insurance industry and were as follows:

	2019	2018	
Financial KPIs			
Net premiums written*	**£226.1m**	£206.4m	Gross premiums written less outward reinsurance in respect of insurance contracts.
Combined ratio **	**99.7%**	96.1%	Ratio of net claims incurred, commissions and expenses to net premiums earned
Group profit	**£10.6m**	£7.0m	Profit/(loss) for the financial year before tax
Non Financial KPIs			
Net promotor score	**-9**	-17	From a survey of 251 Brokers the number of promotors minus the number of detractors.
Employee engagement	**86%**	88%	Percentage of employees that are committed to the Group's goals and values, measured from the annual employee survey.

* Net premiums written are impacted by the reinsurance contract with Third Point Reinsurance Company Limited ("TPRe"), therefore TPRe has been excluded to aid comparisons.

** Combined ratio reflects the ratio as per Syndicate 218 2019 Report and Accounts, this excludes corporate member ADC transactions.

Other than net premiums written and Group profit, the KPIs above are not defined in UK Generally Accepted Accounting Practice (GAAP) and so are non-GAAP measures.

Capital

The Group maintains Funds at Lloyd's ("FAL") to support its underwriting activities through its corporate member ERS Corporate Member Limited ("ERS CML") which participates on Syndicate 218.

Significant losses have been incurred by Syndicate 218 in the past. As a consequence, the Group has been required by Lloyd's to deposit additional FAL to support the deficits for the open underwriting years of account.

The Group's solvency position is offered additional protection by the ADC contracts with National Indemnity Company that provide for further deterioration on the 2010, and 2009 and prior motor years of account. At 31 December 2019 the ADC cover for 2009 and prior would allow a further deterioration of £26.0m (2018: £30.2m) at which point the limit of this contract would be reached. The ADC cover for 2010 has yet to reach its attachment point; should further deterioration in excess of £24.7m (2018: £24.2m) be experienced, amounts would be recoverable under this contract up to a limit of £64.1m.

The Limited tenancy arrangements with Securis (2018: £28.5m) and Hampden Agencies Limited (2018: £3.5m) were not renewed for the 2020 underwriting year of account.

The LoC facility was renewed on 5 November 2019. This is now a two year, two bank arrangement (RBS and ING) for £60m, with annual interest of 2.1% (down 0.4% on the previous facility), with a £300k upfront fee. Currently £57m of the facility has been drawn down.

Directors' section 172 UK Companies Act 2006 statement

The board of directors of ERS DGB Limited, both individually and collectively are required to act in the way they, in good faith, consider would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so, have regard to matters set out in s172(1)(a-f) as below:

- the likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- the need to foster the company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and environment;
- the desirability of the company maintaining a reputation for high standards of business conduct; and
- the need to act fairly between shareholders of the Company.

The Board of ERS DGB Limited, the ultimate holding company, has responsibility for the oversight of the results, strategy and activities undertaken by the ERS DGB group. The board of directors includes executive and non-executive directors who are also shareholders of the company including representatives of the company's majority shareholder Aquiline Capital Partners. There is therefore close alignment between the decisions taken by the directors of ERS DGB Limited and its shareholders.

The directors of ERS DGB Limited fulfil their duties through a governance framework that delegates day to day management and decision making to the Chief Executive Officer. This group governance framework is supported by a number of committees including the Audit Risk and Compliance Committee, Investment Committee and Remuneration Committee. Non-executive directors chair those committees and provide leadership, scrutiny and oversight of those key governance areas.

The board of directors meets at least on a quarterly basis to review and approve the Group's consolidated financial results and consider issues with regards to strategy, share capital and financing as required. The directors also approve on an annual basis the business plan for the Group for the forthcoming year against which performance is measured, as well as an update to the Medium Term Plan that extends the planning horizon for a further four years. Directors maintain oversight of the Group's performance and ensure that the executive management team is acting in accordance with the approved strategy and business plans.

The directors recognise the importance of the Group's governance framework and that it encompasses more than just the delegation of activities, having the right culture and values and engagement with stakeholders is equally as important and the approach to these areas is outlined below.

Culture and values

The Board recognises the importance of having the right corporate culture and values. It has developed a set of five values which are central to how the Group does business and how it interacts with brokers and other stakeholders:

- "We achieve the outcomes we say we will"
- "We have the courage to call it as we see it"
- "We are clear about what we're trying to achieve and why"
- "Everyone contributes to improve the business" and
- "Other people's contributions matter to me".

The Group's employees, including executive directors, are encouraged to demonstrate how their behaviours and performance have been aligned with those values as part of the annual performance appraisal process.

The Group operates a recognition programme, called "The CEO Awards", which is open to all permanent employees and focuses on rewarding behaviour in line with the core values. Employees are encouraged to recommend colleagues for a CEO award, with the winners receiving an invitation to the annual British Insurance Awards event.

Directors' Section 172 UK Companies Act 2006 Statement (continued)

Culture and values (continued)

The Group's employees are a key asset and their ongoing development and high performance are critical for the business to succeed. Employees are encouraged to develop their skills, for example by funding relevant professional and industry qualifications. In 2019, eleven employees completed qualifications, including professional accounting, actuarial and Chartered Institute of Insurance ("CII") qualifications. A further 51 employees were working towards professional qualifications.

In 2019 a significant investment was made in talent development through the establishment of the "Underwriting Academy" based at the Swansea office. The underwriting academy aims to identify and develop employees with the potential to become underwriters in the future. There are currently eight employees enrolled in the academy which offers the opportunity to achieve a CII certificate and an NVQ in providing Financial Services. Those employees who successfully compete the course will move into underwriting roles in the future.

Significant investment has been made in mental health awareness, including the introduction of four trained mental health first aiders at our London office and fifteen in Swansea. Employee wellbeing has been a key theme for 2019. In 2020 we plan to introduce resilience training which strengthens further the support offered to employees.

Employee engagement

The Group runs an annual employee engagement survey, which provides a channel of feedback for employees in respect of how the Group has been managed. One of the key areas identified by our employee survey related to our London offices where there was a clear desire for the Group to consolidate our presence in London into one location and to upgrade the office facilities. This was done and the Group now has two office locations, Lombard Street London and Crucible Park Swansea.

The syndicate's financial results are presented quarterly to employees at both locations, where members of the executive management team, including CEO, Ian Parker, and CFO, Ryan Warren, are available to talk to and answer questions about the strategy and performance.

CEO, Ian Parker, communicates directly with employees though a weekly "blog", which includes key issues and events that have impacted the business. On an ad-hoc basis the blog is written by another executive member, where the primary focus will be from an underwriting, claims or finance perspective, depending on the author.

The Group has an established "Employee Forum", whose membership is representative of all areas of the business. The function of the Employee Forum is:

- To provide a regular flow of information to all employees on matters relating to the Company and their employment;
- To provide a forum through which employees can make their views known to Management and make suggestions for the mutual benefits of the Company and its employees;
- To enable Management to gather employees' opinions on specific matters or items of special interest; and
- To promote teamwork and aid the process of improving operating efficiency and profitability thus ensuring the long-term prosperity of the Company and its employees

During the year staff turnover has fallen across all grades of employees, decreasing to 16.3% for the current year (2018: 19.36%). Retention of employees is supported by the creation of a working environment that is both rewarding and challenging. The remuneration structure enables all employees, including executive managers, to share in the success of the group. This is principally through our performance and reward program, which includes an annual profit related pay ("PRP") scheme based on the financial performance of the Group against plan.

Directors' Section 172 UK Companies Act 2006 Statement (continued

Business relationships

Customers are introduced to the business through an established broker distribution network of over 1,400 brokers who match each customer's requirements to an ERS specialist product. The relationships with Brokers is fundamental to the success of the business. Long-term relationships with brokers are based on professionalism, fairness and integrity.

The success of these relationships is measured through the broker Net Promotor Score ("NPS") which is now in line with ERS' best performance at -9 pts. During 2019, 35% of brokers considered ERS as their first choice for specialist motor insurance risks, this was well ahead of the second choice carrier with 17%. This continued to affirm ERS' status as a specialist motor insurer of choice for motor brokers.

ERS actively engages with brokers at industry events such as BIBA or ERS-hosted broker roadshows. ERS also attended enthusiast events such as the classic car show or Goodwood motor racing where customers and brokers can meet ERS employees who have a passion for their vehicles and discuss the specialist insurance cover ERS can provide. The directors recognise the importance of these events and often attend them to engage with brokers and customers to get a first-hand view of how the business satisfies the insurance needs of customers and broker partners.

ERS' suppliers are fundamental to both the services provided for our policyholders and to the success of the business. We have a number of key strategic business relationships covering the following services:

- approved repairer services, where suppliers cover the repair and mobility needs of policyholders;
- legal services, where suppliers act on behalf of policyholders where any legal representation is required; and
- breakdown services, where suppliers cover the breakdown and recovery needs of policyholders.

All strategic business relationships are on multi-year contracts, which provides continuity for both parties and good service to customers. During the year, the directors approved; (1) the extension to a contract with a key approved repairer due to uncertainty around Brexit and (2) extensions to contracts with legal services providers in response to uncertainty around the Civil Liability Act including the whiplash reforms.

While those strategic business relationships are important to the Group, they are not considered critical, as the directors are confident that if any strategic partnerships failed alternative services providers would be integrated into the supply chain without any significant impact to customers.

Shareholders engagement

The ERS DGB Group is a non-listed private limited company which is predominately owned by two corporate shareholders (Aquiline Capital Partners 62% and Macquarie Group Limited 15%), with the balance held very largely by the directors of ESML. Aquiline has appointed representatives on the boards of both ERS DGB Limited and ERS Syndicate Management Limited. Macquarie has an appointed representative on the board of ERS DGB Limited, who is also invited to attend the ERS Syndicate Management Limited Board. Both those shareholders are therefore involved in the discussion and subsequent approval of all financial results, as well as the strategic and operational decisions considered by those respective Boards.

ERS DGB Group subsidiary compliance with Section 172 Companies Act 2006 compliance

The day to day activities of the ERS DGB Group including those of all subsidiaries which fall within the scope of Section 172 compliance are managed by the executive management team, which includes executive directors of ERS DGB Limited and ERS Syndicate Management Limited. Where required, proposals are put to the appropriate board for determination.

Decisions taken by the ERS DGB and ERS Syndicate Management boards are applied as appropriate to other Group companies by the directors of those companies.

Group Strategic report (continued)

For the year ended 31 December 2019

Principal risks and uncertainties

Risk management

Effective risk management supports the achievement of the Group's strategic objectives through the effective allocation of resources, understanding the risk and control environment, and the early identification of emerging risks. The Risk Management Function ("RMF") coordinates the Group's risk management processes and supports the Board and the Audit, Risk and Compliance Committee ("ARCC") in their responsibilities for risk and capital management.

The Group's risk management strategy puts structure around the risks to which the Group is exposed and defines the framework to manage those risks in meeting the strategic objectives. The risk management framework facilitates the effective identification, measurement, mitigation and management of key risks. The risk management framework operates in conjunction with the internal economic capital model to ensure the effective allocation of risk-based capital.

Risk management governance

The Board retains ultimate responsibility for the governance and assurance oversight of the Group.

The ARCC supports the Board by overseeing the integration and effectiveness of the risk management and internal control framework in supporting the Group's strategic objectives, business plan targets and enabling the identification, assessment and monitoring of key risks in line with risk appetites. The ARCC monitors the maintenance of adequate capital for the risks associated with the Group's business activities.

The RMF forms an integral part of the risk management framework and coordinates the Group's risk management processes and activities. The executive Risk Management Committee ("RMC") provides oversight of the RMF activities.

Solvency II

Compliance with Solvency II regulations has been a key priority for the Group since the regulations came into force.

The Group's internal model is at the core of the risk management framework. The internal model complies with the tests and standards of Solvency II and Lloyd's guidelines. The internal model has been defined as an integrated framework to support the business by managing risk and capital. The risk management framework has a broad scope including capital modelling, risk identification, risk measurement, risk mitigation, risk assessment and risk monitoring, and is used in the day-to-day operations of Syndicate 218.

Coronavirus

The Group acknowledges that all decisions and approaches need to be assessed regularly as the Covid-19 pandemic evolves daily and the government responds. The Executive Team discusses developments daily and weekly calls are held with the board, supported by a dashboard of key operational and financial metrics, to ensure timely and appropriate actions are taken. A Business Change Committee was set up during the response period which met daily with stakeholders across the organisation and considered any matters arising that challenged current policies and procedures and ensured that we were acting in the best interests of the customer throughout this uncertain time.

Consequently, the Group implemented a 'Coronavirus Pandemic Risk Appetite' that highlights all the amendments to policies and procedures, and this is supported by the Accepted Risk Log that is shared with the Executive Team and Board at least weekly.

The Group identified a significant change to the Top Ten Risks as a result of the Covid-19 pandemic. These risks are monitored continually by the RMF and reported to the RMC. Insights drawn from the risk assessments are fed back into the business to shape the decisions and actions being taken.

Principal risks and uncertainties

Risk management culture

The Group maintains a strong risk management culture, which supported by the RMF, protects and advances the interests of both stakeholders and policyholders.

Risk appetite and tolerance

Risk appetite is the level of risk that the Board are willing to tolerate in pursuit of the Group's objectives.

