



**ARGENTA UNDERWRITING NO. 2 LIMITED**

**FINANCIAL STATEMENTS**

**31 December 2016**

Company registration no. 2974694

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**Strategic Report  
For the year ended 31 December 2016**

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The directors present their Strategic Report for Argenta Underwriting No. 2 Limited ("the Company") for the year ended 31 December 2016.

The financial reporting framework that has been applied is United Kingdom Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS 102") and Financial Reporting Standard 103 'Insurance Contracts' ("FRS 103").

**Principal activity and review of the business**

The Company's primary purpose was to carry on the business of underwriting as a corporate member at Lloyd's.

The Company has participated on the 2010 to 2016 years of account. All of the Company's underwriting capacity for these years was dedicated to Syndicate 2121 ("the Syndicate").

Underwriting Capacity	2016 £	2015 £	2014 £	2013 £
Syndicate 2121	38,000,000	32,000,000	35,100,000	27,000,000

**Financial performance during the year**

The results of the Company for the year are shown on page 7. The profit on ordinary activities after taxation for the year amounted to £1,197,735 (2015: £1,158,894).

**Principal risks and uncertainties**

The Company is principally exposed to financial risk through its participation on the Syndicate. It delegated sole management and control of its underwriting through the Syndicate to the managing agent and it looks to the managing agent to implement appropriate policies, procedures and internal controls to manage the Syndicate's exposures to insurance risk, credit risk, market risk, liquidity risk and operational risk. The Company is also directly exposed to these risks, but they are not considered material for the assessment of the assets, liabilities, financial position and profit or loss of the Company. Further information in respect of this is disclosed in note 20 of the financial statements.

Hedge accounting is not used by the Company.

**Future developments**

The Company continues to participate on the Syndicate for the 2017 year of account with an underwriting capacity of £38 million.

**Important events since the end of the financial year**

On 18 March 2017, a transaction was entered into for Argenta Holdings plc, the parent company of the Company, to be acquired by Hannover Rück SE. The transaction is expected to close in the third quarter of 2017 subject to all necessary approvals.

On 10 May 2017, Argenta Holdings plc was re-registered as a private limited company and re-named Argenta Holdings Limited ("AHL").

BY ORDER OF THE BOARD



Mr J A Mackay  
Director

26 June 2017

**Directors' Report**  
**For the year ended 31 December 2016**

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The directors submit their report and audited financial statements of the Company for the year ended 31 December 2016. The Company's registration number is 2974694.

**Going concern**

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources due to the support of its parent, AHL, to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

**Board of directors**

The directors of the Company stated below have held office from 1 January 2016 to the date of this report:

Mr A J Annandale  
Mr J A Mackay

**Company Secretary**

Argenta Secretariat Limited

**Dividends**

The directors do not propose a dividend (2015: £nil).

**Directors' interests**

No directors had any interest in contracts or arrangements with the Company during the year.

There are no existing or proposed service agreements between the Company and any directors.

**Directors' and officers' insurance**

The Company had directors' and officers' insurance in place during the year.

**Directors' responsibilities statement**

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK GAAP, including FRS 102 and FRS 103. 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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Disclosure of information to the auditor**

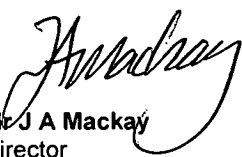
Under the Companies Act 2006, we can confirm that:

- so far as we are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- we have taken all the steps that we ought to have taken as directors in order to make us aware of any relevant information and to establish that the Company's auditor is aware of that information.

**Auditor**

It is proposed that Ernst & Young LLP remain as the Company's auditor for the year ended 31 December 2017.

BY ORDER OF THE BOARD



Mr J A Mackay  
Director

26 June 2017

**Independent Auditor's Report to the member of Argenta Underwriting No. 2 Limited**

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We have audited the financial statements of Argenta Underwriting No. 2 Limited for the year ended 31 December 2016, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'.

This report is made solely to the Company's member, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's member as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of the directors and auditor**

As explained more fully in the Directors' responsibilities statement set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the financial statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

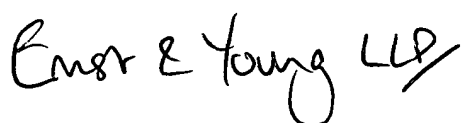
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

A handwritten signature in black ink, appearing to read "Ernst & Young LLP".

Michael Purrington (Senior Statutory Auditor)  
For and on behalf of Ernst & Young LLP, Statutory Auditor  
London

26 June 2017

Argenta Underwriting No. 2 Limited

Statement of Comprehensive Income  
For the year ended 31 December 2016

<i>Continuing operations:</i>	Notes	2016 £	2015 £
<b>TECHNICAL ACCOUNT – GENERAL BUSINESS</b>			
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	5	39,256,056	30,617,977
Outward reinsurance premiums		(7,331,220)	(6,532,063)
Net premiums written		31,924,836	24,085,914
<b>Change in provision for unearned premiums</b>			
Gross amount		(2,889,394)	268,916
Reinsurers' share		688,404	644,848
		(2,200,990)	913,764
<b>Earned premiums net of reinsurance</b>		29,723,846	24,999,678
<b>Allocated investment return transferred from the non-technical account</b>		251,459	150,692
<b>Total technical income</b>		29,975,305	25,150,370
<b>Claims incurred, net of reinsurance</b>			
<b>Claims paid:</b>			
Gross amount		(15,783,170)	(15,870,083)
Reinsurers' share		2,002,672	3,524,654
Net claims paid		(13,780,498)	(12,345,429)
<b>Change in the provision for claims:</b>			
Gross amount		(1,325,963)	1,483,211
Reinsurers' share		408,874	(1,105,009)
Changes in the net provision for claims		(917,089)	378,202
<b>Net claims incurred</b>		(14,697,587)	(11,967,227)
<b>Net operating expenses</b>	6	(13,593,522)	(11,147,417)
Amount receivable under participation deeds		34,295	126,489
<b>Balance on the technical account for general business</b>		1,718,491	2,162,215



**Argenta Underwriting No. 2 Limited**

**Statement of Comprehensive Income (continued)**  
**For the year ended 31 December 2016**

<i>Continuing operations:</i>	Notes	2016 £	2015 £
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		1,718,491	2,162,215
Investment income	7	327,166	242,508
Net unrealised gains/(losses) on investments	7	(34,537)	(60,005)
Investment expenses and charges	7	(12,348)	(8,891)
Allocated investment return transferred to the general business technical account		(251,459)	(150,692)
Other charges		(549,578)	(1,026,241)
Profit on ordinary activities before tax	8	1,197,735	1,158,894
Tax charge on result on ordinary activities	10	-	-
<b>Profit for the year attributable to the owners of the Company</b>		<b>1,197,735</b>	<b>1,158,894</b>
Other comprehensive income		-	-
<b>Total comprehensive income attributable to the owners of the Company</b>		<b>1,197,735</b>	<b>1,158,894</b>

The notes on pages 11 to 40 form an integral part of these financial statements.

