Argenta

ARGENTA UNDERWRITING NO. 2 LIMITED

FINANCIAL STATEMENTS

31 December 2017

Company registration no. 2974694

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CONTENTS **PAGE**

Strategic Report	1
Directors' Report	2
Independent Auditor's Report	4
Statement of Comprehensive Income – Technical Account	6
Statement of Comprehensive Income – Non-technical Account	7
Statement of Financial Position	8
Statement of Changes in Equity	10
Notes to the Financial Statements	11

Strategic Report
For the year ended 31 December 2017

The directors present their Strategic Report for Argenta Underwriting No. 2 Limited ("the Company") for the year ended 31 December 2017.

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 2017 years of account. All of the Company's underwriting capacity for these years was dedicated to Syndicate 2121 ("the Syndicate").

Underwriting Capacity	2017	2016	2015	2014
	£	£	£	£
Syndicate 2121	38,000,000	38,000,000	32,000,000	35,100,000

In July 2017 100% of the issued share capital of Argenta Holdings Limited ("AHL"), the parent company of the Company, was acquired by Hannover Rück SE ("Hannover Re"). The immediate parent undertaking of Hannover Re is Talanx AG, a leading global insurance group. Hannover Re has for some time supported Syndicate 2121 as both a traditional reinsurer and by supporting some of its capital providers.

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 £677,726 (2016: £1,197,735).

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 of the Syndicate 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 21 of the financial statements.

Future developments

The Company continues to participate on Syndicate 2121 for the 2018 year of account with an underwriting capacity of £31.6 million.

BY ORDER OF THE BOARD

Mr J A Mackay
Director

26 June 2018

Directors' Report
For the year ended 31 December 2017

The directors submit their report and audited financial statements of the Company for the year ended 31 December 2017. 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 2017 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 (2016: £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 2018.

BY ORDER OF THE BOARD

Mr J A Mackay
Director

26 June 2018

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

We have audited the financial statements of Argenta Underwriting No. 2 Limited for the year ended 31 December 2017, 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, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and FRS 103 "Insurance Contracts".

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the 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 directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the 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 it 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

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

28 June 2018

Argenta Underwriting No. 2 Limited

Statement of Comprehensive Income
For the year ended 31 December 2017

Continuing operations:	Notes	2017 £	2016 £
TECHNICAL ACCOUNT – GENERAL BUSINESS			
Earned premiums, net of reinsurance			
Gross premiums written	5	44,677,645	39,256,056
Outward reinsurance premiums		(9,577,650)	(7,331,220)
Net premiums written		35,099,995	31,924,836
Change in provision for unearned premiums			
Gross amount		(2,466,002)	(2,889,394)
Reinsurers' share		454,230	688,404
		(2,011,772)	(2,200,990)
Earned premiums net of reinsurance		33,088,223	29,723,846
Allocated investment return transferred from the non-technical account		417,335	251,459
Total technical income		33,505,558	29,975,305
Claims incurred, net of reinsurance			
Claims paid:			
Gross amount		(18,373,338)	(15,783,170)
Reinsurers' share		1,649,902	2,002,672
Net claims paid		(16,723,436)	(13,780,498)
Change in the provision for claims:			
Gross amount		(10,902,324)	(1,325,963)
Reinsurers' share		10,829,714	408,874
Changes in the net provision for claims:		(72,610)	(917,089)
Net claims incurred		(16,796,046)	(14,697,587)
Net operating expenses	6	(14,662,712)	(13,593,522)
Amount payable under participation deeds		(330,384)	34,295
Balance on the technical account for general business		1,716,416	1,718,491

Statement of Comprehensive Income (continued)
For the year ended 31 December 2017

Continuing operations:	Notes	2017 £	2016 £
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		1,716,416	1,718,491
Investment income	7	353,841	327,166
Net unrealised losses on investments	7	96,705	(34,537)
Investment expenses and charges	7	(11,771)	(12,348)
Allocated investment return transferred to the general business technical account		(417,335)	(251,459)
Other charges		(1,060,130)	(549,578)
Profit on ordinary activities before tax	8	677,726	1,197,735
Tax charge/(credit) on result on ordinary activities	10	-	-
Profit for the year attributable to the owner of the Company		677,726	1,197,735

There was no other comprehensive income attributable to the Company during the year.