It is managed through:

- Board-approved risk appetite statements and tolerances;
- the capital adequacy and other objectives contained in the business plan;
- regular systems and controls reviews;
- policies relating to the key risk areas; and
- on-going monitoring of risk metrics and measures against the risk appetite statements and tolerances.

The risk appetites and tolerances are set giving consideration to the Group's risk capacity, prevailing regulatory and legislative requirements, risks associated with target markets, and the fair treatment and protection of customer and stakeholder interests.

The risk metrics and measures of the business are monitored against the risk appetite and tolerance on a monthly basis and reported to the RMC, ARCC and Board.

Risk and control framework

The risk management framework reflects the three lines of defence approach, summarised as follows:

- Line 1: Business units operating within a framework of internal controls underpinned by policies, procedures and senior management oversight. They have direct responsibility for risk management and controls;
- Line 2: Risk Management, Conduct Risk and Compliance functions, supported by the RMC, ensure the effective operation of the risk management framework and that the Group operates within its legal and regulatory boundaries. Employees in the second line coordinate, facilitate and oversee the effectiveness and integrity of the risk management framework. As a key input to decision making, the RMF focuses on assuring the Board that the risk profile is in line with expectations, escalating all material risk and capital issues to the Board, and providing input to, challenge and oversight of first line decision making where appropriate; and
- Line 3: Internal Audit providing independent assurance to the Board via ARCC as to the effectiveness of the internal control environment. Employees in the third line provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of the framework.

Capital allocation

The Internal Model ("IM") is used to assess the risk and calculate the appropriate level of risk-based capital allocated to risks to which the Syndicate is exposed.

The assessment of risk-based capital enables the Group to make decisions that involve quantitative risk return trade-offs. The allocation of risk-based capital helps to ensure that the level of risk taken is commensurate with the required returns and is within the approved risk appetites and tolerances.

Key risks

Risks that could affect the Group's ability to meet its strategic objectives are identified on a continuous basis through the monthly risk appetite monitoring of existing and emerging risks.

The main risks are regularly reported and discussed at the RMC and the ARCC and through the yearly Own Risk and Solvency Assessment ("ORSA").

Principal risks and uncertainties (continued)

Key risks (continued)

A summary of the main risk categories and risk mitigation techniques is set out below.

Strategic risk

The Group defines strategic risk as the current and prospective impact on earnings and/or capital arising from strategic business decisions, implementation of decisions and responsiveness to external change.

The Group mitigates strategic risk in the following ways:

- strategic options are considered in light of ongoing monitoring of macro-economic factors impacting the target market;
- strategic options are considered in light of the impact on return volatility and capital requirements; and
- capital levels are planned and monitored on an ongoing basis, with reference to regulatory and economic requirements.

Insurance risk

The Group defines insurance risk as the risk of fluctuations in the frequency, severity and timing of insured events and claims settlements relative to expectation. The Group's exposure to insurance risk arises from underwriting and pricing, concentration and reserving. While the Group is exposed to concentration of exposures, the geographical concentration of motor risks tends to be not very material.

The Group mitigates insurance risk in the following ways:

- underwriting risk appetite and tolerance is defined through the business plan;
- historical pricing and claims experience are analysed;
- clear tolerance limits are set for concentration risk and monitored on an ongoing basis;
- performance is monitored and reviewed on an ongoing basis;
- both an internal and external actuarial review of the claims provisions is undertaken, independent of the underwriting teams;
- reserve adequacy and performance are monitored on an ongoing basis;
- the Statement of Actuarial Opinion ("SAO") on claims reserve adequacy, as required by Lloyd's, is provided by an independent external actuarial firm; and
- purchase of reinsurance above a limit (£2.5m for business written in 2019) with unlimited sideways cover, as well as reinsurance to protect £122.0m of reserves across 2010 to 2019 underwriting and 2020 accident year, with a stop loss to protect the 2019 and 2020 underwriting years in the 2020 accident year.

Credit and counterparty risks

The Group defines credit and counterparty risk as the risk of default by debtors and transactional counterparties, as well as the loss in value of investment assets due to the deterioration in credit quality. The Group's exposure to credit risk arises from premium counterparty credit and other receivables, reinsurance counterparty credit and other recoveries, plus investment counterparty default.

The Group mitigates credit and counterparty risks in the following ways:

- solvency strength of brokers, agents and other intermediaries are assessed regularly;
- credit ratings of reinsurers are reviewed and assessed prior to placing business with them;
- clear tolerance limits are set with maximum exposure limits for each reinsurance group with the limits set by reinsurer rating; and
- exposure limits for approved counterparties are reviewed regularly in respect of financial institution deposits and financial investments.

Principal risks and uncertainties (continued)

Key risks (continued)

Market risk

The Group defines market risk as the risk of variation in the value of financial institution deposits and financial investments, relative to the variation in the value of liabilities due to market movements.

The Group mitigates market risk in the following ways:

- investment assets are actively managed by externally appointed investment managers subject to approved guidelines, mandates and performance benchmarks;
- diversification of the investment portfolio across asset classes is achieved by limiting concentration limits for each asset class and its underlying counterparty ratings;
- interest rate risk is managed by setting the duration of the investment portfolio relative to the duration of the net insurance liabilities;
- price risk is managed by limiting the value at risk of the portfolio at specified confidence intervals; and
- exchange rate risk is largely not applicable as risks underwritten and investments are predominantly Sterling denominated.

Liquidity risk

The Group defines liquidity risk as the risk of having insufficient liquid assets to meet liabilities falling due to policyholders and creditors in a timely manner.

The Group mitigates liquidity risk in the following ways:

- cash flow is monitored daily and liquidity projections are performed on a monthly basis;
- a minimum level of liquid, short-term money market securities are held to meet the Group's ongoing liquidity requirements; and
- stress testing of liquidity needs relative to major risk events.

Operational risk

The Group defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events, including legal risk. Exposure to operational risk arises from internal fraud, external fraud, employment practices, improper business practices, technology and infrastructure failures, cyber security threats, business and transaction processing errors.

The Group mitigates operational risk in the following ways:

- key processes and controls are monitored actively on an ongoing basis;
- scenario-based reviews are used to identify and quantify potential exposures and identify areas requiring management;
- effective segregation of duties, access controls, authorisation and reconciliation procedures are in place;
- security controls and techniques are implemented and constantly improved to manage security risks to physical property, information, computer systems, or other assets;
- business continuity plans and disaster recovery plans are tested periodically to ensure that the business can respond effectively to incidents and minimises the impact of any major disruption; and
- risk events are analysed and any corrective action taken.

Principal risks and uncertainties (continued)

Key risks (continued)

Conduct risk

The Group defines conduct risk as the risk that we or our agents fail to pay due regard to the interests of customers which leads to an unfair outcome. Exposure to conduct risk arises from employee conduct, product design and performance, broker and other agent conduct and complaints management.

The Group mitigates conduct risk in the following ways:

- a strong culture is maintained around the values of the business and employee conduct is recognised through the CEO Awards programme;
- key processes and controls are monitored actively to ensure appropriate consideration is given to the customer's perspective;
- products are reviewed on a regular basis with an emphasis on conduct risk, including careful consideration of customer risk, product complexity, sales and post-sales service risks;
- a complaints management process which is aligned with the Lloyd's Code to provide customers with access to Lloyd's two stage complaints process; and
- conduct performance is monitored and reviewed on an ongoing basis.

Future development

The business is coping well working remotely and, while there is much uncertainty during these unprecedented times, ERS is well positioned for the conditions brought on by the Covid-19 pandemic. This will allow ERS to continue to focus on business differentiation through enhancing its specialisms, partnering with strategically aligned broker partners, improving customer retention and optimising pricing sophistication that builds on the enhanced data from the new IHP technology.

The financial gains and operational efficiencies achieved from the successful implementation of new distribution and pricing initiatives in prior years are expected to continue to materialise in 2020. These initiatives will underpin the full roll out of new IHP technology, as we leverage the data captured to broaden our underwriting footprint in areas of the market where competition is lower and margins higher, to achieve both growth in gross premium income and improved loss ratios.

We remains confident in the underlying performance of our business to deliver increasing and improving profits. This confidence stems from our continued focus on underwriting and pricing discipline, our investments in new technology to support distribution and cost efficiency, our ability to leverage underwriting, pricing and data analytics, claims intervention and fraud prevention to capitalise on long-term profitable growth opportunities.

The Group has increased its participation on Syndicate 218 to 77.86% for the 2020 underwriting year of account.

The directors are confident that the Group will continue to meet all future regulatory capital requirements.

On behalf of the Board:

Ian D Parker
Director
7 May 2020

Group Directors' report

For the year ended 31 December 2019

The directors present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2019.

Directors

The directors who held office during the year and up to the date of signing of the financial statements were as follows:

Jeffrey W Greenberg (Chair)	
Amanda J Blanc	(Appointed 2 January 2020)
Kunal Gujadhur	(Appointed 12 February 2019)
Robert Gullett	
Eric Jorgensen	(Resigned 11 February 2019)
Patrick H O'Sullivan	(Resigned 5 March 2020)
Ian D Parker	
Ignace L.G. van Waesberghe	(Appointed 31 July 2019)
Christopher E Watson	

Business review

A review of the Group's activities and its future prospects are set out in the Group Strategic report.

Results and dividends

The results for the year ended 31 December 2019 are set out on pages 26 and 27. The Group's profit on ordinary activities before taxation was £10.6m (2018: £7.0m). The directors are not recommending the payment of a dividend (2018: nil).

Going concern

These financial statements have been prepared on a going concern basis. The directors have made enquiries and a detailed review has been undertaken considering the Group's 2020 plan, medium and long term plans and cash flow forecasts with due regard to the risks and uncertainties to which the Group is exposed (as disclosed within the Strategic report). During the post balance sheet period the going concern assessment was updated to consider the impact of the coronavirus pandemic, with the directors confirming that while the ultimate impact of the pandemic remains uncertain it is highly unlikely to a have a negative effect on the Group.

At the balance sheet date the Company had net current assets of £21.5m (2018: £21.5m).

Based on this review the Directors believe that, given the financial position of the Company at the balance sheet date and the forecasts for cash flow requirements, the Company and the Group have adequate resources to continue in operational existence for the foreseeable future.

Principal risks and uncertainties

The Company is exposed directly to certain risks and uncertainties that are inherent in its role as an insurance holding company but is also exposed to risk and uncertainties through the activities of the syndicate that the Managing Agent manages.

Information regarding these risks and uncertainties and the Company's risk management policies and procedures are disclosed in the Group Strategic report.

Group Directors' report (continued)

For the year ended 31 December 2019

Employees

During the year all staff were employed by ERS Administration Services Limited ("ERS ASL"), a fellow subsidiary undertaking of ERS DGB Limited. ERS ASL recharges employee costs to group companies based on the following criteria; all employee costs in respect of underwriting activities are recharged to the Syndicate service company ERS Syndicate Services Limited ("ERS SSL"); those employee costs in respect of claims activities to ERS Claims Limited ("ERS CL") and other employee costs, including those not permitted by the Syndicate Expense Policy, are recharged to either the managing agent ERS Syndicate Management Limited ("ERS SML") or the intermediate holding company ERS Insurance Group Limited ("ERS IG").

The amount recharged to the Company by ERS ASL in respect of employee costs during the year was £nil (2018: nil).

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is given to retrain them in order that their employment with the company may continue. It is the policy of the company that training, career development and promotion opportunities should be available to all employees.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that views are taken into account when decisions are made that are likely to affect their interests. All employees are aware of the financial and economic performance of the Group as a whole, and are rewarded according to the results through an annual performance profit share scheme. Communication with all employees continues through the internal internet site and briefing groups.

Directors' and officers' liability insurance

As permitted by the Companies Act 2006, the Group has maintained insurance cover for directors and officers against liabilities arising in relation to the ERS DGB group.

Political donations

The Company made no political donations during the financial year (2018: £nil).

Financial instruments

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in Note 5 to the financial statements.

Research and development

The Group continues to invest in its new administration system ICE, consisting of ICE Policy, its premium processing platform, and ICE Claims, its claims administration system. In 2015 the Group made a R&D tax credit claim to HMRC in respect of costs incurred in the development of the ICE administration system, this claim was approved by HMRC in 2016. The claim totals £351,127 of which £190,889 has been received to date in respect of the 2013 – 2018 tax years.

Group Directors’ report (continued)

For the year ended 31 December 2019

Statement of disclosure of information to auditors

Each person who is a director at the date of this report confirms that:

1) so far as the director is aware, there is no relevant audit information of which the Company’s auditors are unaware; and
2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company’s auditors are aware of that information.

This confirmation is given and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

Independent auditors

The auditors PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution that they be reappointed will be proposed and approved by the Board.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”, and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Future developments

Future developments of the Company are discussed in the Group Strategic report on page 18.