**Argenta Underwriting No. 2 Limited**
**Statement of Financial Position  
As at 31 December 2016**


ASSETS	Notes	2016			2015		
		Syndicate £	Non- syndicate £	Total £	Syndicate £	Non- syndicate £	Total £
<b>Investments</b>							
Financial investments	12	33,213,590	-	33,213,590	29,759,366	-	29,759,366
Deposits with ceding undertakings		2,448	-	2,448	11,876	-	11,876
		<u>33,216,038</u>	<u>-</u>	<u>33,216,038</u>	<u>29,771,242</u>	<u>-</u>	<u>29,771,242</u>
<b>Reinsurers' share of technical provisions</b>							
Provision for unearned premiums	17	2,461,877	-	2,461,877	1,492,124	-	1,492,124
Claims outstanding	18	8,185,762	-	8,185,762	6,303,606	-	6,303,606
		<u>10,647,639</u>	<u>-</u>	<u>10,647,639</u>	<u>7,795,730</u>	<u>-</u>	<u>7,795,730</u>
<b>Debtors due within one year</b>							
Debtors arising out of direct insurance operations		9,336,697	-	9,336,697	5,411,790	-	5,411,790
Debtors arising out of reinsurance operations		3,546,841	-	3,546,841	2,920,553	-	2,920,553
Other debtors	13	2,559,883	1,567,585	4,127,468	2,879,611	2,311,895	5,191,506
		<u>15,443,421</u>	<u>1,567,585</u>	<u>17,011,006</u>	<u>11,211,954</u>	<u>2,311,895</u>	<u>13,523,849</u>
<b>Debtors due after one year</b>							
Other debtors	13	357,299	-	357,299	332,538	-	332,538
<b>Other assets</b>							
Cash at bank and in hand		1,606,764	8,733,551	10,340,315	312,074	5,269,995	5,582,069
Other	14	2,140,717	-	2,140,717	1,920,255	-	1,920,255
		<u>3,747,481</u>	<u>8,733,551</u>	<u>12,481,032</u>	<u>2,232,329</u>	<u>5,269,995</u>	<u>7,502,324</u>
<b>Prepayments and accrued income</b>							
Accrued interest		5,098	-	5,098	6,328	-	6,328
Deferred acquisition costs	15	5,972,395	-	5,972,395	4,365,831	-	4,365,831
Other prepayments and accrued income		213,164	272,600	485,764	242,095	319,600	561,695
		<u>6,190,657</u>	<u>272,600</u>	<u>6,463,257</u>	<u>4,614,254</u>	<u>319,600</u>	<u>4,933,854</u>
<b>TOTAL ASSETS</b>		<u>69,602,535</u>	<u>10,573,736</u>	<u>80,176,271</u>	<u>55,958,047</u>	<u>7,901,490</u>	<u>63,859,537</u>

Argenta Underwriting No. 2 Limited

Statement of Financial Position (continued)  
As at 31 December 2016

LIABILITIES	Notes	2016			2015		
		Syndicate £	Non- syndicate £	Total £	Syndicate £	Non- syndicate £	Total £
<b>Capital and reserves</b>							
Called up share capital	16	-	13,200,000	13,200,000	-	13,200,000	13,200,000
Profit and loss account		2,182,393	(11,067,544)	(8,885,151)	2,110,849	(12,193,735)	(10,082,886)
<b>Equity shareholder's funds</b>		<u>2,182,393</u>	<u>2,132,456</u>	<u>4,314,849</u>	<u>2,110,849</u>	<u>1,006,265</u>	<u>3,117,114</u>
<b>Technical provisions</b>							
Provision for unearned premiums	17	20,834,022	-	20,834,022	15,252,578	-	15,252,578
Claims outstanding	18	37,370,246	-	37,370,246	29,681,512	-	29,681,512
		<u>58,204,268</u>	<u>-</u>	<u>58,204,268</u>	<u>44,934,090</u>	<u>-</u>	<u>44,934,090</u>
<b>Creditors due within one year</b>							
Creditors arising out of direct insurance operations		1,481,219	-	1,481,219	340,944	-	340,944
Creditors arising out of reinsurance operations		3,026,866	-	3,026,866	2,109,273	-	2,109,273
Other creditors including taxation and social security	19	4,273,059	7,915,780	12,188,839	5,568,495	6,424,725	11,993,220
		<u>8,781,144</u>	<u>7,915,780</u>	<u>16,696,924</u>	<u>8,018,712</u>	<u>6,424,725</u>	<u>14,443,437</u>
<b>Creditors due after one year</b>							
Other creditors including taxation and social security	19	100,752	-	100,752	594,012	-	594,012
<b>Accruals and deferred income</b>		<u>333,978</u>	<u>525,500</u>	<u>859,478</u>	<u>300,384</u>	<u>470,500</u>	<u>770,884</u>
<b>TOTAL LIABILITIES</b>		<u>69,602,535</u>	<u>10,573,736</u>	<u>80,176,271</u>	<u>55,958,047</u>	<u>7,901,490</u>	<u>63,859,537</u>

The financial statements on pages 6 to 40 were approved and authorised for issue by the Board of Directors on 26 June 2017 and signed on its behalf by:

  
Mr J A Mackay  
Director

The notes on pages 11 to 40 form an integral part of these financial statements.

**Argenta Underwriting No. 2 Limited****Statement of Changes in Equity  
For the year ended 31 December 2016**

	Called up share capital £	Profit and loss account £	Total £
<b>At 1 January 2015</b>	13,200,000	(11,241,780)	1,958,220
Profit/(loss) and total comprehensive income/(expense) for the year	-	1,158,894	1,158,894
<b>At 31 December 2015</b>	<u>13,200,000</u>	<u>(10,082,886)</u>	<u>3,117,114</u>
Profit/(loss) and total comprehensive income/(expense) for the year	-	1,197,735	1,197,735
<b>At 31 December 2016</b>	<u>13,200,000</u>	<u>(8,885,151)</u>	<u>4,314,849</u>

**Reserves***Profit and loss account*

The profit and loss account reserve represents the cumulative profits and losses of the Company.

The notes on pages 11 to 40 form an integral part of these financial statements.

**1. General information**

Argenta Underwriting No.2 Limited is a limited company incorporated in the United Kingdom and registered in England and Wales. The address of its registered office and principal place of business is 5<sup>th</sup> Floor, 70 Gracechurch Street, London, EC3V 0XL. The principal activity of the Company is that of being a Lloyd's corporate member participating solely on the Syndicate in the current and prior years.

All of the Company's underwriting capacity is dedicated to Syndicate 2121 ("the Syndicate").

The majority of the financial information in respect of the Company's participation on the syndicate has been provided by way of the Lloyd's Schedule 3 facility. However, where information was not available, the syndicate report and annual accounts has been used as the source of data.

These financial statements have been prepared in sterling as this is the Company's functional and presentational currency, being the currency of the primary economic environment in which the Company operates.

**2. Basis of preparation and statement of compliance**

These financial statements have been prepared in compliance with FRS 102, FRS 103 and applicable legislation, as set out in the Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. These financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at fair value.

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

- from disclosing key management personnel compensation, as required by paragraph 7 of Section 33: Related Party Disclosures;
- from presenting a reconciliation of the number of shares outstanding at the beginning and end of the year, as required by paragraph 12 of Section 4: Statement of Financial Position; and
- from presenting a statement of cash flows, as required by Section 7: Statement of Cash Flows.

***Recognition of insurance transactions***

The Company is required to recognise its proportion of all the transactions undertaken by any Lloyd's syndicates on which it participates.

For each such syndicate, the Company's proportion of the underwriting transactions, investment return and operating expenses, will be reflected within the Company's statement of comprehensive income. Similarly, its proportion of the syndicate's assets and liabilities will be reflected in its statement of financial position (under the "syndicate" column). The syndicate assets are held subject to trust deeds for the benefit of the syndicate's insurance creditors. The proportion referred to above is calculated by reference to the Company's share of the syndicate's total capacity.