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 2017

ASSETS	Notes	2017 Syndicate £	2017 Non-syndicate £	2017 Total £	2016 Syndicate £	2016 Non-syndicate £	2016 Total £
Investments							
Financial investments	12	29,174,917	-	29,174,917	33,213,590	-	33,213,590
Deposits with ceding undertakings		2,504	-	2,504	2,448	-	2,448
		29,177,421	-	29,177,421	33,216,038	-	33,216,038
Reinsurers' share of technical provisions							
Provision for unearned premiums	17	2,727,097	-	2,727,097	2,461,877	-	2,461,877
Claims outstanding	18	17,565,375	-	17,565,375	8,185,762	-	8,185,762
		20,292,472	-	20,292,472	10,647,639	-	10,647,639
Debtors due within one year							
Debtors arising out of direct insurance operations		10,374,290	-	10,374,290	9,336,697	-	9,336,697
Debtors arising out of reinsurance operations		4,059,561	-	4,059,561	3,546,841	-	3,546,841
Other debtors	13	4,509,698	442,565	4,952,263	2,559,883	1,567,585	4,127,468
		18,943,549	442,565	19,386,114	15,443,421	1,567,585	17,011,006
Debtors due after one year							
Other debtors	13	255,194	-	255,194	357,299	-	357,299
Other assets							
Cash at bank and in hand		1,800,704	20,632,541	22,433,245	1,606,764	8,733,551	10,340,315
Other	14	2,216,900	-	2,216,900	2,140,717	-	2,140,717
		4,017,604	20,632,541	24,650,145	3,747,481	8,733,551	12,481,032
Prepayments and accrued income							
Accrued interest		16,557	-	16,557	5,098	-	5,098
Deferred acquisition costs	15	6,186,632	-	6,186,632	5,972,395	-	5,972,395
Other prepayments and accrued income		165,980	122,720	288,700	213,164	272,600	485,764
		6,369,169	122,720	6,491,889	6,190,657	272,600	6,463,257
TOTAL ASSETS		79,055,409	21,197,826	100,253,235	69,602,535	10,573,736	80,176,271

Statement of Financial Position (continued)
As at 31 December 2017

	Notes	2017 Syndicate £	2017 Non-syndicate £	2017 Total £	2016 Syndicate £	2016 Non-syndicate £	2016 Total £
LIABILITIES							
Capital and reserves							
Called up share capital	16	-	13,200,000	13,200,000	-	13,200,000	13,200,000
Profit and loss account		1,676,467	(9,883,892)	(8,207,425)	2,182,393	(11,067,544)	(8,885,151)
Equity shareholder's funds		1,676,467	3,316,108	4,992,575	2,182,393	2,132,456	4,314,849
Technical provisions							
Provision for unearned premiums	17	21,905,972	-	21,905,972	20,834,022	-	20,834,022
Claims outstanding	18	43,895,622	-	43,895,622	37,370,246	-	37,370,246
		65,801,594	-	65,801,594	58,204,268	-	58,204,268
Creditors due within one year							
Creditors arising out of direct insurance operations		1,568,009	-	1,568,009	1,481,219	-	1,481,219
Creditors arising out of reinsurance operations		5,249,060	-	5,249,060	3,026,866	-	3,026,866
Other creditors including taxation and social security	19	4,188,802	17,341,718	21,530,520	4,273,059	7,915,780	12,188,839
		11,005,871	17,341,718	28,347,589	8,781,144	7,915,780	16,696,924
Creditors due after one year							
Other creditors including taxation and social	19	155,112	-	155,112	100,752	-	100,752
Accruals and deferred income		416,365	540,000	956,365	333,978	525,500	859,478
TOTAL LIABILITIES		79,055,409	21,197,826	100,253,235	69,602,535	10,573,736	80,176,271

The financial statements on pages 6 to 40 were approved and authorised for issue by the Board of Directors on 26 June 2018 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.

Statement of Changes in Equity
For the year ended 31 December 2017

	Called up share capital £	Profit and loss account £	Total £
At 1 January 2016	13,200,000	(10,082,886)	3,117,114
Profit and total comprehensive income for the year	-	1,197,735	1,197,735
At 31 December 2016	13,200,000	(8,885,151)	4,314,849
Profit and total comprehensive income for the year	-	677,726	677,726
At 31 December 2017	13,200,000	(8,207,425)	4,992,575

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 5th 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 Syndicate 2121 ("the Syndicate") in the current and prior years.