On behalf of the Board:

D Turner

David C Turner
Company Secretary
7 May 2020

Independent Auditors' report
to the Members of ERS DGB Limited

For the year ended 31 December 2019

Report on the audit of the financial statements

Opinion

In our opinion, ERS DGB Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2019 and of the group's profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated Balance Sheet - Assets, the Consolidated Balance Sheet - Liabilities and the Balance Sheet of the Company as at 31 December 2019; the Consolidated Statement of Comprehensive Income – Technical Account for General Business, the Consolidated Statement of Comprehensive Income – Non-Technical Account, the Consolidated Statement of Other Comprehensive Income, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company'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 financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Group Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Group Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Group Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Group Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 21, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Responsibilities for the financial statements and the audit (continued)

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Paul Pannell (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
7 May 2020

Consolidated statement of comprehensive income – technical account for general business

For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £000**	Year ended 31 December 2018 £000
Earned premiums, net of reinsurance			
Gross premiums written	6	**243,429**	222,512
Outward reinsurance premiums		**(19,592)**	(17,704)
Net premiums written		**223,837**	204,808
Change in the provision for unearned premiums:			
Gross amount		**(10,471)**	(829)
Reinsurers' share		**642**	1,840
Change in the net provision for unearned premiums		**(9,829)**	1,011
Earned premiums, net of reinsurance		**214,008**	205,819
Allocated investment return transferred from/(to) the non-technical account		**8,323**	(1,191)
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		**(162,030)**	(171,397)
Reinsurers' share		**7,838**	19,720
Net claims paid		**(154,192)**	(151,677)
Change in the provision for claims:			
Gross amount		**629**	93,826
Reinsurers' share		**12,830**	(68,809)
Change in the net provision for claims		**13,459**	25,017
Claims incurred, net of reinsurance		**(140,733)**	(126,660)
Changes in other technical provisions, net of reinsurance		**(5,997)**	(4,068)
Net operating expenses	6,8	**(63,394)**	(64,772)
Balance on the technical account for general business		**12,207**	9,128

All amounts relate to continuing operations.

The notes on pages 34 to 71 form an integral part of these financial statements.

Consolidated statement of comprehensive income – non-technical account

For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £000**	Year ended 31 December 2018 £000
Balance on the general business technical account		**12,207**	9,128
Investment income	11	**8,528**	7,481
Unrealised gains/(losses) on investments	11	**6,463**	(5,733)
Investment expenses and charges	11	**(5,442)**	(3,810)
Allocated investment return transferred (to)/from the general business technical account	11	**(8,323)**	1,191
Other operating income	12	**1,428**	1,561
Other charges, including value adjustments	13	**(4,215)**	(2,775)
Profit on ordinary activities before taxation		**10,646**	7,043
Tax on profit on ordinary activities	14	**1,942**	1,216
Profit for the financial year		**12,588**	8,259

`

All amounts relate to continuing operations.

There is no material difference between the profit on ordinary activities before taxation and the profit for the financial year stated above and their historical cost equivalents.

The notes on pages 34 to 71 form an integral part of these financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £000**	Year ended 31 December 2018 £000
Profit for the financial year		**12,588**	8,259
Other comprehensive income:			
Revaluation gain on freehold property		**450**	736
Total tax on components of other comprehensive income	14	**(76)**	(125)
Total other comprehensive income for the year, net of tax		**374**	611
Total comprehensive income for the year		**12,962**	8,870

The notes on pages 34 to 71 form an integral part of these financial statements.

Consolidated balance sheet - assets

As at 31 December 2019

	Note	2019 £000	2018 £000
Investments			
Other financial investments	17	**279,597**	268,673
Reinsurers' share of technical provisions			
Provision for unearned premiums	27	**8,479**	7,837
Claims outstanding	27	**202,116**	189,607
Other technical provisions	27	**3,136**	9,122
		213,731	206,566
Debtors			
Debtors arising out of direct insurance operations	18	**37,413**	32,003
Debtors arising out of reinsurance operations		**2,301**	2,838
Other debtors	19	**21,859**	16,989
		61,573	51,830
Other assets			
Tangible assets	21	**25,730**	27,586
Cash at bank and in hand		**31,938**	30,306
Prepayments and accrued income			
Accrued interest and rent		**1,885**	2,021
Deferred acquisition costs	22	**24,973**	23,503
Other prepayments and accrued income	23	**8,390**	7,190
		35,248	32,714
Total assets		**647,817**	617,675

The notes on pages 34 to 71 form an integral part of these financial statements.

Consolidated balance sheet - liabilities

As at 31 December 2019

	Note	2019 £000	2018 £000
Capital and reserves			
Called up share capital	24	**41,379**	41,379
Share premium account		**8,610**	8,610
Other reserves		**985**	611
Profit and loss account		**74,890**	62,302
Total shareholders' funds		**125,864**	112,902
Technical provisions			
Provision for unearned premiums	27	**118,690**	108,219
Claims outstanding	27	**365,625**	365,719
		484,315	473,938
Provision for other risks			
Other provisions	28	**4,685**	6,097
Creditors			
Creditors arising out of direct insurance operations		**509**	1,038
Creditors arising out of reinsurance operations		**2,664**	26
Other creditors including taxation and social security	29	**19,570**	18,495
		22,743	19,559
Accruals and deferred income		**10,210**	5,179
Total liabilities		**647,817**	617,675

The notes on pages 34 to 71 form an integral part of these financial statements.

The financial statements on pages 25 to 71 were approved by the Board of directors on 6 May 2020 and were signed on its behalf by:

Ian D Parker
Director
7 May 2020

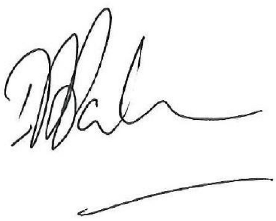
Balance sheet of the Company

As at 31 December 2019

	Note	**2019 £000**	2018 £000
Investments			
Investment in Group undertakings and participating interests	16	**70,246**	70,246
Current assets			
Debtors:			
Amounts owed by Group undertakings		**21,571**	21,764
Other assets			
Cash at bank and in hand		**83**	124
		21,654	21,888
Creditors: amounts falling due within one year:			
Amounts owed to Group undertakings		**(70)**	(338)
Accruals and deferred income		**(58)**	(30)
		(128)	(368)
Net current assets		**21,526**	21,520
Total assets less current liabilities		**91,772**	91,766
Capital and reserves			
Called up share capital	24	**41,379**	41,379
Share premium account		**8,610**	8,610
Capital redemption reserve		**-**	-
Profit and loss account		**41,783**	41,777
Total shareholders' funds		**91,772**	91,766

The notes on pages 34 to 71 form an integral part of these financial statements.

The financial statements on pages 25 to 71 were approved by the Board on 6 May 2020 and were signed on its behalf by:



Ian D Parker
Director
7 May 2020

Consolidated statement of changes in equity

For the year ended 31 December 2019

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2018	41,379	8,610	-	55,238	105,227
Profit for the financial year	-	-	-	8,259	8,259
Other comprehensive income for the year	-	-	611	-	611
Total comprehensive income for the year	-	-	611	8,259	8,870
Share buy back	-	-	-	(1,195)	(1,195)
At 31 December 2018	41,379	8,610	611	62,302	112,902

	Called up share capital £000	Share premium account £000	Other reserves £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2019	41,379	8,610	611	62,302	112,902
Profit for the financial year	-	-	-	12,588	12,588
Other comprehensive income for the year	-	-	374	-	374
Total comprehensive income for the year	-	-	374	12,588	12,962
At 31 December 2019	**41,379**	**8,610**	**985**	**74,890**	**125,864**

Company statement of changes in equity

For the year ended 31 December 2019

	Called up share capital £000	**Share premium account £000**	**Profit and loss account £000**	**Total shareholders' funds £000**
At 1 January 2018	41,379	8,610	42,090	92,079
Profit and total comprehensive income for the financial year	-	-	882	882
Share buy back	-	-	(1,195)	(1,195)
At 31 December 2018	41,379	8,610	41,777	91,766

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total shareholders' funds £000
At 1 January 2019	41,379	8,610	41,777	91,766
Profit and total comprehensive income for the financial year	-	-	6	6
At 31 December 2019	**41,379**	**8,610**	**41,783**	**91,772**

Consolidated statement of cash flows

For the year ended 31 December 2019

	Note	2019 £000	2018 £000
Net cash inflow from operating activities	30	**6,875**	1,211
Cash flow from investing activities			
Purchase of tangible assets	21	**(2,485)**	(5,967)
Interest received		**2,814**	3,075
Net cash generated from/(used in) from investing activities		**329**	(2,892)
Cash flow from financing activities			
Purchase of ordinary share capital		**(4,070)**	(1,195)
Interest paid		**(1,502)**	(1,002)
Net cash used in financing activities		**(5,572)**	(2,197)
Net increase/(decrease) in cash and cash equivalents		**1,632**	(3,878)
Cash and cash equivalents at the beginning of the year		**30,306**	34,184
Cash and cash equivalents at the end of the year		**31,938**	30,306

The notes on pages 34 to 71 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2019

1. General information

ERS DGB Limited ("the Company") is an insurance holding company and the principal activity of its subsidiary undertakings is to underwrite motor insurance business at Lloyd's. The principal subsidiary undertakings of the Group include ERS Syndicate Management Limited ("ERS SML") the managing agent for Syndicate 218 and ERS Corporate Member Limited ("ERS CML") a corporate member at Lloyd's which has a significant participation on Syndicate 218.

The Company is a private company limited by shares, domiciled and incorporated in the United Kingdom. The Registered Office is 21 Lombard Street, London, EC3V 9AH.

2. Statement of compliance

The consolidated financial statements have been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups and 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 the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103") where applicable and Companies Act 2006.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

Basis of presentation

The consolidated and separate financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The financial statements are prepared in sterling which is the functional currency of the Group and rounded to the nearest £000.

The Company has not presented its own profit and loss account as permitted by section 408 of the Companies Act 2006.

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and results of the Company and its subsidiary undertakings up to the 31 December each year. The results of subsidiary undertakings acquired or sold during the period are included in the consolidated results from the date of acquisition or up to the date of disposal. On the acquisition of a subsidiary undertaking, all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Associated undertakings are companies other than subsidiary undertakings in which the Group holds 20% or more of the equity share capital for the long term and over which the Group exercises significant influence. Associated undertakings are accounted for using the equity method of accounting.

Exemptions for qualifying entities under FRS 102

FRS 102 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders.
The Company has taken advantage of the following exemptions:

(i) from preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows;

(ii) from the financial instrument disclosures, required under FRS 102 paragraphs 11.39 to 11.48A and paragraphs 12.26 to 12.29, as the information is provided in the consolidated financial statement disclosures;

(iii) from disclosing share based payment arrangements, required under FRS 102 paragraphs 26.18(c), 26.19 to 26.21 and 26.23, concerning its own equity instruments. The Company financial statements are presented with the consolidated financial statements and the relevant disclosures are included therein.

Notes to the financial statements (continued)

For the year ended 31 December 2019

3. Summary of significant accounting policies (continued)

Basis of accounting

(i) Gross premiums written

Gross premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Estimates are made for unclosed premiums, representing amounts due to the Syndicate but not yet notified.

(ii) Unearned premiums

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

(iii) Reinsurance premium ceded

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) Investment return

Investment return comprises interest, and realised and unrealised gains and losses on assets held at fair value through the profit or loss.

Fair value realised gains and losses are calculated as the difference between net sales proceeds and fair value at acquisition.

Fair value unrealised gains and losses are calculated as the difference between the current fair value at the balance sheet date and the fair value at acquisition or at the previous remeasurement date, adjusted for previously recognised unrealised gains and losses of those financial assets disposed of in the accounting period.

Investment return is initially recorded in the statement of comprehensive income non-technical account. A transfer is made from the statement of comprehensive income non-technical account to the statement of comprehensive income technical account for general business. Investment return has been transferred based on the return on investments supporting the insurance technical provisions.

(v) Operating expenses

Operating expenses are incurred on behalf of the Group by ERS ASL, the Group's administration services company. ERS ASL charges out these costs as either a direct expense to the relevant subsidiary undertaking, where the expense can be wholly attributable to that undertaking, or as a recharge expense where the expense is considered an overhead expense.

The Group regularly reviews the basis of allocation of such overhead expenses to ensure they remain appropriate and equitable to each subsidiary undertaking.

(vi) Taxation

Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax arises from timing differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be recovered.

3. Summary of significant accounting policies (continued)

(vii) Foreign currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates. The UK Pounds sterling currency is the functional currency of all Group entities. The consolidated financial statements are presented in thousands of Pounds sterling, which is the Group's presentation currency.

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account for the period.

(viii) Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued, plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

Goodwill recognised represents the excess of the purchase consideration over the fair value of the Group's share of identifiable net assets at the date of acquisition in a business combination.

Negative goodwill is the excess of the Group's share of the fair value of identifiable net assets at the date of acquisition over the purchase consideration in a business combination.

Goodwill is capitalised in the balance sheet at cost and amortised through the profit and loss account over its useful economic life on a straight-line basis. Where the Group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 5 years. Where an acquisition results in the recognition of negative goodwill this is written off over the period expected to benefit.

Goodwill is assessed for impairment when there are indications of impairment, any impairment is charged to profit and loss. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

Goodwill is allocated on acquisition to the cash generating unit expected to benefit from the synergies of the combination.

Goodwill is included in the carrying value of cash generating units for impairment testing.

Goodwill on acquired claims provisions relates to the discounting of technical provisions arising from the fair value exercise carried out following the acquisition. Its amortisation period is based on the class of business, the historic settlement rate and the consideration of whether the historic settlement pattern would be appropriate into the future. The settlement period was estimated by modelling the settlement patterns of the underlying claims and related reinsurance recoveries.

(ix) Investment in Group undertakings and participating interests

In the balance sheet of the Company, investments in Group undertakings and participating interests are stated at cost, unless their value has been impaired in which case they are valued at fair value less costs to sell.