The Company has delegated sole management and control of its underwriting through each syndicate to the managing agent of each syndicate ("the managing agent") and it has further undertaken not to interfere with the exercise of such management and control. The managing agent of the syndicate is therefore responsible for determining the insurance transactions that are recognised by the Company.

***Sources of data***

The information used to compile the technical account and the syndicate statement of financial position is based on returns to Lloyd's and the annual report to the syndicate members, both of which are prepared by the managing agent of the syndicate and subject to audit by the syndicate auditor. The format of the returns is established by Lloyd's and Lloyd's is also responsible for collating the data at a syndicate level and analysing it into corporate member level results.

**3. Accounting policies**

***Gross Premiums***

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a remeasurement of the initial premium. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Written premiums include an estimate for pipeline premiums (i.e. premiums written but not reported to the syndicate by the reporting date) relating only to those underlying contracts of insurance where the period of cover has commenced prior to the reporting date. The most significant assumption in this estimate is that current experience will be consistent with prior year experience.

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a remeasurement taking account of such a reduction is made as soon as there is an obligation to the policyholder.

Premiums written by a syndicate may also include the reinsurance of other insurance carriers on which the Company participates. Gross premiums written may include an amount in respect of a "reinsurance to close" receivable.

***Reinsurance premiums***

Reinsurance written premiums comprise the total premiums payable for all of the cover provided by contracts entered into in the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation of the policyholder.

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

***Claims***

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the reporting date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

***Technical provisions***

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risks.

***Claims outstanding***

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore, the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

3. Accounting policies (continued)

**Provisions for unearned premiums**

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

**Unexpired risks**

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

At 31 December 2016 and 31 December 2015 the Syndicate did not have an unexpired risks provision.

**Deferred acquisition costs**

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from the conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement.

Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

**Reinsurance to close**

A reinsurance to close is a particular type of reinsurance contract entered into by Lloyd's syndicates. Under it, underwriting members (the reinsured members) who are members of a syndicate for a year of account (the closed year), agree with underwriting members who comprise that or another syndicate for a later year of account (the reinsuring members) that the reinsuring members will indemnify, discharge or procure the discharge, of the reinsured members against all known and unknown liabilities of the reinsured members arising out of insurance business undertaken through that syndicate and allocated to the closed year for consideration of:

- a) a premium; and
- b) either
  - i) the assignment, or agreement to assign, to the reinsuring members of all the rights of the reinsured members arising out of, or in connection with, that insurance business (including without limitation the right to receive all future premiums, reinsurances and other monies receivable in connection with that insurance business); or
  - ii) an agreement by the reinsured members that the reinsuring members shall collect on behalf of the reinsured members the proceeds of all such rights and retain them for their own benefit so far as they are not applied in discharge of the liabilities of the reinsured members.

Where the reinsurance to close is between members on successive years of account of the same syndicate, the managing agent has a duty to ensure both sets of members are treated equitably and to set the reinsurance to close with the intention that neither a profit nor a loss accrues to either set of members.

3. Accounting policies (continued)

*Reinsurance to close (continued)*

To the extent that the Company participates on successive years of account of the same syndicate and there is a reinsurance to close between those years, the Company has offset its share of the reinsurance to close received against its share of the reinsurance to close paid.

If the Company has increased its participation from one year of account to the next, the reinsurance to close paid is eliminated, as a result of this offset, leaving an element of the reinsurance to close received. This reflects the fact that the Company has assumed a greater proportion of the business of the syndicate. If the Company has reduced its participation from one year of account to the next, the reinsurance to close received is eliminated, leaving an element of the reinsurance to close paid.

This reflects the reduction in the Company's exposure to risks previously written by the syndicate.

The reinsurance to close is technically a reinsurance contract and, as such, the payment of a reinsurance to close does not remove from members of that year of account ultimate responsibility for claims payable on risks they have written. If the reinsuring members under the reinsurance to close become insolvent and the other elements of the Lloyd's chain of security also fail, the reinsured members remain theoretically liable for the settlement of any outstanding claims.

However, payment of a reinsurance to close is conventionally accepted as terminating a reinsured member's participation on a syndicate year of account and it is treated for accounts purposes as settling all the Company's outstanding gross liabilities in respect of the business so reinsured.

*Financial investments*

As permitted by FRS 102, the Company has elected to apply the recognition and measurement provisions of sections 11 and 12 in full to account for all of its financial instruments.

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument.

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a financing transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

*Derivative financial instruments*

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes. Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.



**3. Accounting policies (continued)**

***Fair value of financial assets***

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

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

See note 12 for details of financial instruments classified by fair value hierarchy.

***Impairment of financial assets***

For financial assets not held at fair value through profit or loss, the Company assesses at each reporting date whether the financial asset or group of financial assets is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

***Derecognition of financial assets***

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The Company retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement and either (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

***Offsetting of financial instruments***

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if there is a currently enforceable legal right to offset the recognised amounts; and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

**3. Accounting policies (continued)**

***Financial liabilities***

The Company's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, where applicable. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate ("EIR") method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss.

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

***Investment return***

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated member's balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and member's balance is attributed to the non-technical account. Syndicate investment return has been allocated to the technical account. Non-syndicate investment return is attributable to the non-technical account.

***Insurance contracts – product classification***

Insurance contracts are those contracts when the Company (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholder. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with sections 11 and 12 of FRS 102 unless the embedded derivative is itself an insurance contract (i.e. the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

***Reinsurance assets***

The Company cedes insurance risk in the normal course of business for all of its areas of operation. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2016 or 2015.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders.

**3. Accounting policies (continued)**

***Insurance receivables***

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the EIR method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

***Insurance payables***

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the EIR method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

***Foreign currencies***

The Company's functional and presentational currency is sterling. Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at an approximate average rate.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value, are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

***Taxation***

The tax expense for the year comprises current and deferred tax. Tax currently payable, relating to UK corporation tax, is calculated on the basis of the tax rates and laws that have been enacted or substantively enacted as at the reporting date.

The Company is taxed on its share of the underwriting results declared by syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. HM Revenue and Customs determines the taxable results of syndicates on the basis of computations submitted by the managing agent. Any adjustments that may be necessary to the tax provisions established by the Company as a result of HM Revenue and Customs' agreement of individual syndicate taxable results will be reflected in the financial statements of subsequent years. Other profits are assessable to corporation tax in the same year as they are recognised for accounting purposes, after adjustment in accordance with tax legislation.

Deferred tax is recognised on all timing differences that have originated but not reversed at the reporting date. Transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future give rise to a deferred tax liability or asset. Timing differences are differences between taxable profits and total comprehensive income as stated in the financial statements that arise from the inclusion of income and expenses in tax assessments in years different from those in which they are recognised in the financial statements.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted as at the reporting date, that are expected to apply to the reversal of the timing difference. The tax expense is recognised in the same component of comprehensive income or equity as the transaction or other event that resulted in the tax expense.

Deferred income tax assets are recognised only to the extent that, on the basis of all available evidence, it is deemed probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Current and deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off the amounts and there is the intention either to settle on a net basis or to realise the asset and settle the liability simultaneously.

**3. Accounting policies (continued)**

***Participation deeds***

In accordance with Lloyd's requirements the Company is required to deposit funds, known as Funds at Lloyd's ("FAL"), with the Corporation of Lloyd's to support its underwriting activities. The amount of FAL required is determined by Lloyd's through the Economic Capital Assessment ("ECA") based on the perceived level of risk the Company underwrites through its syndicate participations.