All of the Company's underwriting capacity is dedicated to 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 to the reinsurer.

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

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 2017 and 31 December 2016 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 over the same period in which the related gross premiums are earned.

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. Company 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 2017 or 2016.

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.

5. Particulars of business written

2017	Gross premiums written £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Re-insurance balance £	Total £
Direct business:						
Accident and health	871,108	798,322	(417,364)	(378,066)	209,984	212,876
Motor – third party liability	24,649	17,127	(15,487)	(5,931)	(986)	(5,287)
Motor – other classes	1,931,703	1,048,797	(626,001)	(420,416)	(24,879)	(22,499)
Marine, aviation and transport	5,498,909	5,372,889	(2,705,336)	(2,157,193)	(644,350)	(133,990)
Fire and other damage to property	17,591,931	17,700,558	(14,540,254)	(6,048,253)	3,488,842	600,893
Third party liability	6,856,556	6,642,281	(3,584,404)	(2,286,687)	(128,833)	642,357
Credit and suretyship	2,907,639	1,580,541	(921,312)	(460,944)	(95,293)	102,362
Total direct	35,682,495	33,160,515	(22,810,158)	(11,757,490)	2,803,845	1,396,712
Reinsurance acceptances:	8,995,150	9,051,128	(6,465,504)	(2,905,222)	552,351	232,753
Total	44,677,645	42,211,643	(29,275,662)	(14,662,712)	3,356,196	1,629,465

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	26,094,788	24,425,723	(12,016,902)	(9,543,325)	(2,374,954)	490,542
Reinsurance acceptances:	13,161,268	11,940,939	(5,092,231)	(4,050,197)	(1,856,316)	942,195
Total	39,256,056	36,366,662	(17,109,133)	(13,593,522)	(4,231,270)	1,432,737

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:

	2017 £	2016 £
United Kingdom	13,684,902	12,801,797
Other EU member states	3,167,281	2,252,313
Rest of the world	27,825,462	24,201,946
	44,677,645	39,256,056

6. Net operating expenses

	2017 £	2016 £
Administrative expenses - personal expenses	1,031,803	1,148,970
Acquisition costs	12,853,662	11,931,265
Change in deferred acquisition costs	(569,638)	(895,185)
Administrative expenses - other	1,346,885	1,408,472
	14,662,712	13,593,522

Included within acquisition costs are commissions on direct business of £9,240,704 (2016: £5,845,125).

7. Investment return

	2017 £	2016 £
Syndicate:		
Income from other financial investments	382,709	332,634
Net losses on realisation of investments		
- designated at fair value through profit or loss	(50,308)	(34,290)
Total investment income	332,401	298,344
Net unrealised gains/(losses) on investments		
- designated at fair value through profit or loss	96,705	(34,537)
Investment expenses and charges	(11,771)	(12,348)
	417,335	251,459
Non-syndicate:		
Deposit interest	21,440	28,822
Total investment return	438,775	280,281

8. Profit 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 2017 the audit fee was £3,859 (2016: £3,675).

9. Director's remuneration

Messrs Annandale and Mackay did not receive any remuneration for their services to the Company in 2017 (2016: £Nil). The Company had no employees during 2017 (2016: Nil).

10. Tax charge/(credit) on profit on ordinary activities

a) Analysis of profit or loss charge in the year

	2017 £	2016 £
Current tax:		
United Kingdom corporation tax	-	-
Adjustments in respect of prior years	-	-
Double tax relief	-	-
Foreign tax	-	-
Total current tax charge	-	-
Deferred tax:		
Origination and reversal of timing differences	-	-
Adjustments in respect of prior years	-	-
Effect of decreased tax rate on opening liability	-	-
Total deferred tax charge (note 11)	-	-
Total tax charge	-	-

b) Factors affecting the tax charge for the year

Tax on profit on ordinary activities for the year is higher/lower than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are reconciled below:

	2017 £	2016 £
Profit on ordinary activities before tax	677,726	1,197,735
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	130,462	239,547
Effects of:		
Expenses not deductible for tax	3,694	10,116
Unrecognised deferred tax asset	(134,156)	(249,663)
Group relief surrendered for nil payment	-	-
Effect of decreased tax rate on opening liability/other differences	-	-
Profits subject to a higher tax rate	-	-
Other timing differences	-	-
Total tax	-	-

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 took 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 (2016: 20%, 19% effective 1 April 2017 and 17% effective 1 April 2020).