3. Summary of significant accounting policies (continued)

(x) Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial instruments are recognised in the balance sheet at such time that the Group becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognised when the contractual rights to receive cash flows from the financial assets expire, or where the financial assets have been transferred, together with substantially all the risks and rewards of ownership. Financial liabilities are derecognised if the Group's obligations specified in the contract expire, are discharged or cancelled.

Purchases and sales of financial assets are recognised on the trade date, which is the date the Group commits to purchase or sell the assets.

Financial assets
The Group has classified these assets into the following categories: financial assets at fair value through profit or loss, and loans and receivables.

Financial investments
Financial investment assets are designated at fair value through profit or loss on initial recognition.

The Group has designated financial investments at fair value through profit or loss where it is the Group's strategy to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are on a fair value basis. Note 17 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Investments carried at fair value through profit or loss are initially recognised at fair value with any associated transaction costs being expensed through the technical account. The fair value of quoted investments is their quoted bid price at the balance sheet date. If the market for an investment is not active, the valuation is based upon the net asset values of underlying holdings, which are independently sourced. The fair value of listed equity and debt securities is determined by reference to their quoted bid price at the reporting date.

Fair values for unlisted debt securities are estimated at the present value of their future cash flows, discounted at the market rate of interest at the reporting date.

Derivative financial instruments
Derivative financial instruments can be used to hedge the Group's exposure to foreign exchange risk and the interest rate risk arising from investing activities. The Investment Managers, for investing activities, use futures and option derivatives. Derivative financial instruments are measured on initial recognition, and subsequently, at fair value. The gain or loss on remeasurement to fair value is recognised in the non-technical account.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

Loans and receivables
Loans and receivables are recognised at fair value plus incremental direct transaction costs less any provision for impairments.

(xi) 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, when applicable, are shown within borrowings in current liabilities.

3. Summary of significant accounting policies (continued)

(xii) Tangible assets

Tangible assets are stated at cost or revaluation less accumulated depreciated and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, and dismantling and restoration costs.

Freehold property is measured initially at cost, including transaction costs. Transaction costs include transfer taxes, professional fees for legal and agent services. Subsequent to initial recognition, freehold property is stated at fair value, which reflects market conditions at the reporting date.

Software and IT development costs are capitalised to the extent that they relate to bringing business systems and hardware into economic use, for the business of the ERS DGB Group.

The Group has invested significantly in the development and implementation of its "ICE" administration platforms, ICE Claims and ICE Policy. These systems incorporate market leading technology and as such will be central to delivering business performance for the foreseeable future. The directors believe that a 10 year economic life for the ICE systems is not unreasonable.

Software and IT development costs for ongoing systems changes not yet complete are described as Assets in Course of Construction within fixed assets and are not depreciated until the system change is completed and the asset is delivering economic benefits to the Company.

Depreciation is provided at rates calculated to write off the cost less estimated residual value on a straight line basis over the estimated useful economic lives of the assets. The depreciation rates are reviewed annually and revised if the current estimated useful life is different from that estimated previously.

The rates of depreciation are as follows:

Furniture, fixtures and office equipment	20% to 33% per annum
Computer equipment and hardware	20% to 33% per annum
Software and IT development	10% to 33% per annum
ICE development costs	10% per annum

At every reporting date, the Group assesses whether there are any indications of impairment of tangible assets with a finite useful life. When indicators of impairment exist, the carrying amount of the assets is reduced to the recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use.

(xiii) Leased assets

At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the interest rate implicit in the lease. Where the implicit rate cannot be determined the Group's incremental borrowing rate is used. Incremental direct costs, incurred in negotiating and arranging the lease, are included in the cost of the asset.

Assets are depreciated over the shorter of the lease term and the estimated useful life of the asset. Assets are assessed for impairment at each reporting date.

The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

3. Summary of significant accounting policies (continued)

(xiii) Leased assets (continued)

Operating leased assets

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments.

Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

(xiv) Deferred acquisition costs

The costs of acquiring new business, which are incurred during the financial year, but where the benefit of such costs will be obtained in subsequent accounting periods, are deferred and recognised as an asset to the extent that they are recoverable out of margins in future matching revenues. All other costs are expensed when they are incurred.

In respect of insurance contracts, acquisition costs comprise direct and indirect costs incurred in writing new contracts. Deferred acquisition costs are amortised over the life of the policy in line with the recognition of premiums.

All deferred acquisition costs are tested for recoverability at each reporting date. The carrying values are adjusted to recoverable amounts and any resulting impairment losses are charged to profit and loss.

(xv) Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with a provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ("IBNR") at the balance sheet date based on statistical methods.

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

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

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

We consider whether the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and future events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provision established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

3. Summary of significant accounting policies (continued)

(xvi) Discounted claims provision
On Periodic Payment Orders ("PPO's"), due to the long delay between the inception date of the policy and the final settlement of the claim for PPO's, the outstanding claims provisions for PPO's are discounted to take account of the expected investment income receivable on the assets held to cover the provisions between inception and settlement of the PPO's.

(xvii) Unexpired risks provision
A provision for unexpired risks is made where claims, related claims handling costs and other related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums on these contracts, after the deduction of any deferred acquisition costs.

The provision for unexpired risks is calculated by reference to classes of business that are managed together, after taking into account the relevant investment return.

(xviii) Employee benefits
The Group provides a range of benefits to employees, including annual profit related pay scheme, paid holiday and defined contribution pension plan.

Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is provided.

Defined contribution pension plans
The Group operates a single defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet.

The assets of the scheme are held separately from those of the Group in an independently administered fund.

Annual profit related pay scheme
The Group operates a single annual profit related pay ("PRP") scheme for employees based on the performance of the Group against budget. Payments made in respect of PRP are approved by the Group's remuneration committee based on agreed performance criteria, 30% of any PRP payment is deferred for senior management for a period of three years. The deferred PRP is subsequently matched by the Group, payable in equal tranches over the 3 year deferral period.

An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plans as a result of past events and a reliable estimate of the obligation can be made.

(xix) Government grants
Government grants are recognised at fair value in the financial statements using the performance model.

Under the performance model grants are recognised in income when the grant proceeds are received (or receivable) provided that the terms of the grant do not impose future performance-related conditions. If the terms of a grant do impose performance-related conditions on the Group, the grant is only recognised in income when the performance-related conditions are met. Any grants that are received before the revenue recognition criteria are met are recognised in the entity's financial statements as a liability.

4. Judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year.

The following judgements, estimations and assumptions have had the most significant effect on amounts recognised in the financial statements.

(i) Valuation of general insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. The carrying amount of the liability as disclosed in note 27 is £365.6m (2018: £365.7m). For general insurance contracts estimates are made for the expected ultimate cost of claims notified as at the balance sheet date and the cost of claims incurred but not yet reported. It can take a significant period of time before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than that provided.

The estimation of these claims is based on historical experience projected forward. The Group's estimate of claims and related claims handling costs is mainly achieved through the application of a number of commonly accepted actuarial projection methodologies based on the estimation of the following:

- paid claims development, where payments to date are extrapolated based upon observed development of earlier years;
- estimates based upon a projection of claims numbers and average burning cost;
- incurred claims development, where incurred claims to date for each year are extrapolated based upon observed development of earlier years; and
- expected ultimate loss ratios.

There are several sources of uncertainty that need to be considered in the estimate of the liability that will ultimately be paid for an insurance claim, the most significant of which relates to bodily injury. Estimation of the ultimate cost of bodily injury claims is a hugely complex process and cannot be done solely using conventional actuarial techniques. The cost of bodily injury claims especially for the more serious injuries often involves a legal process where compensation awards are made by the courts. The outcomes in these cases are hard to predict as case law is still evolving. The process is complicated further by the rise of PPO settlements by order of the court or requested by the claimant. These settlements have an annuity-type structure whereby these are typically paid annually over the claimant's life span.

The claims provisions are initially calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts recoverable from all the Group's reinsurance arrangements, having due regard to collectability. Claims provisions are subject to regular review, both within the syndicate and externally.

Management discusses and challenges the actuarial best estimate and selected booked claims provisions at the quarterly Reserving Committee and at the Audit and Risk Compliance Committee ("ARCC"), whose membership includes non- executive directors with significant insurance experience and actuarial specialism. External actuaries are also engaged to calculate an independent best estimate of the ultimate cost of claims as at each 31 December and present a Statement of Actuarial Opinion ("SAO") against which the best estimate with a 5% risk margin load is assessed.

(ii) Premium earning pattern

The Group recognises written premium on an earned basis, this being the portion of written premiums (including where relevant those of prior accounting periods) attributable to the risks borne by the Group during the accounting period. Premiums are linearly earned between the inception and expiry of each contract, or between the effective to and effective from date of any contractual term amendments. The carrying amount of the unearned premium as disclosed in note 27 is £118.7m (2018: £108.2m).

4. Judgements and key sources of estimation uncertainty (continued)

(iii) ICE Policy and ICE Claims useful economic life

The Group has invested significantly in the development and implementation of its "ICE" administration platforms ICE Claims and ICE Policy. These systems incorporate market leading technology and as such will be central to delivering business performance for the foreseeable future. The development of ICE has involved a significant capital spend that the business expects to "pay-back" over a period of not less than 10 years. With this in mind the Board has used an economic useful life of 10 years for this asset.

(iv) Deferred tax asset

The Group recognises a deferred tax asset on its balance sheet in respect of carried forward underwriting losses and disclaimed capital allowances. FRS 102 permits the recognition of a deferred tax asset if it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. The Group takes a prudent approach to the recognition of deferred tax assets given the size of its unrelieved tax losses and disclaimed capital allowances (see note 20) with recognition based on the expected underwriting profits from Syndicate 218 attributable to the Group as projected within the Group's medium term business planning model. The carrying amount of the deferred tax asset is £14.3m (2018: £12.4m).

5. Risk management and control

The Group issues insurance contracts that transfer insurance risk and undertakes investment and reinsurance activities that expose the Group to financial and credit risk. The Group has in place a comprehensive risk management and control framework which aims to minimise the impact of insurance, financial and other risks on the Group's financial result. This is disclosed in our Group strategic report.

Insurance risk management and control

The Group accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss.

The Group aims to manage insurance risk:

- to achieve acceptable profits and return on equity by ensuring that insurance risks are carefully selected in accordance with risk appetite tolerances, underwritten in accordance with risk strategy and priced to reflect the underlying risk;
- to minimise reserve risk volatility through robust reserving and application of actuarial modelling approaches; and
- to mitigate insurance risk through the use of optimal reinsurance arrangements.

The Group is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The Group manages these risks through its underwriting strategy, reinsurance arrangements, proactive claims handling and the claims reserving process.

(i) Underwriting strategy

The Group is a specialist insurer that only writes motor business, with a small legacy underwriting exposure to household property and personal accident and health business. The Group reduces its concentration risk by writing business in a number of different motor classes including private car, bespoke, agriculture, motorcycle, motor fleet, commercial motor and motor breakdown. The Group's underwriting strategy is to write for profit rather than volume.

The Group's underwriting strategy is set out in the annual business plan that sets out the classes of business in which business is to be written. The objective of the underwriting strategy is to ensure that the underwritten risks are diversified in terms of type and amount of risk, industry/demographic profile and geography, and contain only risks which meet the approved underwriting criteria as acceptable. The underwriting strategy is focused on a sophisticated data driven approach to pricing and underwriting. Adherence to the business plan and the pricing of products is reviewed on a regular basis.

All policies are predominately annual contracts, giving the opportunity to reprice based on latest account experience and external conditions as well as individual risk performance. Unlike many classes, motor pricing is very closely linked to the individual risk.

Experience has showed that the underwriting of a large number of uncorrelated individual risks reduces the variability of the expected outcome. The Group's underwriting strategy seeks to accept a large population of individual risks within each business class to limit the variability of expected outcomes.

5. Risk management and control (continued)

(ii) Reinsurance arrangements

Motor business is exposed to the risk of large bodily injury claims, where the claim amount can be significant due to the cost of care required for the claimant. The Group reinsures a portion of the risks it underwrites in order to control its exposure to claims and to protect capital resources.

The Group purchases motor excess of loss reinsurance contracts to reduce the impact of individual large claims and the accumulation of claims that arise from the same event. The cover purchased limits the claims arising from any one event to £2.5 million in respect of policies incepted during 2014 - 2019. Previously the Group had purchased excess of loss cover on an accident year basis, where the limit was £3.5 million for 2012 and 2013 reducing to £2.0 million for 2011 and £1 million for 2010. All purchases of reinsurance are approved, in advance, by the Board.

The 2018 TPRe reinsurance coverage was commuted and replaced with a new contract bound effective on 30 June 2019. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2019 underwriting and accident years, with a stop loss to protect the 2019 and 2020 underwriting years in the 2020 accident year.

The Group has in place an adverse development cover contract for its participative share of the 2009 and 2010 underwriting and accident years of account with Berkshire Hathaway.

Although the Group has reinsurance arrangements in place to reduce its gross insurance risk these arrangements do not relieve it of its ultimate liability to policyholders and as such the Group is exposed to credit risk to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance arrangements. The Group's exposure to this credit risk is discussed in the financial risk management and control note.