The Company entered into arrangements with third party capital providers to provide some or all of the required FAL on a year of account specific basis – these arrangements are referred to as "participation deeds". Where a fee is payable by the Company for the depositing of FAL by external parties this is recorded through "other charges" in the non-technical account in year one.

In the event that the Company makes a loss through its syndicate participations on any particular year of account, the FAL provider may be required to meet its share of the loss in line with terms of the participation deed. In the event that the Company makes a profit through its syndicate participations on any particular year of account, the FAL provider may be entitled to receive a share of the profit in line with the terms of the participation deed.

At the end of each calendar year an assessment is made of any amounts payable to or receivable from the FAL providers based on the performance of the Company's syndicate participations and the terms of the participation deed. Movements in these balances are recorded through the technical account as "amounts receivable/payable under participation deeds".

Amounts receivable or payable in relation to the current year result are recorded in the "syndicate" column of the statement of financial position whilst amounts receivable or payable in relation to previous years are recorded in the "non-syndicate" column of the statement of financial position. These balances are recorded as "amounts due under participation deeds" within "other debtors" or "amounts payable under participation deeds" under "other creditors" as appropriate.

**4. Critical accounting judgements and key sources of estimation uncertainty**

In applying the Company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and are based on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised, if the revision affects only that year, or in the year of the revision and future years, if the revision affects both current and future years.

The critical judgements that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements are discussed below.

In assessing whether there have been any indicators of impairment of assets, the directors have considered both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability.

Management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon likely timing and level of future taxable profits together with an assessment of the effect of future tax planning strategies.

The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods.

**4. Critical accounting judgements and key sources of estimation uncertainty (continued)**

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the reporting date assessed on an individual case basis, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims IBNR at the reporting 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 years, 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 amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

These judgements will have a consequential impact on the estimate of the reinsurers' share of technical provisions.

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgmental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations in specific industries, types of instruments or currencies, market liquidity and financial conditions of counterparties. Discount rates are influenced by risk free interest rates and credit risk. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

A provision for debtors is established where it is estimated that the debtors are not considered to be fully recoverable. When assessing recoverability, the directors have considered factors such as the ageing of the receivables, past experience of recoverability, and the credit profile of individual or groups of debtors.

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**5. Particulars of business written**

2016	Gross premiums written £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Re- insurance balance £	Total £
Direct insurance:						
Accident and health	820,198	619,784	(313,684)	(270,711)	(54,610)	(19,221)
Motor – third party liability	5,933	8,717	(5,801)	(2,692)	(1,048)	(824)
Motor – other classes	173,482	177,182	(140,123)	(65,638)	(15,101)	(43,680)
Marine, aviation and transport	5,788,685	6,010,021	(1,745,313)	(2,676,936)	(692,057)	895,715
Fire and other damage to property	16,741,303	16,417,795	(9,078,635)	6,004,255	(1,557,458)	(222,553)
Third party liability	1,687,784	1,021,105	(651,851)	(444,566)	(32,598)	(107,910)
Credit and suretyship	877,403	171,119	(81,495)	(78,527)	(22,082)	(10,985)
Total direct	<u>26,094,788</u>	<u>24,425,723</u>	<u>(12,016,902)</u>	<u>(9,543,325)</u>	<u>(2,374,954)</u>	<u>490,542</u>
Reinsurance acceptances:	<u>13,161,268</u>	<u>11,940,939</u>	<u>(5,092,231)</u>	<u>(4,050,197)</u>	<u>(1,856,316)</u>	<u>942,195</u>
Total	<u>39,256,056</u>	<u>36,366,662</u>	<u>(17,109,133)</u>	<u>(13,593,522)</u>	<u>(4,231,270)</u>	<u>1,432,737</u>
2015	Gross premiums written £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Re- insurance balance £	Total £
Direct insurance:						
Accident and health	388,771	322,903	(213,828)	(145,153)	6,084	(29,994)
Motor – other classes	189,575	171,355	(95,337)	(59,256)	(18,578)	(1,816)
Marine, aviation and transport	5,241,661	6,375,644	(1,793,632)	(2,781,427)	(447,387)	1,353,198
Fire and other damage to property	14,626,230	14,987,474	(6,810,173)	(5,188,316)	(2,501,113)	487,872
Third party liability	375,775	196,273	(282,080)	(70,631)	28,729	(127,709)
Credit and suretyship	18,502	18,258	(1,024)	(9,081)	(590)	7,563
Total direct	<u>20,840,514</u>	<u>22,071,907</u>	<u>(9,196,074)</u>	<u>(8,253,864)</u>	<u>(2,932,855)</u>	<u>1,689,114</u>
Reinsurance acceptances:	<u>9,777,463</u>	<u>8,814,986</u>	<u>(5,190,798)</u>	<u>(2,893,553)</u>	<u>(534,715)</u>	<u>195,920</u>
Total	<u>30,617,977</u>	<u>30,886,893</u>	<u>(14,386,872)</u>	<u>(11,147,417)</u>	<u>(3,467,570)</u>	<u>1,885,034</u>

All premiums were concluded in the United Kingdom.

The reinsurance balance includes reinsurance commission receivable.

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

	2016 £	2015 £
United Kingdom	12,801,797	7,873,646
Other EU member states	2,252,313	1,707,801
Rest of the world	<u>24,201,946</u>	<u>21,036,530</u>
	<u>39,256,056</u>	<u>30,617,977</u>

Notes to the Financial Statements (continued)  
For the year ended 31 December 2016

6. Net operating expenses

	2016 £	2015 £
Administrative expenses – personal expenses	1,148,970	894,426
Acquisition costs	11,931,265	9,173,264
Change in deferred acquisition costs	(895,185)	(34,559)
Administrative expenses – other	1,408,472	1,114,286
	<u>13,593,522</u>	<u>11,147,417</u>

Included within acquisition costs are commissions on direct business of £5,845,125 (2015: £5,721,553).

7. Investment return

	2016 £	2015 £
<i>Syndicate:</i>		
Income from other financial investments	332,634	279,797
Net losses on realisation of investments - designated at fair value through profit or loss	(34,290)	(60,209)
Total investment income	<u>298,344</u>	<u>219,588</u>
Net unrealised gains/(losses) on investments - designated at fair value through profit or loss	(34,537)	(60,005)
Investment expenses and charges	(12,348)	(8,891)
Total investment return	<u>251,459</u>	<u>150,692</u>
<i>Non-syndicate:</i>		
Deposit interest	28,822	22,920
Total investment return	<u>280,281</u>	<u>173,612</u>

8. Profit/(loss) on ordinary activities before tax

Fees paid to the Company's auditor, Ernst & Young LLP, for statutory audit services and non-audit services are not charged to the Company and are paid by the Company's parent company. These fees are disclosed in the parent company's accounts. For 2016 the audit fee was £3,675 (2015: £3,500).

9. Director's remuneration

Messrs Annandale and Mackay did not receive any remuneration for their services to the Company in 2016 (2015: £Nil). The Company had no employees during 2016 (2015: Nil).