11. Provision for liabilities - deferred taxation

	2017 £	2016 £
At 1 January	-	-
Movement during the year	-	-
At 31 December	-	-

The deferred tax balance is composed of:	2017 £	2016 £
Timing differences on underwriting results	-	856,532
Tax losses	-	(856,532)
Double tax relief	-	-
Closing (asset)/liability	-	-

The company has an unrecognised deferred tax asset of £240,919 in respect of crystallised losses and underwriting losses on years not yet brought into tax. The net deferred tax asset expected to reverse in 2018 is £nil.

At 31 December 2016, the company had £6,603,209 of unutilised tax losses carried forward of which £4,521,423 had deferred tax recognised against them, resulting in a deferred tax asset of £856,532. The remaining £2,081,786 were not able to be recognised for deferred tax due to uncertainty over the likelihood of future taxable profits in excess of those arising from the reversal of timing differences.

12. Financial investments

	Cost 2017 £	Fair value 2017 £	Listed 2017 £
Syndicate:			
Shares and other variable yield securities and units in unit trusts	8,924,196	9,026,921	5,086,173
Debt securities and other fixed income securities	17,891,767	17,902,672	-
Participation in investment pools	1,372,077	1,380,905	-
Loans and deposits with credit institutions	864,638	863,910	-
Other investments	509	509	-
	29,053,187	29,174,917	5,086,173

	Cost 2016 £	Fair value 2016 £	Listed 2016 £
Syndicate:			
Shares and other variable yield securities and units in unit trusts	11,179,286	11,127,573	8,130,897
Debt securities and other fixed income securities	19,711,075	19,748,418	-
Participation in investment pools	1,462,111	1,472,113	-
Loans and deposits with credit institutions	866,703	865,486	-
	33,219,175	33,213,590	8,130,897

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 one 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.

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).

2017	Level 1 £	Level 2 £	Level 3 £	Total £
Syndicate:				
Shares and other variable yield securities and units in unit trusts	4,280,227	4,746,694	-	9,026,921
Debt securities and other fixed income securities	-	17,902,672	-	17,902,672
Participation in investment pools	755	1,380,150	-	1,380,905
Derivative financial instruments	509	-	-	509
Loans and deposits with credit institutions	396,350	467,560	-	863,910
Overseas deposits	550,834	1,666,066	-	2,216,900
	5,228,675	26,163,142	-	31,391,817

2016	Level 1 £	Level 2 £	Level 3 £	Total £
Syndicate:				
Shares and other variable yield securities and units in unit trusts	4,497,897	6,629,641	35	11,127,573
Debt securities and other fixed income securities	10,311,087	9,437,331	-	19,748,418
Participation in investment pools	5,917	1,466,196	-	1,472,113
Loans and deposits with credit institutions	263,044	602,442	-	865,486
Overseas deposits	514,360	1,626,357	-	2,140,717
	15,592,305	19,761,967	35	35,354,307

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.

13. Other debtors

	2017 £	2016 £
Amounts falling due within one year:		
Syndicate debtors	4,304,034	2,346,118
Amounts due under participation deeds	205,664	213,765
Called/uncalled underwriting profits	442,565	1,567,585
	4,952,263	4,127,468
Amounts falling due after one year:		
Syndicate debtors	255,194	357,299

14. Other assets

	2017 £	2016 £
Syndicate:		
Overseas deposits	2,216,900	2,140,717

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

15. Deferred acquisition costs

	2017 £	2016 £
Syndicate:		
At 1 January	5,972,395	4,365,831
Change in deferred acquisition costs	569,638	895,185
Foreign exchange	(355,401)	711,379
At 31 December	6,186,632	5,972,395

16. Share capital

	2017		2016	
	Number	£	Number	£
Authorised, issued and fully paid ordinary shares of £1 each	13,200,000	13,200,000	13,200,000	13,200,000