(iii) Claims management

Liabilities arising from motor insurance contracts cover both property and liability indemnities. The overriding objective of claims handling is to ensure all claims are properly scrutinised and paid where they fall within the terms and conditions of the policy. The proper scrutiny of claims is facilitated by the use of various technical aids such as weather validation and fraud databases, and the use of claims specialists.

(iv) Claims reserving

Reserving risk is the risk that insufficient funds have been set aside to settle claims as they fall due. To ensure that its claims reserving process is adequate the Group undertakes quarterly internal actuarial reviews and commissions external actuarial reviews every year end. These reviews estimate the future claims liabilities in order to consider the adequacy of the provisions.

Sources of uncertainty in the estimation of future claim payments

Claims on motor insurance contracts are payable on a loss-occurrence basis. The Group is liable for all insured events that occur during the term of the contract, even if the loss is reported after the end of the contract term. Policyholders will tend to report a claim relatively soon after a road traffic accident, but it may take longer to discover claims from third parties. An element of the claims provision therefore relates to IBNR. The compensation paid on these contracts is the monetary awards granted for property damage and bodily injury suffered by third parties involved in road traffic accidents with our policyholders, as well as any property damage suffered by our policyholders. Bodily injury awards are typically settled over a longer period of time. Such bodily injury awards cover the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident. They are settled either as a lump-sum payment, which is calculated as the present value of the lost earnings and rehabilitation expenses of the claimant, or as a structured settlement, typically under a PPO awarded by the courts. A PPO settlement will include a lump-sum paid on settlement plus a recurring annual payment, indexed in line with inflation, to cover the costs of care until the end of the claimant's life.

5. Risk management and control (continued)

Sources of uncertainty in the estimation of future claim payments (continued)

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of any expected subrogation and/or salvage value and other recoveries. All reasonable steps are taken to ensure that appropriate information regarding claims exposures is available. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR, a provision for reported claims not yet paid and a provision for unexpired risks at the end of the reporting period. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified, where information about the claim event is available. In estimating the liability of the cost of reported claims not yet paid, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods is considered. Large claims are assessed on a case-by-case basis and projected separately in order to allow for the possible distortive effect of the development and incidence on the rest of the portfolio. Particular consideration is given to the operational and systems changes that occur within the business, which would distort the information of how claims have developed and settled across different periods of time.

Where possible, multiple statistical methods are used to estimate the required level of claims provisions. This provides a greater understanding of the trends inherent in the claims experience being projected. These claims projections derived by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation method is selected taking into account the characteristics of the risk and the extent of the development each year. Being able to explain the differences in the methods develops and evidences the understanding of the underlying claims estimation processes.

The calculation of claims provisions are performed internally on a best estimate basis, meaning that the provisions are intended to represent the probability-weighted average of all possible payment outcomes, with a 5% risk margin load on top of the best estimate. Independent calculations are performed by an external actuary, who also provides the Lloyd's SAO. The difference between the two valuations of net claims reserves for business earned at 31 December 2019 is 2.9% (31 December 2018: 3.4%) with the internal estimates being the higher one in both cases.

The following key sources of uncertainty have been identified:

- Propensities for Periodic Payment Orders (PPOs): The propensity for PPO payments will vary based upon the associated Ogden discount rate. Claimants are likely to favour lump sum settlements in the presence of negative discount rates;
- Further inflation in claim severities and frequencies: External factors could continue to increase claim severities, such as the depreciation of the pound affecting the prices of imported parts. Claimant behavior could also increase claim frequencies; and
- Brexit: There remains a risk to the supply chain for car manufacturers and car parts suppliers, which may further exacerbate the claims inflation.

5. Risk management and control (continued)

Process used to decide on assumptions
In principle, the methodology is consistent with the approach applied in previous reviews.

Gross of reinsurance, claims projections are undertaken by class of business for property damage and personal injury with losses capped at £30k. For personal injury losses greater than £30k, these projections are undertaken for all classes in aggregate. The aim is the classification of claims into homogeneous groups based on the development and settlement characteristics.

Periodic payment order (PPO) claims are also analysed separately. Projections of PPO claims are performed on an underwriting year basis. Consistent with previous reviews, ERS has assumed a 0% propensity for reported but not settled large losses to become a PPO in future which is considered appropriate in an environment where lump sum awards are calculated at an Ogden rate of minus 0.25%. For claims that have been settled, the costs for each claim are projected based on the claims team medical expert life expectancy assessment. Future projected payments are adjusted for wage inflation and investment return. The wage inflation assumption of 3% is based on publicly available information, such as the Annual Survey of Hours and Earning by the Office for National Statistics, and the investment assumption of 3% is based on the current yields to maturity of assets held in the investment portfolio.

The Group uses several statistical methods to incorporate the assumptions made in order to estimate the ultimate cost of claims. The three methods most commonly used are the Chain-ladder, Bornhuetter-Ferguson and Cape Cod methods.

Chain-ladder methods may be applied to paid and incurred claims. The basic technique involves analysis of historical claims development factors and the selection of estimate development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident or underwriting year that is not fully developed to produce an estimated ultimate claims cost. Chain-ladder techniques are most appropriate for those accident years and claim groups that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class or group of claims.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on the claims experience. The former is based on a measure of exposure, such as vehicle count, and the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used for more recent accident periods where the development of claims is less mature.

The Cape Cod method is very similar to the Bornhuetter-Ferguson method. It is a more dynamic approach to estimating the initial a priori loss estimate by having the ability to adjust for trends seen in historical experience. This technique has been used for more recent accident periods where the development of claims is less mature.

The Group has not applied these methods mechanically. The final selections are not necessarily the result of a single method, and in some cases are selected using a weighted average of different methods.

5. Risk management and control (continued)

Development of claims provision

Claims development information is disclosed in order to illustrate the sources of uncertainty in the estimation of future claims payments inherent in the Group. The tables below reflect the cumulative incurred claims including claims notified and incurred but not reported ("IBNR") for each successive underwriting year at each balance sheet date. The Group seeks to maintain appropriate reserves in order to protect against future claims experience and development. The tables below show the development of claims over a 6 year period and provide a measure of the Group's ability to adequately estimate the ultimate level of claims.

While the information in the tables below provides a historical perspective on the adequacy of unpaid claims estimates established in previous years, readers of these financial statements are cautioned against extrapolating redundancies or deficiencies of the past on current unpaid loss balances.

The directors believe that the estimate of total claims outstanding as of the end of 2019 is adequate.

The table below illustrates how estimates of ultimate claim costs for each underwriting year have changed at successive year ends at 100% level for Syndicate 218:

Analysis of claims development – gross of reinsurance

Underwriting year	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Initial estimate of gross provision*	129,713	131,079	165,619	145,343	110,762	129,693	
One year later	275,091	319,557	354,184	248,102	228,993		
Two years later	302,846	308,042	350,027	223,137			
Three years later	295,004	286,847	334,075				
Four years later	267,570	290,937					
Five years later	263,686						
Current estimate of cumulative claims	263,686	290,937	334,075	223,137	228,993	129,693	**1,470,521**
Cumulative payments to date	236,879	232,345	234,593	165,721	126,596	46,173	**1,042,307**
Liability recognised for 2014 to 2019 underwriting years	26,807	58,592	99,482	57,416	102,397	83,520	**428,214**
Liability recognised in respect of underwriting years – 2013 & prior							**139,094**
Claims handling provision							**10,466**
Gross outstanding claims							**577,774**

The table below provides an analysis of the Group's share of gross outstanding claims, as included in the Group balance sheet:

Underwriting year	**2013 & prior £000**	**2014 £000**	**2015 £000**	**2016 £000**	**2017 £000**	**2018 £000**	**2019 £000**	**Total £000**
Group's participative share (%)	**61.16**	**61.16**	**61.16**	**61.16**	**61.16**	**67.53**	**67.60**	
Group's share of gross outstanding claims	85,066	16,394	35,833	60,840	35,114	69,153	56,461	**358,861**
Group's share claims handling provision								**6,764**
Group's share of gross outstanding claims								**365,625**

Notes to the financial statements (continued)

For the year ended 31 December 2019

5. Risk management and control (continued)

The table below illustrates how estimates of ultimate claim costs for each underwriting year have changed at successive year ends at 100% level for Syndicate 218:

Analysis of claims development – net of reinsurance

Underwriting year	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	Total £000
Initial estimate of net provision*	124,471	123,024	146,000	107,746	81,325	87,879	
One year later	247,928	285,775	265,211	201,477	179,744		
Two years later	244,132	258,944	278,586	202,730			
Three years later	245,686	259,602	276,411				
Four years later	243,228	263,209					
Five years later	246,665						
Current estimate of cumulative claims	246,665	263,209	276,411	202,730	179,744	87,879	**1,256,638**
Cumulative payments to date	235,689	232,247	229,158	164,215	126,511	46,126	**1,033,946**
Liability recognised for 2014 to 2019 underwriting years	10,976	30,962	47,253	38,515	53,233	41,753	**222,692**
Liability recognised in respect of underwriting years – 2013 & prior							**29,383**
Claims handling provision							**10,466**
Net outstanding claims							**262,541**

The table below provides an analysis of the Group's share of net outstanding claims, as included in the Group balance sheet:

Underwriting year	2013 & prior £000	2014 £000	2015 £000	2016 £000	2017 £000	2018 £000	2019 £000	Total £000
Group's participative share (%)	**61.16**	**61.16**	**61.16**	**61.16**	**61.16**	**67.53**	**67.60**	
Group's share of gross outstanding claims	17,969	6,713	18,934	28,899	23,555	35,951	28,226	**160,247**
Group's share claims handling provision								**6,764**
Group's ADC contract								**(3,502)**
Group's share of net outstanding claims								**163,509**

* the initial estimate of gross and net provision is on an earned basis.

The Group has taken advantage of the exemption in FRS 103 paragraph 6.3 to not disclose information about claims development that occurred before the beginning of the earliest period for which the Group presents full comparative information that complies with FRS 103.

5. Risk management and control (continued)

Sensitivity analysis
The Group's management makes estimates and assumptions concerning the future which have significant impact on the determination of the ultimate liability arising from claims made under insurance contracts accepted. These sources of estimation uncertainty are discussed in more detail in note 4. If actual experience is significantly different from that which has been estimated this will impact the profit and net assets of the Group.

The assumptions that have the greatest effect on the measurement of the Group's insurance contract provisions are the expected loss ratios. The expected loss ratio is the ratio of expected claims to premiums. A 1% reduction in the loss ratio for the current underwriting year would result in a £1.0m (2018: £0.9m) decrease to the net claims outstanding and a corresponding increase in profit and net assets of the Group. A 1% reduction in the loss ratios for each of the last underwriting years would result in a £3.9m (2018: £4.2m) decrease to the net claims outstanding and a corresponding increase in profit and equity of the Group.

Financial risk management and control
The Group's management sets risk appetite annually as part of the Group's business planning and capital setting process. The RMC meets regularly to monitor performance against risk appetite tolerances using a series of key risk indicators. Details of the principal risks and uncertainties facing the Group are given in the Group Strategic report on pages 14-18.

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

Credit risk
Credit risk arises where counterparties fail to meet their financial obligations in full as they fall due. The primary sources of credit risk for the Group are:

- Reinsurers — Whereby reinsurers may fail to pay valid claims against a reinsurance contract held by the Group.
- Brokers and Intermediaries — Whereby counterparties fail to pass on premiums or claims collected or paid on behalf of the Group.
- Investments — Whereby issuer default results in the Group losing all or part of the value of a financial instrument.

The Group's core business is to accept significant insurance risk, the appetite for other risks is low. This protects the Group's capital from erosion so that it can meet its insurance liabilities. The Group structures the acceptable levels of credit risk by placing limits on its exposure to singular and group counterparties, and to geographical and industry segments. Such risk limits are subject to regular review.

Reinsurers
Reinsurance exposures are monitored regularly. The Group assesses the credit worthiness of all reinsurers by reviewing public rating information and from internal investigations.

In 2019 the TPRe coverage was again commuted and replaced with a new contract bound effective on 30 June 2019. The new reinsurance contract continues to protect £122.0m of reserves across the 2010 to 2019 underwriting and accident years with a stop loss to protect 2019 and 2020 year of accounts in the 2020 accident year and £122.0m remains in a ring-fenced sole beneficiary trust fund custodied by BNY Mellon.

Brokers and intermediaries
Exposure to brokers and insurance intermediaries is managed via a stringent credit policy. The Group's credit control function monitors the ageing and collectability of debtor balances, with credit evaluations performed on all relevant counterparties. Intermediary debt at 31 December 2019 was £37.4m (2018: £32.0m), all of which was not rated. The Group also reduces its exposure to credit risk through broker de-concentration by increasing its broker count.

Notes to the financial statements (continued)

For the year ended 31 December 2019

5. Risk management and control (continued)

Credit risk (continued)

Investments

Investments are primarily allowed only in liquid securities and with counterparties that have a credit rating equal to investment grade or better. Given the investment portfolio's high credit ratings, the Group does not expect any counterparty failures in meeting obligations. The Group imposes guidelines on its external investment managers in relation to the constituents of the investment portfolios. These guidelines specify the acceptable asset classes, duration and credit ratings. The performance of the investment managers is regularly reviewed to confirm adherence to these guidelines.