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**10. Tax charge/(credit) on profit/(loss) on ordinary activities****a) Analysis of profit or loss charge in the year**

	2016 £	2015 £
Current tax:		
United Kingdom corporation tax	-	-
<b>Total current tax</b>	<b>-</b>	<b>-</b>
Deferred tax:		
Origination and reversal of timing differences		
Adjustments in respect of prior years	-	-
Effect of decreased tax rate on opening liability	-	-
<b>Total deferred tax (note 11)</b>	<b>-</b>	<b>-</b>
<b>Total tax</b>	<b>-</b>	<b>-</b>

**b) Factors affecting the tax charge for the year**

Tax on profit/(loss) on ordinary activities for the year is higher/lower than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are reconciled below:

	2016 £	2015 £
Profit/(loss) on ordinary activities before tax	1,197,735	1,158,894
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	239,547	234,676
Effects of:		
Expenses not deductible for tax	10,116	12,214
Unrecognised deferred tax asset	(249,663)	(577,970)
Group relief surrendered for nil payment	-	331,080
<b>Total tax</b>	<b>-</b>	<b>-</b>

**Factors that may affect future tax charges**

A reduction in the UK corporation tax rate from 20% to 19% was substantively enacted in October 2015 and will take effect from 1 April 2017. A further reduction from 19% to 17% was substantively enacted in September 2016 and will take effect from 1 April 2020. Deferred tax balances at the reporting date are measured at these reduced rates (2015: 20%, 19% effective 1 April 2017 and 18% effective 1 April 2020).



**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**11. Provision for liabilities - deferred taxation**

	2016 £	2015 £
At 1 January	-	-
Movement during the year	-	-
At 31 December	-	-
The deferred tax balance is composed of:	2016 £	2015 £
Timing differences on underwriting results	856,532	1,057,765
Tax losses	(856,532)	(1,057,765)
Closing liability	-	-

The company has £6,603,209 (2015: £8,766,568) of unutilised tax losses carried forward of which £4,521,423 (2015: £5,436,471) have had deferred tax recognised against them, resulting in a deferred tax asset of £856,532 (2015: £1,057,765). The remaining £2,081,786 (2015: £3,330,097) are not able to be recognised for deferred tax purposes due to uncertainty over the likelihood of future taxable profits in excess of those arising from the reversal of timing differences.

The deferred tax liability expected to reverse in 2017 is £850,496. This relates to timing differences on underwriting results. The deferred tax asset expected to reverse in 2017 is £850,496. This relates to the utilisation of tax losses against the underwriting results.

**12. Financial investments**

	Cost 2016 £	Fair value 2016 £	Listed 2016 £
Syndicate:			
Shares and other variable yield securities and units in unit trusts	12,641,397	12,599,686	8,130,897
Debt securities and other fixed income securities	19,711,075	19,748,418	-
Loans and deposits with credit institutions	866,703	865,486	-
	<u>33,219,175</u>	<u>33,213,590</u>	<u>8,130,897</u>
	Cost 2015 £	Fair value 2015 £	Listed 2015 £
Syndicate:			
Shares and other variable yield securities and units in unit trusts	10,114,909	10,129,596	8,996,463
Debt securities and other fixed income securities	18,769,828	18,718,217	-
Loans and deposits with credit institutions	910,293	911,553	-
	<u>29,795,030</u>	<u>29,759,366</u>	<u>8,996,463</u>

The shares and other variable yield securities and units in unit trusts relate to holdings in highly diversified collective investment schemes, which include an element of low volatility absolute return funds managed in accordance with the UCITS regulations.

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

There have been no day 1 profits recognised in respect of financial instruments designated at fair value through profit or loss.

The Syndicate's investment managers are permitted to directly purchase derivative financial instruments (interest rate futures) to hedge its interest rate risks. These derivatives are classified as trading instruments.

There were no derivative financial instruments at the reporting date (2015: £nil).

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**12. Financial investments (continued)**

The following table shows the hierarchy for the techniques used in determining the fair value of financial investments including overseas deposits (note 14):

	Level 1 £	Level 2 £	Level 3 £	Total £
<b>2016</b>				
Syndicate:				
Shares and other variable yield securities and units in unit trusts	4,503,814	8,095,837	35	12,599,686
Debt securities and other fixed income securities	10,311,087	9,437,331	-	19,748,418
Loans and deposits with credit institutions	263,044	602,442	-	865,486
Overseas deposits	514,360	1,626,357	-	2,140,717
	<u>15,592,305</u>	<u>19,761,967</u>	<u>35</u>	<u>35,354,307</u>
<b>2015</b>				
Syndicate:				
Shares and other variable yield securities and units in unit trusts	4,513,741	5,615,578	277	10,129,596
Debt securities and other fixed income securities	10,265,386	8,452,831	-	18,718,217
Loans and deposits with credit institutions	51,922	859,632	-	911,554
Overseas deposits	1,437,454	482,800	-	1,920,254
	<u>16,268,503</u>	<u>15,410,841</u>	<u>277</u>	<u>31,679,621</u>

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's and Company's own models whereby the significant inputs into the assumptions are market observable.

Included in the level 3 category are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's and Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's and Company's own data. The asset class in the level 3 category is hedge funds. For these there is not a liquid market for the investments and as a result the valuations received from the investment manager, modelled on the values of the underlying assets, have been impaired by 90% as an illiquidity adjustment. The amounts involved were immaterial at both year ends.

**Argenta Underwriting No. 2 Limited**

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**13. Other debtors**

	2016 £	2015 £
Amounts falling due within one year:		
Syndicate debtors	2,346,118	2,753,122
Amounts due under participation deeds	213,765	126,489
Called/uncalled underwriting profits	<u>1,567,585</u>	<u>2,311,895</u>
	<u>4,127,468</u>	<u>5,191,506</u>
Amounts falling due after one year:		
Syndicate debtors	<u>357,299</u>	<u>332,538</u>

**14. Other assets**

	2016 £	2015 £
Syndicate:		
Overseas deposits	<u>2,140,717</u>	<u>1,920,255</u>

Overseas deposits are made as a condition of carrying on business in various jurisdictions.

**15. Deferred acquisition costs**

	2016 £	2015 £
Syndicate:		
At 1 January	4,365,831	4,171,191
Change in deferred acquisition costs	895,185	34,558
Foreign exchange	<u>711,379</u>	<u>160,082</u>
At 31 December	<u>5,972,395</u>	<u>4,365,831</u>

**16. Share capital**

	2016		2015	
	Number	£	Number	£
Authorised, issued and fully paid ordinary shares of £1 each	<u>13,200,000</u>	<u>13,200,000</u>	<u>13,200,000</u>	<u>13,200,000</u>

Notes to the Financial Statements (continued)  
For the year ended 31 December 2016

## 17. Provision for unearned premiums

2016	Gross £	Reinsurers' share £	Net £
Syndicate:			
At 1 January	15,252,578	(1,492,124)	13,760,454
Premiums written in the year	39,256,056	(7,331,220)	31,924,836
Premiums earned in the year	(36,366,662)	6,642,816	(29,723,846)
Foreign exchange	2,692,050	(281,349)	2,410,701
At 31 December	<u>20,834,022</u>	<u>(2,461,877)</u>	<u>18,372,145</u>
2015	Gross £	Reinsurers' share £	Net £
Syndicate:			
At 1 January	14,891,564	(790,279)	14,101,285
Premiums written in the year	30,617,976	(6,532,063)	24,085,913
Premiums earned in the year	(30,886,892)	5,887,215	(24,999,677)
Foreign exchange	629,930	(56,997)	572,933
At 31 December	<u>15,252,578</u>	<u>(1,492,124)</u>	<u>13,760,454</u>