17. Provision for unearned premiums

2017	Gross £	Reinsurers' share £	Net £
Syndicate:			
At 1 January	20,834,022	(2,461,877)	18,372,145
Premiums written in the year	44,677,645	(9,577,650)	35,099,995
Premiums earned in the year	(42,211,643)	9,123,420	(33,088,223)
Foreign exchange	(1,394,052)	189,010	(1,205,042)
At 31 December	21,905,972	(2,727,097)	19,178,875

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	20,834,022	(2,461,877)	18,372,145

18. Claims outstanding

2017	Gross £	Reinsurers' share £	Net £
Syndicate:			
At 1 January	37,370,246	(8,185,762)	29,184,484
Change in share of capacity	(1,636,505)	424,158	(1,212,348)
Claims incurred in current underwriting year	15,320,356	(6,943,756)	8,376,600
Claims incurred in prior underwriting years	13,955,306	(5,535,860)	8,419,446
Claims paid during the year	(18,373,338)	1,649,902	(16,723,436)
Foreign exchange	(2,740,443)	1,025,943	(1,714,500)
At 31 December	43,895,622	(17,565,375)	26,330,246

2016	Gross £	Reinsurers' share £	Net £
Syndicate:			
At 1 January	29,681,512	(6,303,606)	23,377,906
Change in share of capacity	1,218,074	(306,428)	911,646
Claims incurred in current underwriting year	9,298,067	(1,632,720)	7,665,347
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	5,144,697	(1,166,854)	3,977,843
At 31 December	37,370,246	(8,185,762)	29,184,484

19. Other creditors including taxation and social security

	2017 £	2016 £
Amounts falling due within one year:		
Amounts payable to parent company	16,407,867	7,515,911
Amounts payable under participation deeds	375,325	53,042
Called/Uncalled underwriting losses	1,070,779	514,610
Syndicate creditors	3,652,754	4,093,589
Other creditors	23,795	11,687
	21,530,520	12,188,839
Amounts falling due after one year:		
Syndicate creditors	155,112	100,752

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 12.75% participation for the most recent year of account (2016: 14.08%).

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 should, 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 risk 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 in respect of 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.

20. Insurance risk and financial risk management (continued)

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. 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 agreed by the ASML board. 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 sum of the ECA and business plan profit, 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 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 events based on the Syndicate's expected risk exposures estimated for the 2018 Syndicate Business Forecast.

RDS event	Industry loss £m	Estimated gross loss £m	Estimated final net loss £m
South Carolina windstorm (second event)	30,000	83	32
Gulf of Mexico windstorm	90,846	129	30
European windstorm	21,053	76	29
Florida windstorm (Pinellas)	103,077	118	29
Sydney earthquake	N/A	83	29

The analysis presented represents 100% of the Syndicate of which the Company has a 9.3% participation in 2018.

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:

	2017		2016	
	Gross liabilities £'000	Net liabilities £'000	Gross liabilities £'000	Net liabilities £'000
Direct insurance:				
Accident and health	5,890	4,135	4,583	4,318
Motor (other classes)	10,028	10,023	977	973
Marine, aviation and transport	52,628	47,908	52,642	46,866
Energy	40,277	32,640	42,718	37,707
Fire and other damage to property	162,266	95,600	125,891	110,275
Third party liability	80,967	56,448	13,035	11,665
Pecuniary loss	21,677	12,709	6,147	3,759
	373,733	259,463	245,993	215,563
Reinsurance acceptances:				
Fire and other damage to property	58,588	34,122	55,317	37,019
Marine, aviation and transport	47,420	34,967	39,314	32,563
Energy	13,818	12,374	22,708	20,296
Casualty	4,249	3,882	49,794	32,650
	124,075	85,345	167,133	122,528
	497,808	344,808	413,126	338,091

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.

	2017		2016	
	Gross liabilities £'000	Net liabilities £'000	Gross liabilities £'000	Net liabilities £'000
United Kingdom	153,680	110,391	116,283	86,142
Other EU member states	20,541	16,253	18,424	15,870
USA	139,362	94,314	142,489	118,455
Canada	12,139	7,997	13,365	11,967
Other	172,086	115,853	122,565	105,657
	497,808	344,808	413,126	338,091

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 the Syndicate's gross and net liabilities, profit and members' balances. 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.