The following tables summarise the Group's exposure to credit risk for impacted assets that are neither past due or impaired:

2019	**AAA £000**	**AA £000**	**A £000**	**BBB £000**	**Below BBB £000**	**Not rated £000**	**Total £000**
Financial investments	**82,041**	**55,787**	**79,815**	**41,660**	**3,012**	**17,282**	**279,597**
Insurance receivables	**-**	**-**	**-**	**-**	**-**	**37,413**	**37,413**
Reinsurance assets	**-**	**72,160**	**132,257**	**-**	**-**	**-**	**204,417**
Cash at bank and in hand	**-**	**898**	**830**	**30,194**	**-**	**16**	**31,938**
Total	**82,041**	**128,845**	**212,902**	**71,854**	**3,012**	**54,711**	**553,365**

2018	AAA £000	AA £000	A £000	BBB £000	Below BBB £000	Not rated £000	Total £000
Financial investments	72,153	66,410	70,746	40,188	291	18,885	268,673
Insurance receivables	-	-	-	-	-	32,003	32,003
Reinsurance assets	-	67,824	124,621	-	-	-	192,445
Cash at bank and in hand	529	347	1,016	28,211	-	203	30,306
Total	72,682	134,581	196,383	68,399	291	51,091	523,427

Insurance receivables are 'not rated' as a majority of the balance relates to insurance broker debt which falls outside credit rating requirements.

5. Risk management and control (continued)

Credit risk (continued)

The Group has impacted assets that are past due at the balance sheet date. The tables below provide information regarding the maximum credit risk exposure to these assets, together with the extent to which they are due, past due and impaired.

Assets are classified as past due when the contractual payment is in arrears. An assessment is performed on all assets, based on the ageing of intermediary debts and the credit rating of reinsurers, which may result in an impairment charge being recorded in the profit and loss account if the Group considers this to be appropriate.

The table also shows the age analysis of the Group's past due and/or impaired assets:

		Financial assets that are past due but not impaired					
2019	**Neither due or impaired £000**	**Up to 3 months £000**	**3 to 6 months £000**	**6 months to 1 year £000**	**Greater than 1 year £000**	**Past due and impaired £000**	**Total £000**
Insurance receivables	**31,597**	**5,251**	**476**	**153**	**481**	**(545)**	**37,413**
Reinsurance assets	**204,380**	**-**	**74**	**300**	**18**	**(355)**	**204,417**
Total	**235,977**	**5,251**	**550**	**453**	**499**	**(900)**	**241,830**

		Financial assets that are past due but not impaired					
2018	Neither due or impaired £000	Up to 3 months £000	3 to 6 months £000	6 months to 1 year £000	Greater than 1 year £000	Past due and impaired £000	Total £000
Insurance receivables	25,497	6,472	119	87	450	(622)	32,003
Reinsurance assets	192,307	-	56	380	58	(356)	192,445
Total	217,804	6,472	175	467	508	(978)	224,448

Market risk

Market risk arises where the value of assets and liabilities changes as a result of movements in foreign exchange rates, interest rates, inflation rates and market prices.

The Group engages external Investment Managers to actively manage the market risk associated with financial investments. Detailed guidelines imposed on the Investment Managers are in place and the Board and its Investment Committee regularly monitor performance and risk metrics. Financial investments represent a significant proportion of the Group's assets and the Group's management sets and monitors various performance and risk metrics.

5. Risk management and control (continued)

Foreign exchange risk

The Group is exposed to changes in the value of assets and liabilities due to movements in foreign exchange rates. The Group deals in four main currencies, UK pounds sterling (GBP), US dollars (USD), Canadian dollars (CAD), the Euro (EUR). Transactions in all other currencies are converted to UK sterling on initial recognition.

Although over 97.0% of the insurance premiums are GBP-denominated, the Group has some exposure to non-GBP denominated insurance claims from its legacy run-off portfolios. The foreign exchange rate exposure is closely monitored from a liquidity and asset-liability matching standpoint.

The investment managers invest part of the GBP-denominated premium trust fund in non-GBP denominated investments which are fully hedged back to GBP using derivatives, thereby mitigating the foreign exchange risk.

The following table summarises the carrying value of total assets and total liabilities categorised by currency:

2019	USD £000	CAD £000	EUR £000	Sub-total £000	GBP £000	Total £000
Total assets	**186**	**1,358**	**99**	**1,643**	**646,174**	**647,817**
Total liabilities	**(28)**	**(35)**	**(8)**	**(71)**	**(647,746)**	**(647,817)**
Total	**158**	**1,323**	**91**	**1,572**	**(1,572)**	**-**

2018	USD £000	CAD £000	EUR £000	Sub-total £000	GBP £000	Total £000
Total assets	203	1,339	188	1,730	615,945	617,675
Total liabilities	-	(37)	(20)	(57)	(617,618)	(617,675)
Total	203	1,302	168	1,673	(1,673)	-

Price risk

Shares and other variable yield securities and hedge funds that are recognised on the balance sheet at their fair value are susceptible to losses due to adverse changes in prices. This is referred to as price risk.

As at 31 December 2019 the fair value of equity securities and hedge fund recognised on the balance sheet was £10.4m (2018: £16.8m).

Interest rate risk

The majority of the Group's investments comprise fixed income securities. The fair value of the investment in fixed income securities is inversely correlated to the movement in market interest rates. If market rates fall, the fair value of the Group's fixed interest investments would tend to rise and vice versa.

Fixed income assets are predominantly invested in high quality corporate, government, supranational and residential mortgage backed securities. The investments typically have relatively short durations and terms to maturity.

The fair value of the Group's fixed income assets as at 31 December 2019 was £245.4m (2018: £214.4m).

5. Risk management and control (continued)

Sensitivity analysis to market risk

The table below shows the results of sensitivity testing on the Group's pre-tax profit and equity. The sensitivity analysis indicates the effect of changes in market risk factors arising from the impact of the changes in these factors on the Group's financial assets and liabilities:

	2019 Impact on profit before tax £000	**2019 Impact on equity £000**	2018 Impact on profit before tax £000	2018 Impact on equity £000
Interest rate risk				
50 basis points increase in yield curve	**876**	**876**	2,092	2,092
50 basis points decrease in yield curve	**(876)**	**(876)**	(2,123)	(2,123)
Equity price risk				
5% increase in stock market prices	**41**	**41**	46	46
5% decrease in stock market prices	**(56)**	**(56)**	(22)	(22)

No sensitivity analysis has been presented for currency risk as the Group currently has no significant foreign currency risk, any significant foreign currency exposure would be hedged using currency derivatives.

Liquidity risk

Liquidity risk arises where cash may not be available to pay obligations when due at a reasonable cost. The Group is exposed to daily cash calls on its available cash resources, mostly for the settlement of claims. The Group's approach is to maintain a large proportion of liquid assets that can be converted to cash at short notice without any significant capital loss. These funds are monitored by management on a daily basis. The directors do not consider that there is a material risk of loss arising from liquidity risk.

The table below analyses the maturity of the Group's impacted liabilities. All liabilities are analysed in ageing maturity buckets based on a contractual cash flow basis except for the claims outstanding, which are presented based on their expected cash flows.

2019	**No contractual maturity date £000**	**Up to 1 year £000**	**Between 1 year and 3 years £000**	**Between 3 years and 5 years £000**	**> 5 years £000**	**Total £000**
Creditors	**-**	**32,953**	**-**	**-**	**-**	**32,953**
Claims outstanding	**-**	**115,581**	**102,752**	**43,222**	**104,070**	**365,625**
Financial liabilities and outstanding claims	**-**	**148,534**	**102,752**	**43,222**	**104,070**	**398,578**

5. Risk management and control (continued)

Liquidity risk (continued)

2018	No contractual maturity date £000	Up to 1 year £000	Between 1 year and 3 years £000	Between 3 years and 5 years £000	> 5 years £000	Total £000
Creditors	-	24,738	-	-	-	24,738
Claims outstanding	-	98,518	120,370	48,594	98,237	365,719
Financial liabilities and outstanding claims	-	123,256	120,370	48,594	98,237	390,457

Fair value hierarchy

The Group has classified its financial investments using the fair value hierarchy in accordance with the FRS 102 amendments on "Fair value hierarchy disclosures" issued by the Financial Reporting Council on 8 March 2016.

The fair value hierarchy classifies financial instruments into Levels 1 through 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The classifications within the fair value hierarchy are defined as follows:

- Level 1 – Quoted price for an identical asset in an active market. This includes securities and financial investments that are priced based on unadjusted quoted prices in an active market for identical assets that can be accessed at the measurement date.
- Level 2 – Price of a recent transaction for an identical asset and valuation technique using observable market data. This includes securities and financial investments that are priced using valuation techniques based on direct or indirect observable market data, including market prices from recognised exchanges, broker-dealers, recognised indices or pricing vendors.
- Level 3 – Valuation technique using unobservable market data. This includes securities and financial investments which are priced using valuation techniques incorporating unobservable market data.

2019	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Shares and other variable yield securities	**68,566**	**6,762**	**983**	**76,311**
Debt securities and other fixed income securities	**-**	**203,286**	**-**	**203,286**
Total	**68,566**	**210,048**	**983**	**279,597**

2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities	72,126	3,567	164	75,857
Debt securities and other fixed income securities	-	192,816	-	192,816
Total	72,126	196,383	164	268,673

5. Risk management and control (continued)

Capital management

The Group maintains an efficient capital structure from a combination of equity shareholders' funds, borrowings and bank letters of credit, consistent with the Group's risk profile and Lloyd's regulatory capital requirements. The "Capital" section in the Group Strategic report provides further information in respect of the Group's regulatory capital required to support the underwriting activities of the Group's corporate member ERS Corporate Member Limited.

6. Segmental analysis

An analysis of gross premiums written, gross premiums earned, gross claims incurred, net operating expenses and the reinsurance balance for the year is prevented below:

Year ended 31 December 2019	**Gross premiums written £000**	**Gross premiums earned £000**	**Gross Claims incurred £000**	**Net operating expenses £000**	**Reinsurance balance £000**	**Total £000**
Accident and health	**-**	**-**	**59**	**-**	**(14)**	**45**
Motor (other classes)	**235,975**	**225,150**	**(154,998)**	**(60,632)**	**(4,376)**	**5,144**
Fire and other damage to property	**(102)**	**(102)**	**7**	**82**	**(85)**	**(98)**
Other	**7,556**	**7,908**	**(6,469)**	**(2,844)**	**198**	**(1,207)**
Total	**243,429**	**232,956**	**(161,401)**	**(63,394)**	**(4,277)**	**3,884**
Investment return						**8,323**
Balance on the technical account for general business						**12,207**

Year ended 31 December 2018	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Accident and health	-	-	115	2	14	131
Motor (other classes)	214,565	213,075	(72,084)	(61,037)	(67,710)	12,244
Fire and other damage to property	60	1,292	(267)	(522)	(254)	249
Other	7,887	7,316	(5,335)	(3,215)	(1,071)	(2,305)
Total	222,512	221,683	(77,571)	(64,772)	(69,021)	10,319
Investment return						(1,191)
Balance on the technical account for general business						9,128

Gross operating expenses are the same as net operating expenses shown in the profit and loss account as no commission in respect of outwards reinsurance was received and offset in arriving at the net operating expenses.

All premiums were concluded in the UK and their geographical destination was largely the UK.

7. Movements in prior year's provision for claims outstanding

The movement arising during 2019 on claims reserves as at 31 December 2018, net of adverse development reinsurance, was an improvement of £18,752,833 (2018: improvement £16,755,422) in respect of motor business.

8. Net operating expenses

	2019 £000	2018 £000
Acquisition costs	**44,108**	43,897
Change in deferred acquisition costs	**(1,774)**	(676)
Lloyd's personal expenses and other charges	**1,691**	1,677
Other expenses	**19,369**	19,874
Total	**63,394**	64,772

Acquisition costs include commission costs of £28.6m (2018: £29.7m) on insurance premiums paid to brokers.

Other expenses includes MIB levy £4.1m (2018: £4.2m).

9. Profit on ordinary activities before taxation

	2019 £000	2018 £000
This is stated after charging:		
Wages and salaries	**26,998**	31,160
Social security costs	**2,813**	3,207
Other pension costs	**1,493**	1,360
Other costs	**2,420**	2,337
Total staff costs	**33,724**	38,064
Depreciation of tangible assets	**4,791**	4,406
Operating lease charges	**1,901**	2,313
Auditors' remuneration:		
Fees payable to the Company's auditors and its associates for the audit of the parent Company and consolidated financial statements	**140**	140
Fees payable to the Company's auditors for the audit of the Syndicate's annual financial statements and Lloyd's returns	**601**	584
Fees payable to the Company's auditors for other services pursuant to legislation	**263**	300
Non-audit services	**-**	9
Total	**1,004**	1,033

Notes to the financial statements (continued)

For the year ended 31 December 2019

10. Employees and directors

Employees

The average number of employees (including executive directors) of the Group during the year was as follows:

	2019 Number	2018 Number
Office and management	**231**	243
Underwriting and claims	**431**	501
Total	**662**	744

Directors

The directors' emoluments, pension contributions and compensation for loss of office during the year were as follows:

	2019 £000	2018 £000
Aggregate emoluments	**906**	584
Pension contributions	**-**	-
Total emoluments	**906**	584

Highest paid director

The remuneration of the highest paid director during the year was as follows.

	2019 £000	2018 £000
Aggregate emoluments	**695**	484
Pension contributions	**-**	-
Total emoluments	**695**	484

There were no directors in the Group's defined contribution pension scheme (2018: none).