## 18. Claims outstanding

2016	Gross £	Reinsurers' share £	Net £
Syndicate:			
At 1 January	29,681,512	(6,303,606)	23,377,906
Claims incurred in current underwriting year	9,298,066	(1,632,720)	7,665,346
Claims incurred in prior underwriting years	7,811,066	(778,826)	7,032,240
Claims paid during the year	(15,783,170)	2,002,672	(13,780,498)
Foreign exchange	6,362,772	(1,473,282)	4,889,490
At 31 December	<u>37,370,246</u>	<u>(8,185,762)</u>	<u>29,184,484</u>
2015	Gross £	Reinsurers' share £	Net £
Syndicate:			
At 1 January	29,883,762	(7,057,442)	22,826,320
Claims incurred in current underwriting year	7,269,620	(1,728,137)	5,541,483
Claims incurred in prior underwriting years	7,117,253	(691,508)	6,425,745
Claims paid during the year	(15,870,083)	3,524,654	(12,345,429)
Foreign exchange	1,280,960	(351,173)	929,787
At 31 December	<u>29,681,512</u>	<u>(6,303,606)</u>	<u>23,377,906</u>

The balance at 1 January 2016 includes the impact of the adjustment that arises following the RITC of the 2013 year of account into the 2014 year of account at 31 December 2015.

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**19. Other creditors including taxation and social security**

	2016 £	2015 £
Amounts falling due within one year:		
Amounts payable to parent company	7,515,911	6,420,047
Amounts payable under participation deeds	53,042	-
Called/uncalled underwriting losses	514,610	-
Syndicate creditors	4,093,589	5,568,495
Other creditors	11,687	4,678
	<u>12,188,839</u>	<u>11,993,220</u>
Amounts falling due after one year:		
Syndicate creditors	<u>100,752</u>	<u>594,012</u>

Amounts owed to the parent undertaking are unsecured, interest free and are repayable on demand.

**20. Insurance risk and financial risk management**

The Company is principally exposed to insurance risk and financial risk through its participation on the Syndicate. The Company has delegated sole management and control of its underwriting to the managing agent of the Syndicate and the policies, procedures and internal controls of the managing agent are used to manage the Syndicate's exposures to insurance risk, credit risk, market risk and liquidity risk. The Company is also directly exposed to credit risk, market risk and liquidity risk.

Information relating to the Syndicate's risk environment has been obtained from the Syndicate report and accounts which represents 100% of the Syndicate of which the Company had a 14.08% participation for the most recent year of account (2015: 13.35%).

***Insurance risk – Syndicate***

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities. References to insurance business shall, as appropriate, be understood to include the equivalent reinsurance business underwritten by the Syndicate.

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

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess of loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe losses and large individual risk losses. Retention limits for the excess of loss reinsurance vary by product line and territory.

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

The Syndicate principally issues the following types of general insurance contracts: fire and other damage to property; marine, aviation and transport; energy; and third party liability. Risks usually cover twelve months duration.

The most significant risks arise from natural disasters, terrorist activities, cyber attacks, large risk losses and adverse attritional claims experience. For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate.

**20. Insurance risk and financial risk management (continued)**

The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account where appropriate when estimating insurance contract liabilities.

The Syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g. hurricanes, earthquakes and flood damage). The purpose of these underwriting and reinsurance strategies is to limit exposure to catastrophes based on the Syndicate's risk appetite as decided by management. The overall aim is currently to restrict the impact of a single Realistic Disaster Scenario (RDS) on a gross of reinsurance basis to less than 80% of the ECA, and less than 30% on a net of reinsurance basis. The reinsurance counterparty exposure is managed such that the exposure to, for instance, a single 'A' rated reinsurer is estimated not to exceed 10% of the total recoverable amount for the programme. The board of the managing agency may decide to increase or decrease the maximum tolerances based on market conditions and other factors.

The Syndicate uses both its own and commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising for various RDS's based on the Syndicate's expected risk exposures reported in the 2017 Syndicate Business Forecast.

RDS event	Industry loss £m	Estimated gross loss £m	Estimated final net loss £m
Carolinas windstorm (second event)	26,866	96	60
US Florida windstorm	93,284	119	35
European windstorm	19,008	56	25
US Gulf windstorm	83,209	108	25
Los Angeles earthquake	58,209	120	24

The analysis presented represents 100% of the Syndicate of which the Company has a 12.67% participation in 2017.

Notes to the Financial Statements (continued)  
For the year ended 31 December 2016

## 20. Insurance risk and financial risk management (continued)

The table below sets out the concentration of the Syndicate's outstanding claim liabilities and unearned premiums by type of contract:

	2016		2015	
	Gross liabilities £'000	Net liabilities £'000	Gross liabilities £'000	Net liabilities £'000
Direct insurance:				
Accident and health	4,583	4,318	2,007	1,755
Motor (other classes)	977	973	824	823
Marine, aviation and transport	52,642	46,866	50,460	44,457
Energy	42,718	37,707	43,108	37,930
Fire and other damage to property	125,891	110,275	101,214	88,230
Third party liability	13,035	11,665	3,887	3,180
Pecuniary loss	6,147	3,759	48	41
	<u>245,993</u>	<u>215,563</u>	<u>201,548</u>	<u>176,416</u>
Reinsurance acceptances:				
Fire and other damage to property	55,317	37,019	44,874	33,250
Marine, aviation and transport	39,314	32,563	38,640	27,222
Energy	22,708	20,296	18,536	17,649
Casualty	49,794	32,650	25,135	16,811
	<u>167,133</u>	<u>122,528</u>	<u>127,185</u>	<u>94,932</u>
	<u>413,126</u>	<u>338,091</u>	<u>328,733</u>	<u>271,348</u>

The geographical concentration of the outstanding claim liabilities and unearned premiums is noted below. The disclosure is based on the domicile of counterparties. The analysis would not be materially different if based on the countries in which the risks are situated.

	2016		2015	
	Gross liabilities £'000	Net liabilities £'000	Gross liabilities £'000	Net liabilities £'000
United Kingdom	116,283	86,142	79,514	58,882
Other EU member states	18,424	15,870	16,423	14,660
USA	142,489	118,455	124,309	103,180
Canada	13,365	11,967	13,050	11,576
Other	122,565	105,657	95,437	83,050
	<u>413,126</u>	<u>338,091</u>	<u>328,733</u>	<u>271,348</u>

## 20. Insurance risk and financial risk management (continued)

**Key assumptions**

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of claim indemnity costs, claim handling costs and claims inflation for each underwriting year. For more recent years of account, "a priori" loss ratio selections are also key assumptions in determining the reserves, which are themselves based on historical experience as well as judgements to reflect current underwriting conditions.

Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence; changes in market factors; economic conditions; as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include the occurrence of large losses, delays in settlement and changes in foreign currency rates.

**Sensitivities**

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

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in each assumption, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	Change in assumptions	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit £'000	Impact on equity £'000
2016					
"A priori" loss ratios	+5%	5,212	4,327	(3,941)	(3,941)
Incurred claims development patterns	Recede development by 1 month	9,293	8,219	(7,624)	(7,624)
	Change in assumptions	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit £'000	Impact on equity £'000
2015					
"A priori" loss ratios	+ 5%	4,469	3,994	(3,088)	(3,088)
Incurred claims development patterns	Recede development by 1 month	8,187	7,486	(6,883)	(6,883)

The method used for deriving sensitivity information and the significant assumptions is the same for both periods.



Notes to the Financial Statements (continued)  
For the year ended 31 December 2016

## 20. Insurance risk and financial risk management (continued)

*Claims development table*

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at 31 December 2016.

The Syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016 to 2020.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future adverse experience. Due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

Gross insurance contract outstanding claims provision as at 31 December 2016:

Underwriting year	Before 2011 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Syndicate: Estimate of cumulative claims incurred: At end of underwriting year		65,032	99,728	61,696	49,155	66,044	71,050	
12 months later		186,419	160,684	121,738	109,669	142,185		
24 months later		197,018	162,660	123,980	109,828			
36 months later		208,500	160,513	119,940				
48 months later		210,461	156,305					
60 months later		209,147						
Current estimate of cumulative claims incurred		209,147	156,305	119,940	109,828	142,185	71,050	
Cumulative payments to date		190,030	141,042	93,571	74,412	66,631	10,381	
Gross outstanding claims provision at 31 December 2016 per the statement of financial position	32,001	19,117	15,263	26,369	35,416	75,554	60,669	264,389

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**20. Insurance risk and financial risk management (continued)**

*Net insurance contract outstanding claims provision as at 31 December 2016:*

Underwriting year	Before 2011 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Syndicate:								
Estimate of cumulative claims incurred:								
At end of underwriting year		58,469	62,736	56,828	45,534	50,144	58,517	
12 months later		137,395	123,923	114,028	101,311	118,801		
24 months later		140,687	124,328	115,516	102,257			
36 months later		142,562	122,291	111,747				
48 months later		144,145	119,191					
60 months later		141,911						
Current estimate of cumulative claims incurred		141,911	119,191	111,747	102,257	118,801	58,517	
Cumulative payments to date		134,384	106,252	88,167	70,924	55,124	10,225	
Net outstanding claims provision at 31 December 2016 per the statement of financial position	19,570	7,527	12,939	23,580	31,333	63,677	48,292	206,918

The estimate of cumulative claims incurred on an underwriting year will increase whilst premium continues to be earned. This will naturally give rise to an increase in incurred claims in the period up to 24 months beyond the underwriting year.

**Financial risk – credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

**Syndicate**

The following policies and procedures are in place to mitigate the exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee of the managing agency. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each investment counterparty or syndicate of counterparties, with minimum credit quality requirements at a portfolio level.
- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set by the finance and investment committee of the managing agency and are subject to regular reviews. At each reporting date management performs an assessment of creditworthiness of reinsurers, ascertaining a suitable allowance for impairment.
- Guidelines determine when to obtain collateral and guarantees:
- The Syndicate sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.
- The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions, will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

Notes to the Financial Statements (continued)  
For the year ended 31 December 2016

## 20. Insurance risk and financial risk management (continued)

**Non-syndicate**

The Company manages credit risk by ensuring that cash and cash equivalent deposits are placed only with highly rated credit institutions. The Company is not exposed to material credit risk in respect of its debtor balances. The Company did not hold any collateral as security against its debtors, or have any other credit enhancements at the reporting dates.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2016	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Syndicate:				
Financial investments:				
- Debt securities and other fixed income securities	140,187	-	-	140,187
- Shares and other variable yield securities and units in unit trusts	89,452	-	-	89,452
- Loans secured by mortgages	4,282	-	-	4,282
- Derivative assets	-	-	-	-
- Deposits with credit institutions	1,854	-	-	1,854
Deposits with ceding undertakings	17	-	-	17
Reinsurers' share of claims outstanding	57,471	-	-	57,471
Debtors arising out of insurance operations	81,663	10,415	-	92,078
Other debtors	944	-	-	944
Cash at bank and in hand	11,367	-	-	11,367
Overseas deposits	15,082	-	-	15,082
	<u>402,319</u>	<u>10,415</u>	<u>-</u>	<u>412,734</u>
Non-syndicate:				
Cash at bank and in hand	<u>8,734</u>	<u>-</u>	<u>-</u>	<u>8,734</u>
2015	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Syndicate:				
Financial investments:				
- Debt securities and other fixed income securities	135,211	-	-	135,211
- Shares and other variable yield securities and units in unit trusts	73,214	-	2	73,216
- Loans secured by mortgages	6,188	-	-	6,188
- Derivative assets	-	-	-	-
- Deposits with credit institutions	438	-	-	438
Deposits with ceding undertakings	83	-	-	83
Reinsurers' share of claims outstanding	46,311	-	-	46,311
Debtors arising out of insurance operations	54,516	7,339	-	61,855
Other debtors	1,258	-	-	1,258
Cash at bank and in hand	2,241	-	-	2,241
Overseas deposits	13,686	-	-	13,686
	<u>333,146</u>	<u>7,339</u>	<u>2</u>	<u>340,487</u>
Non-syndicate:				
Cash at bank and in hand	<u>5,270</u>	<u>-</u>	<u>-</u>	<u>5,270</u>

Assets which are past due but not impaired have principally been in arrears for less than 3 months from the reporting date.

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**20. Insurance risk and financial risk management (continued)**

The table below provides information regarding the credit risk exposure at 31 December 2016 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated. Insurance and "Other" debtors have been excluded from the table as these are generally not rated.

2016	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
<b>Syndicate:</b>							
- Shares and other variable yield securities and unit trusts	31,831	10,450	-	-	-	47,171	89,452
- Debt securities and other fixed income securities	80,143	26,738	28,501	4,805	-	-	140,187
- Loans secured by mortgages	4,282	-	-	-	-	-	4,282
- Deposits with credit institutions	-	-	1,854	-	-	-	1,854
- Overseas deposits	9,109	2,327	1,904	849	-	893	15,082
- Deposits with ceding undertakings	-	-	-	-	-	17	17
- Reinsurers' share of claims outstanding	-	5,576	50,029	-	-	1,866	57,471
- Cash at bank and in hand	-	-	11,367	-	-	-	11,367
<b>Total credit risk</b>	<b>125,365</b>	<b>45,091</b>	<b>93,655</b>	<b>5,654</b>	<b>-</b>	<b>49,947</b>	<b>319,712</b>
<b>Non-syndicate:</b>							
- Cash at bank and in hand	-	-	-	8,717	-	17	8,734
<b>2015</b>							
<b>Syndicate:</b>							
- Shares and other variable yield securities and unit trusts	32,624	-	-	-	-	40,590	73,214
- Debt securities and other fixed income securities	72,067	35,641	20,754	6,749	-	-	135,211
- Loans secured by mortgages	5,553	-	635	-	-	-	6,188
- Deposits with credit institutions	-	-	438	-	-	-	438
- Overseas deposits	8,106	2,301	1,668	1,524	45	42	13,686
- Deposits with ceding undertakings	-	-	-	-	-	83	83
- Reinsurers' share of claims outstanding	-	5,945	38,135	-	-	2,231	46,311
- Cash at bank and in hand	-	-	2,241	-	-	-	2,241
<b>Total credit risk</b>	<b>118,350</b>	<b>43,887</b>	<b>63,871</b>	<b>8,273</b>	<b>45</b>	<b>42,946</b>	<b>277,372</b>
<b>Non-syndicate:</b>							
- Cash at bank and in hand	-	-	-	5,270	-	-	5,270

20. Insurance risk and financial risk management (continued)

**Maximum credit exposure**

It is the Syndicate's policy to maintain accurate credit ratings across its portfolio of investments and reinsurance counterparties.