No directors exercised share options or received shares in respect of qualifying services under any long term incentive schemes.

Key management compensation

Key management includes directors and members of senior management. The compensation paid or payable to key management for employee services (including employer's National Insurance contributions) is shown below:

	2019 £000	2018 £000
Salaries and other short-term benefits	**3,421**	2,815
Post-employment benefits	**75**	101
Total key management compensation	**3,496**	2,916

11. Investment return

	2019 £000	2018 £000
Investment income		
Income from financial assets at fair value through profit and loss	**6,711**	6,457
Net gains on realisation of investments	**1,817**	1,024
	8,528	7,481
Investment expenses and charges		
Other investment management expenses	**(601)**	(671)
Net losses on realisation of investments	**(3,636)**	(1,976)
Interest payable on financial liabilities	**(1,205)**	(1,163)
	(5,442)	(3,810)
Net unrealised gains/(losses) on investments	**6,463**	(5,733)
Total investment return	**9,549**	(2,062)
Analysed as:		
Allocated investment income transferred to the general business technical account	**8,323**	(1,191)
Net investment return included in the non-technical account	**1,226**	(871)
Total investment return	**9,549**	(2,062)

Interest payable on financial liabilities comprises £1.2m (2018: £1.0m) in respect of a Letter of Credit (LoC) provided by The Royal Bank of Scotland and £nil (2018: £0.2) in respect of PTF loan from Syndicate 218.

12. Other operating income

	2019 £000	2018 £000
Managing agency fees	**1,428**	1,509
Foreign exchange gain	**-**	52
Total	**1,428**	1,561

13. Other charges, including value adjustments

	2019 £000	2018 £000
Directors emoluments	**1,080**	418
Lloyd's charges	**186**	189
Central expense recharges	**809**	906
Foreign exchange loss	**32**	-
Crucible Park property expenses	**471**	548
Other	**1,637**	714
Total	**4,215**	2,775

Directors emoluments are in respect of those emoluments charged to ERS Syndicate Management Limited.

14. Tax on profit on ordinary activities

(a) Analysis of tax credit for the year	2019 £000	2018 £000
UK Corporation tax at 19.00% (2018: 19.00%)		
UK Corporation tax on profit for the year	-	-
Adjustments in respect of prior periods	-	-
Total current tax credit on profit on ordinary activities	-	-
Deferred tax		
Origination and reversal of timing differences	**1,942**	1,224
Adjustments in respect of prior periods	**-**	(8)
Tax credit on profit on ordinary activities	**1,942**	1,216

(b) Tax on income included in other comprehensive income	2019 £000	2018 £000
Deferred tax		
Origination and reversal of timing differences	**(76)**	(125)
Tax charge on other comprehensive income	**(76)**	(125)

(c) Factors affecting tax credit for the year	2019 £000	2018 £000
The tax assessed for the year is lower (2018: lower) than the standard rate of corporation tax of 19.00% (2018: 19.00%). The differences are explained below:		
Profit on ordinary activities before taxation	**10,646**	7,043
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 19.00% (2018: 19.00%).	**(2,023)**	(1,338)
Effects of:		
Expenses not deductible for tax purposes	**(297)**	(129)
Impact of change in UK tax rate on deferred tax	**10**	174
Movement in deferred tax asset not recognised in respect of decelerated capital allowances	**(1,119)**	44
Movement in deferred tax asset not recognised in respect of trading results taxed in future periods	**1,366**	1,017
Movement in deferred tax asset not recognised in respect of trading results taxed falling into tax	**2,584**	1,687
Recognition of deferred tax asset for tax losses incurred in earlier periods	**2,537**	117
Movement in deferred tax asset not recognised in respect of current year losses	**(796)**	-
Tax losses for which no deferred tax asset was recognised	**(320)**	(348)
Adjustments in respect of previous periods	**-**	(8)
Total tax credit for the year	**1,942**	1,216

14. Tax on result on ordinary activities (continued)

(d) Factors affecting current and future tax charges

The calculation of taxes at the balance sheet date takes into account the planned reduction in the UK main corporation tax rate to 17% from 1 April 2020 that was enacted at the balance sheet date. On the 11 March 2020 the government announced in its spring budget that the enacted corporation tax reduction will no longer take place.

15. Profit attributable to the members of the parent company

As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's profit for the financial year was profit £6,000 (2018: £881,000).

16. Investment in Group undertakings and participating interests

Investments in Group undertakings - Company

	Shares in Group undertakings £000
At 1 January 2019	70,246
At 31 December 2019	**70,246**

The directors believe that the carrying value of investments is supported by their underlying net assets.

The Company owns the issued share capital of the following company incorporated in the United Kingdom:

Name of subsidiary	Nature of business	Percentage shareholding
ERS Insurance Group Limited	Insurance holding company	100.00%

All subsidiaries as disclosed in note 35, are included in the consolidation and are incorporated in the United Kingdom.

Notes to the financial statements (continued)

For the year ended 31 December 2019

17. Other financial investments

2019	Fair Value £000	Cost £000
Designated at fair value through profit or loss:		
Shares and other variable yield securities	76,311	55,824
Debt securities and other fixed income securities	203,286	202,945
Total	**279,597**	**258,769**

2018	Fair Value £000	Cost £000
Designated at fair value through profit or loss		
Shares and other variable yield securities	75,857	61,210
Debt securities and other fixed income securities	192,816	195,025
Total	268,673	256,235

All financial instruments are designated as fair value through profit and loss on initial recognition.

18. Debtors arising out of direct insurance operations

Due within one year	2019 £000	2018 £000
Intermediaries	**37,413**	32,003
Total	**37,413**	32,003

19. Other debtors

	2019 £000	2018 £000
Investment in own shares	**5,320**	-
Deferred taxation	**14,275**	12,410
Other debtors	**2,264**	4,579
Total	**21,859**	16,989

Investment in own shares includes the ERS DGB ordinary shares acquired during the year by the ERS DGB Employee Benefit Trust, see note 24.

At 31 December 2019, other debtors included a balance of £993,400 (2018: £1,340,000) due after one year. No interest was due on the balances outstanding (2018: £nil).

20. Deferred taxation

Movement in deferred tax asset in year	2019 £000	2018 £000
Deferred tax asset at start of year	**12,410**	11,319
Movement in deferred tax in year	**1,865**	1,091
Deferred tax asset at end of year	**14,275**	12,410

Amount of deferred tax expected to reverse within one year £3,854,000 (2018: £1,533,000).

The deferred tax asset is further analysed as below:

	2019 £000	2018 £000
General provisions	**68**	93
Decelerated capital allowances	**8,733**	7,594
Underwriting losses	**5,676**	4,848
Unrealised gain on freehold property revaluation	**(202)**	(125)
Deferred tax asset at end of year	**14,275**	12,410

The amounts not recognised in respect of deferred taxation are as follows:

	2019 £000	2018 £000
Decelerated capital allowances	**1,126**	7
Short term timing differences	**2,691**	2,564
Underwriting losses	**61,963**	67,742
Deferred tax asset at end of year	**65,780**	70,313

These assets are not being recognised on the basis that management do not expect sufficient taxable profits in the foreseeable future against which they can be utilised.

21. Tangible assets

	Freehold property £000	Furniture, fixtures and office equipment £000	Computer equipment and software £000	Assets in course of construction £000	Total £000
Cost					
At 1 January 2019	3,950	2,705	32,351	6,793	45,799
Additions	-	-	-	2,485	2,485
Disposals	-	(143)	-	-	(143)
Transfers	-	823	4,828	(5,651)	-
Revaluation	450	-	-	-	450
At 31 December 2019	**4,400**	**3,385**	**37,179**	**3,627**	**48,591**
Accumulated depreciation					
At 1 January 2019	-	(1,488)	(16,725)	-	(18,213)
Charge for the year	-	(301)	(4,490)	-	(4,791)
Disposals	-	143	-	-	143
At 31 December 2019	**-**	**(1,646)**	**(21,215)**	**-**	**(22,861)**
Net Book Value					
At 31 December 2018	3,950	1,217	15,626	6,793	27,586
At 31 December 2019	**4,400**	**1,739**	**15,964**	**3,627**	**25,730**

The Company's freehold property was valued at 31 December 2019 by independent professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the location of the investment property valued.

The fair value of the property was assessed in accordance with the RICS Red book, in particular in accordance with UKVS 1.1 where fair value is the amount for which an asset could be exchanged, a liability settled or an equity instrument granted between knowledgeable, willing parties in an arm's length transaction. At 31 December 2019 the fair value of the investment property was £4,400,000 (2018: £3,950,000). The comparable cost of the investment property determined under the historical cost convention is £3,214,000 (2018: £3,214,000).

22. Deferred acquisition costs

	2019 £000	2018 £000
At 1 January	**23,503**	22,991
Acquisition costs deferred during the year	**47,041**	45,928
Amortisation charged to profit and loss	**(45,571)**	(45,416)
At 31 December	**24,973**	23,503

Notes to the financial statements (continued)

For the year ended 31 December 2019

23. Other prepayments and accrued income

	2019 **£000**	2018 £000
Prepaid administrative expenses	**5,196**	4,234
Deferred Lloyd's personal expenses	**2,341**	2,753
Lease reverse premium	**693**	-
Accrued income	**160**	203
Total	**8,390**	7,190

24. Called up share capital

Ordinary shares	**2019** **£**	2018 £
Allotted, issued and fully paid:		
850,000 (2018: 850,000) A ordinary shares of £0.01 each	**8,500**	8,500
17,500 (2018: 17,500) B ordinary shares of £0.01 each	**175**	175
75,000 (2018: 75,000) C ordinary shares of £0.01 each	**750**	750
37,500 (2018: 37,500) D ordinary shares of £0.01 each	**375**	375
Total	**9,800**	9,800

The ordinary share classes A, B and C have equal rights with respect to voting, distributions and repayment of capital.

The ordinary share class D have full voting rights, but rights regarding distributions and returns of capital are restricted in accordance with the Articles.

Preference shares	**2019** **£**	2018 £
Allotted, issued and fully paid:		
41,369,192 (2018: 41,369,192) preference shares of £1 each	**41,369,192**	41,369,192

Preference shareholders have a right to a preferred return on both a distribution of available profits and a return of capital, such preferred return being paid before any equivalent payment to Ordinary Shareholders. Preference shareholders do not have the right to vote at a general meeting of the Company, unless the business of the meeting varies rights in respect of such shares.

24. Called up share capital (continued)

The movements in share capital during the year can be summarised as follows:

	A Ordinary £	B Ordinary £	C Ordinary £	D Ordinary £	Preference £	Total £
At 1 January 2019	8,500	175	750	375	41,369,192	41,378,992
At 31 December 2019	**8,500**	**175**	**750**	**375**	**41,369,192**	**41,378,992**

On 25 September 2019 the ERS DGB Employee Benefit Trust purchased from a former employee 12,500 B ordinary shares for a consideration of £917,228.

On 18 September 2019 the ERS DGB Employee Benefit Trust purchased from a current director 70,000 C ordinary shares for a consideration of £4,109,182.

On 18 October 2019 the ERS DGB Employee Benefit Trust purchased from a current director 5,000 C ordinary shares for a consideration of £293,513.

25. Reserves

Called up share capital represents the nominal value of shares that have been issued.

Share premium account includes any premium received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.

Capital redemption reserve is used to record the nominal value of shares repurchased by the Company.

Other reserves is used to record increases in the fair value of land and buildings and decreases to the extent that such decrease relates to an increase on the same asset.

26. Discounted claims

The claims relating to Periodic Payment Orders ("PPOs") have been discounted at the following rates. The period that will elapse before claims are settled is determined using impaired mortality tables.

	Discount rates		**Mean term of liabilities**	
Class of business	**2019**	2018	**2019**	2018
Motor	**3.0%**	3.0%	**17.7 years**	15.9 years

The effect of discounting credits on claims provisions is shown as follows:

	2019		2018	
	Gross £000	**Reinsurers' share £000**	Gross £000	Reinsurers' share £000
Claims provisions before discounting	**397,486**	**230,305**	394,459	211,802
Discounting credits	**(31,861)**	**(24,687)**	(28,740)	(25,386)
Claims provisions after discounting	**365,625**	**205,618**	365,719	186,416

Notes to the financial statements (continued)

For the year ended 31 December 2019

27. Insurance contract provisions and reinsurance assets

Gross	**2019 £000**	2018 £000
Provision for unearned premiums	**118,690**	108,219
Claims outstanding	**365,625**	365,719
At 31 December	**484,315**	473,938

Recoverable from reinsurers	**2019 £000**	2018 £000
Provision for unearned premiums	**8,479**	7,837
Claims outstanding	**202,116**	189,607
Other technical provisions	**3,136**	9,122
At 31 December	**213,731**	206,566

Net	**2019 £000**	2018 £000
Provision for unearned premiums	**110,211**	100,382
Claims outstanding	**163,509**	176,112
Other technical provisions	**(3,136)**	(9,122)
At 31 December	**270,584**	267,372

Other technical provisions relate to the TPRe reinsurance recoverables on cedable claims that have not exceeded the attachment point.

The amounts expected to be recovered and settled before and after one year, based on historical experience, are estimated as follows:

	2019 £000	2018 £000
Within one year	**174,111**	161,706
After one year	**96,473**	105,666
At 31 December	**270,584**	267,372

27. Insurance contract provisions and reinsurance assets (continued)

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

	Gross		Reinsurers share	
	2019 £000	2018 £000	**2019 £000**	2018 £000
At 1 January	**108,219**	107,390	**7,837**	5,997
Increase in provision	**10,471**	829	**642**	1,840
At 31 December	**118,690**	108,219	**8,479**	7,837

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

	Gross		Reinsurers share	
	2019 £000	2018 £000	**2019 £000**	2018 £000
At 1 January	**365,719**	459,269	**189,607**	258,261
(Decrease)/Increase in provision	**(94)**	(93,550)	**3,975**	(73,437)
Third Point Re: contract	**-**	-	**8,223**	5,653
Adverse development contract	**-**	-	**311**	(870)
At 31 December	**365,625**	365,719	**202,116**	189,607

The reconciliation of the opening and closing other technical provisions is as follows:

	Gross		Reinsurers share	
	2019 £000	2018 £000	**2019 £000**	2018 £000
At 1 January	**-**	-	**9,122**	13,185
Decrease in provision	**-**	-	**(5,986)**	(4,063)
At 31 December	**-**	-	**3,136**	9,122

Notes to the financial statements (continued)

For the year ended 31 December 2019

28. Provision for other risks

The movement in the provision for other risks can be summarised as follows;

	Onerous lease provisions £000	Short term employee benefits provision £000	Profit related pay provision £000	Total £000
At 1 January 2019	490	128	5,479	6,097
Additions during the year	-	131	3,251	3,382
Amounts charged against the provision	(132)	(128)	(4,534)	(4,794)
At 31 December 2019	**358**	**131**	**4,196**	**4,685**

	Onerous lease provisions £000	Short term employee benefits provision £000	Profit related pay provision £000	Total £000
At 1 January 2018	-	130	794	924
Additions during the year	490	128	4,975	5,593
Amounts charged against the provision	-	(130)	(290)	(420)
At 31 December 2018	490	128	5,479	6,097

Onerous lease provision

Where leasehold properties become vacant, the Group provides for all expected costs up to the lease termination date. This provision relates primarily to the Group's London offices at 52-54 and 88 Leadenhall Street.

Short term employee benefits provision

The Group recognises a provision in respect of short term employee benefits such as holiday pay to match the costs of employee benefits to the period in which the employee services are rendered.

Profit related pay provision

The group recognises a provision in respect of profit related pay that is contingent on the Group's financial performance and approval by the Group's Remuneration Committee.

29. Other creditors including taxation and social security

	2019 £000	2018 £000
Amounts due to managed Syndicate	**10,755**	12,480
Amounts due to tax authorities	**7,362**	4,464
Other creditors	**1,453**	1,551
Total	**19,570**	18,495

No interest was due on any outstanding balances as at 31 December 2019.

30. Reconciliation of operating profit to net cash outflow from operating activities

	2019 £000	2018 £000
Profit on ordinary activities before tax	**10,646**	7,043
Depreciation of tangible assets	**4,791**	4,406
Amortisation of deferred acquisition costs	**45,571**	45,416
Realised/unrealised (gains)/losses on investments	**(8,537)**	1,412
Net proceeds on purchases and sales of financial investments	**(2,387)**	18,280
Interest expense	**1,241**	1,008
Interest income	**(2,814)**	(3,075)
Increase/(decrease) in net technical provisions	**1,800**	(21,844)
Increase in debtors	**(51,604)**	(52,288)
Increase in creditors	**8,168**	853
Net cash inflow from operating activities	**6,875**	1,211

31. Pension commitments

ERS ASL is the principal employer and operator of pension schemes for all employees within the Group.

The Group operates a single defined contribution pension scheme for all eligible employee. The contributions recognised in profit and loss were £1,493,000 (2018: £1,360,000).

32. Capital and other commitments

The Group had no capital expenditure in respect of property, plant and equipment or assets in the course of construction authorised and contracted for which has not been provided for in the financial statements.

At 31 December 2019, the Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

Payments due	2019 £000	2018 £000
Not later than one year	**79**	585
Later than one year and not later than five years	**253**	151
Later than five years	**7,177**	1,175
Total	**7,509**	1,911

The Group had no other off-balance sheet arrangements.

33. Related party transaction

Group

Advantage has been taken of the exemption in FRS 102 paragraph 33.1A from disclosing details of transactions between subsidiary undertakings within the ERS DGB Limited group.

The following information regarding related party transactions is given for the year ended 31 December 2019:

(a) Managed Syndicates

Expenses incurred by the Group and recharged to Syndicate 218.

(b) Key management personnel

All directors and certain senior employees who have authority and responsibility for planning, directing and controlling the activities of the Group are considered to be key management personnel. Total remuneration in respect of these individuals is disclosed in note 10.

Company

During the year, there were no material transactions or balances between the Company and fellow Group companies, which require disclosure under the Companies Act 2006.

Transactions with directors

Included in debtors is an amount owing to the Group by the following directors:

Mr I Parker, a director of ERS DGB Limited was provided with a loan facility on 29 March 2018 of £1,000,000 from ERS Administration Services Limited. This facility was fully drawn down on 17 July 2018. The loan was unsecured, with interest chargeable at 3% per annum payable when the loan was repaid. Repayment of the loan and associated interest accrued crystalised following the purchase of the C equity shares held by Mr Parker by the ERS DGB Employee Benefit Trust on 18 September 2019 and was duly settled on this date.

Ms K Wade, a former director of ERS Syndicate Management Limited was provided with a loan facility on 7 December 2018 of £250,000 from ERS Administration Services Limited. This facility was fully drawn down on 10 December 2018. The loan was unsecured, with interest chargeable at 3% per annum payable when the loan was repaid. Repayment of the loan and associated interest crystalised following the purchase of B equity shares held by Ms Wade by the ERS DGB Employee Benefit Trust on 25 September 2019 and was duly settled on this date.

Mr R Warren a director of ERS Syndicate Management Limited received a loan of £187,394 from ERS Administration Services Limited on 4 March 2016 to purchase equity shares in ERS DGB Limited. During 2018, Mr Warren made a loan repayment of £3,803 and during 2019 Mr Warren made a further loan repayment of £20,273 resulting in a balance outstanding at the balance sheet date of £163,318. On 20 June 2018 a new loan of £10,537 was made to Mr Warren to purchase further equity shares in ERS DGB Limited, this balance remains outstanding at the balance sheet date. The loan is unsecured and interest free. Repayment of the loan will be dependent on any Performance Profit Share ("PPS") award or sale of B/D equity shares in accordance with any permitted circumstance under the Company's Articles of Association.

Ms D Willis a director of ERS Syndicate Management Limited received a loan of £187,394 from ERS Administration Services Limited on 4 March 2016 to purchase equity shares in ERS DGB Limited. During 2018, Miss Willis made a loan repayment of £3,721 and during 2019 Ms Willis made a further repayment of £10,589 resulting in a balance outstanding at the balance sheet date of £173,084. On 26 June 2018 a new loan of £10,537 was made to Ms Willis to purchase further equity shares in ERS DGB Limited, this balance remains outstanding at the balance sheet date. The loan is unsecured and interest free. Repayment of the loan will be dependent on any PPS award or sale of B/D equity shares in accordance with any permitted circumstance under the Company's Articles of Association.

Mr M Hall a director of ERS Syndicate Management Limited received a loan of £28,097 from ERS Administration Services Limited on 20 June 2018 to purchase equity shares in ERS DGB Limited, this balance was repaid in full on 25 March 2019.

No provision for bad debt has been made during the period or recognised on the balance sheet in respect of the above director loans.

34. Post balance sheet event

Coronavirus

A very limited number of cases of the Covid-19 coronavirus had been reported to the World Health Organisation by the balance sheet date of 31 December 2019 and the first case in the UK was only reported by 31 January 2020. Since then it has been declared a global pandemic and caused significant social and economic disruption. As such, the Directors have considered the pandemic crisis to be a non-adjusting event under the requirements of FRS 102, which arose between the end of the reporting period and the authorisation of the financial statements.

While it is appropriate to comment in these financial reports on the pandemic given its potential implications post balance sheet, multiple dimensions of the crisis are unprecedented and unknowable making predictions particularly challenging. The disclosure made in these financial statements is therefore indicative of the conditions that arose after the end of the reporting period.

The government's implementation of social distancing measures to physically disrupt the contagion has severed the flow of goods and people. Cabinet Office data shows road traffic dropped by 73% by March 29 compared to pre-outbreak levels, at April 27 road traffic had increased with data showing a 56% fall. The number of large lorries has declined by just 40% as essential supplies continue to be transported.

This is expected to have a varying impact on the revenue for each of the products that ERS sells. Fleet and commercial products are expected to see a fall in premium income where businesses will lay up vehicles where demand has dried up, for example self-drive hire, taxi and passenger coach and bus. On the other hand, the legal requirement for insurance will mean renewals of existing business on retail products should be less affected because vehicle owners are unlikely to sell their vehicles during this period, but growth will be impeded as new car sales will stall as car dealerships are closed during the lockdown. Finally, growth opportunities exist in other segments where demand has increased, for example courier, goods transportation and agriculture which are deemed to be essential services.

The most significant impact of the fall in motor traffic and the usage of vehicles is expected to be a fall in the number of road traffic accidents. This will drive down the number of claims made during the lockdown period. The impact that this will have on the claims cost and profitability of ERS will depend on the extent and duration of the government restrictions. Differently, the cost of vehicle repairs is expected to increase from a shortage of repairers in the lockdown, a shortage of parts and a higher costs of imported parts.

Investment asset valuations have been impacted. Global financial markets reacted strongly to the pandemic and economic contagion is spreading. While our investment portfolios were not immune, the low-risk strategy has dampened the fall in asset values. As at April 30, the group investments were down 0.26% while the Syndicate investments were down 0.25%. In addition, the syndicate portfolio continues to benefit from the guaranteed 2.25% per annum return on the £122m Third Point Re collateral arrangement. These are largely mark-to-market losses, however, and as the portfolio is predominantly fixed-interest securities with a reasonable portfolio yield, returns are expected to improve if assets can be held to maturity. The outlook for investments is dependent on the path of the shock and recovery, whether economies will be able to return to their pre-shock output levels and growth rates, and whether there will be any structural legacy from the coronavirus crisis.

The fall in the Funds at Lloyds investment portfolio value meant that the group breached its Letter of Credit covenant gearing test at March 31, 2020. It was 35.4% versus the facility threshold of 35%. The banks (RBS and ING) have approved a waiver of the gearing test for Q1 2020. At the June "coming into line" date additional capital will be transferred into the Funds at Lloyd's investment portfolio providing headroom of £6.9m against the LoC gearing threshold. Investment valuations would need to fall 6.4% to trigger a future breach. This is 4-5 times as much as the fall observed in March 2020 and therefore considered a reasonable margin for the risk that there is additional volatility.

The business cash flows continue to be managed daily, including working closely with brokers and suppliers, and ERS fully expects to remain solvent during this period. Furthermore, ERS has taken advantage of the government's arrangements to facilitate cash flows, including the deferral of tax payments during this period.

34. Post balance sheet event (continued)

Syndicate 218 Members Action

On 17 January 2020, three members of Lloyd's who participated as Names on the 2007 and/or 2008 years of account of Syndicate 218 made claims of some £488k plus interest and legal costs against the Company. The Directors have considered the members action to be a non-adjusting event under the requirements of FRS 102, which arose between the end of the reporting period and the authorisation of the financial statements.

The Claimants alleged that the Company breached the Managing Agent's Agreements between the Company and the members and/or acted negligently when setting reserves for the 2007 YoA and when the 2007 YoA was closed into the 2008 YoA by way of a Reinsurance to Close as at 31 December 2009; either significantly greater losses should have been attached to the 2007 YoA, or the RITC premium should have been significantly greater. The Claimants claim to have suffered loss and damage as a result of that breach of contract and/or negligence and have made three linked Requests for Arbitration under the Lloyd's Arbitration Scheme.

On 13 March 2020, the Company served its first Statement of Defence in respect of each Claim and responses to those defences were received on 4 May 2020. Application has been made to have all claims consolidated into a single arbitration, as the matters are very closely related.

Should ultimately those claims succeed, it is possible that other Names who were similarly affected could make claims against the Company.

The Company has protected all possible rights of recovery, against both current insurers and insurers of IAG, the owners when those events unfolded.

35. Subsidiaries and related undertakings

The results of the following companies, all of which are incorporated in England and Wales, are included in the consolidated financial statements:

Name of subsidiary	Nature of business	Percentage shareholding
ERS Insurance Group Limited	Insurance holding company	100.00%
ERS Syndicate Management Limited	Underwriting agent at Lloyd's	100.00%
CDCM Limited	Underwriting name at Lloyd's – non trading	100.00%
CDCM (No 2) Limited	Underwriting name at Lloyd's – non trading	100.00%
ERS Corporate Member Limited	Underwriting name at Lloyd's	100.00%
ERS Claims Limited	Claims administrator – non trading	100.00%
ERS Administration Services Limited	Group service company	100.00%
ERS Syndicate Services Limited	Syndicate 218 service company	100.00%

The Company's investment in ERS Insurance Group Limited is direct ownership, all other investments are indirect ownership.

The registered address for the subsidiary companies in the table above is 21 Lombard Street, London, EC3V 9AH.