Credit ratings are provided regularly by the Syndicate's investment managers and are subject to regular review to ensure any counterparty risk is in line with the Syndicate's risk appetite and complies with the specified investment guidelines. The management of the Syndicate's investments is largely outsourced to professional investment managers who are given clearly defined credit, concentration and asset parameters within which they can operate. Specific provisions are included within the investment guidelines around notification of any credit breaches which would result in action being taken to rectify the position, subject to materiality.

**Financial risk – liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out flows and expected reinsurance recoveries.

**Syndicate**

The following policies and procedures are in place to mitigate the Syndicate's exposure to liquidity risk:

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk framework and compliance committee of the managing agency. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

**Non-syndicate**

The Company manages liquidity by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of assets and liabilities.

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**20. Insurance risk and financial risk management (continued)**

The table below summarises the maturity profile of the Company's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

2016	Up to a year £'000	1–3 years £'000	3–5 years £'000	Over 5 years £'000	Total £'000
Syndicate:					
Outstanding claim liabilities	111,466	96,106	33,807	23,010	264,389
Other	<u>40,007</u>	<u>755</u>	<u>-</u>	<u>-</u>	<u>40,762</u>
Non-syndicate:					
Other	<u>7,916</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,916</u>
2015	Up to a year £'000	1–3 years £'000	3–5 years £'000	Over 5 years £'000	Total £'000
Syndicate:					
Outstanding claim liabilities	97,827	79,580	23,679	14,460	215,546
Other	<u>24,016</u>	<u>4,062</u>	<u>-</u>	<u>-</u>	<u>28,078</u>
Non-syndicate:					
Other	<u>6,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,425</u>

The profile periods used as at 31 December 2015 have been adjusted to align them with those used as at 31 December 2016. The above outstanding claims liability figures are shown gross; this is a change from last year, when they were shown net, and the comparatives have been restated accordingly.

**20. Insurance risk and financial risk management (continued)****Financial risk – financial market risk**

Financial market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Financial market risk comprises three types of risk:

- a) Currency risk;
- b) Interest rate risk; and
- c) Equity price risk.

**a) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

**Syndicate**

The Syndicate's functional currency is sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in euros, US dollars and Canadian dollars. The Syndicate seeks to mitigate the risk by regularly seeking to match the estimated foreign currency denominated liabilities with assets denominated in the same currency.

**Non-syndicate**

The Company's functional currency is sterling. The Company manages currency risk by ensuring that exchange rate exposures are managed within approved policy parameters. The Company does not use derivative financial instruments to manage exposure to currency risk. The Company is not exposed to material currency risk in respect of its non-syndicate business.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

2016	UK £ £000	US \$ £000	CAD \$ £000	EUR € £000	Other £000	Total £000
Syndicate:						
Total assets	58,279	358,650	20,948	18,887	17,777	474,541
Total liabilities	(60,076)	(353,376)	(14,208)	(17,330)	(11,252)	(456,242)
Net assets	(1,797)	5,274	6,740	1,557	6,525	18,299
2015	UK £ £000	US \$ £000	CAD \$ £000	EUR € £000	Other £000	Total £000
Syndicate:						
Total assets	58,176	293,140	13,360	12,481	8,553	385,710
Total liabilities	(48,247)	(289,231)	(9,330)	(11,785)	(338)	(358,931)
Net assets	9,929	3,909	4,030	696	8,215	26,779

The non-sterling denominated net assets may lead to a reported loss (depending on the mix relative to the liabilities), should sterling strengthen against these currencies. Conversely, reported gains may arise should sterling weaken.

**Notes to the Financial Statements (continued)**  
**For the year ended 31 December 2016**

**20. Insurance risk and financial risk management (continued)**

The table below gives an indication of the impact on profit of a percentage change in the relative strength of sterling against the value of the US dollar, Canadian dollar and euro simultaneously. The analysis is based on the information as at 31 December 2016.

	2016 £'000	2015 £'000
Syndicate:		
Sterling weakens		
10% against other currencies	1,508	959
20% against other currencies	3,392	2,159
Sterling strengthens		
10% against other currencies	(1,234)	(785)
20% against other currencies	(2,262)	(1,439)

**b) Interest rate risk**

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments create exposure to cash flow interest risk, whereas fixed rate instruments have exposure to fair value interest risk.

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

The table below shows the impact of changes in interest rates on profit and equity.

	Impact on profit or loss and equity	
	2016 £'000	2015 £'000
Changes in variables		
Syndicate:		
+50 basis points	(1,012)	(1,159)
-50 basis points	571	392

The method used for deriving sensitivity information and the significant variables are the same for both periods.

Non-syndicate:

The Company is not exposed to material interest rate risk in respect of its non-syndicate business.



**20. Insurance risk and financial risk management (continued)****c) Equity price risk**

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

**Syndicate**

The Syndicate's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The financial market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments. There is no significant concentration of equity price risk.

**Non-syndicate**

The Company does not hold equity investments and as such is not exposed to equity price risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments, with all other variables held constant, showing the impact on profit due to changes in fair value of financial assets and liabilities whose fair values are recorded in the statement of comprehensive income. The correlation of variables will have a significant effect in determining the ultimate impact on equity price risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit	
	2016	2015
	£'000	£'000
Changes in variables		
Syndicate:		
S&P 500/FTSE 100 +5%	3	(24)
S&P 500/FTSE 100 -5%	(3)	24

The method used for deriving sensitivity information and the significant variables are the same for both periods.

**21. Capital management****Lloyd's capital setting process**

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

Each syndicate member is liable for its own share of underwriting liabilities on the syndicate on which it participates but not other members' shares.

Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR "to ultimate".

Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, the ECA. The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR "to ultimate".

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency I figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the solvency capital requirement of the Syndicate, since this has been previously calculated using Solvency II principles.

**22. Funds at Lloyd's**

The Company's underwriting is supported by assets made available to it by third party capital providers. At the balance sheet date the Funds at Lloyd's consist of letters of credit of £16,570,396 (2015: £16,009,350) provided by third parties which are not included within the statement of financial position of the Company. The Company's Fund's at Lloyd's is held as cash totalling £8,717,015 (2015: £4,877,628).

**23. Related party disclosure**

The Company has taken advantage of the exemption conferred by Section 33: Related Party Disclosures not to disclose transactions entered into between two or more wholly owned members of the Group.

Some of the capital to support the underwriting of the Company was provided by way of a Funds at Lloyd's participation deed from Glenrinnes Farms Limited. Mr A J D Locke, who is a director of AHL, is a 99.5% shareholder in Glenrinnes Farms Limited. Mr Locke derives no direct personal benefit from this arrangement but Glenrinnes Farms Limited receives a fee to which it is contractually entitled.

As part of the consideration for the provision of all such capital by Glenrinnes Farms Limited, it was granted an option by the Company's parent undertaking AHL and its shareholders to acquire £98.5 million of the Syndicate's capacity. The option was closed out during 2015 following a payment to compensate for this.

There are no other related party transactions to be disclosed.

**24. Parent undertaking**

The Company's immediate and ultimate parent undertaking is AHL, a company registered in England and Wales. On 10 May 2017 AHL was re-registered from a public limited company to a private limited company. AHL is also the parent undertaking of the smallest and largest group of undertakings to consolidate these financial statements. The financial statements of this company can be obtained from 5th Floor, 70 Gracechurch Street, London, EC3V 0XL.

On 18 March 2017, a transaction was entered into for AHL to be acquired by Hannover Rück SE. The transaction is expected to close in the third quarter of 2017 subject to all necessary approvals.