2017	Change in assumptions	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit £'000	Impact on equity £'000
"A priori" loss ratios	+5%	7,482	5,778	(5,207)	(5,207)
Incurred claims development patterns	Recede development by 1 month	11,681	10,021	(9,291)	(9,291)

2016	Change in assumptions	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit £'000	Impact on equity £'000
"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)

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

20. Insurance risk and financial risk management (continued)

Claims development table

The following tables show the estimates of the Syndicate's 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 2017.

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 2017:

Underwriting year	Before 2011 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Syndicate: Estimate of cumulative claims incurred:									
At end of underwriting year		61,337	92,607	57,771	45,780	61,415	66,540	115,473	
12 months later		174,071	149,205	113,800	102,565	132,731	163,950		
24 months later		183,694	150,844	115,760	102,683	143,925			
36 months later		194,224	148,834	112,292	97,292				
48 months later		196,029	145,009	111,606					
60 months later		194,815	140,794						
72 months later		192,875							
Current estimate of cumulative claims incurred		192,875	140,794	111,606	97,292	143,925	163,950	115,473	
Cumulative payments to date		179,332	132,450	92,114	78,430	97,247	63,810	22,150	
Gross outstanding claims provision at 31 December 2017 per the statement of financial position	27,196	13,543	8,344	19,492	18,862	46,678	100,140	93,323	327,578

20. Insurance risk and financial risk management (continued)

Net insurance contract outstanding claims provision as at 31 December 2017:

Underwriting year	Before 2011 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Syndicate: Estimate of cumulative claims incurred:									
At end of underwriting year		55,014	58,570	53,237	42,424	46,763	54,883	63,384	
12 months later		128,700	115,404	106,678	94,788	111,138	119,632		
24 months later		131,626	115,625	107,973	95,639	116,649			
36 months later		133,323	113,720	104,723	90,563				
48 months later		134,746	110,914	102,061					
60 months later		132,682	108,121						
72 months later		130,905							
Current estimate of cumulative claims incurred		130,905	108,121	102,061	90,563	116,649	119,632	63,384	
Cumulative payments to date		127,243	101,021	87,053	74,738	81,586	58,659	21,564	
Net outstanding claims provision at 31 December 2017 per the statement of financial position	16,356	3,662	7,100	15,008	15,825	35,063	60,973	41,820	195,807

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. 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 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.

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. The Syndicate amounts relate to the whole Syndicate.

2017 Syndicate:	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Financial investments:				
- Debt securities and other fixed income securities	133,513	-	-	133,513
- Shares and other variable yield securities and units in unit trusts	66,995	-	-	66,995
- Participation in investment pools	10,269	-	-	10,269
- Loans secured by mortgages	3,482	-	-	3,482
- Derivative assets	4	-	-	4
- Deposits with credit institutions	3,032	-	-	3,032
Deposits with ceding undertakings	19	-	-	19
Reinsurers' share of claims outstanding	131,771	-	-	131,771
Debtors arising out of insurance operations	54,037	58,979	-	113,016
Other debtors	642	-	-	642
Cash at bank and in hand	13,481	-	-	13,481
Overseas deposits	16,365	-	-	16,365
	433,610	58,979	-	492,589
Non-syndicate:				
Cash at bank and in hand	20,633	-	-	20,633

2016 Syndicate:	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
Financial investments:				
- Debt securities and other fixed income securities	140,187	-	-	140,187
- Shares and other variable yield securities and units in unit trusts	79,002	-	-	79,002
- Participation in investment pools	10,450	-	-	10,450
- 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
	402,319	10,415	-	412,734
Non-syndicate:				
Cash at bank and in hand	8,734	-	-	8,734

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

20. Insurance risk and financial risk management (continued)

The table below provides information regarding the credit risk exposure of the whole Syndicate at 31 December 2017 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.

2017	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Syndicate:							
- Shares and other variable yield securities and units in unit trusts	28,871	-	-	-	-	38,124	66,995
- Debt securities and other fixed income securities	17,168	83,481	28,308	4,556	-	-	133,513
- Participation in investment pools	6,544	756	2,010	954	-	5	10,269
- Loans secured by mortgages	3,482	-	-	-	-	-	3,482
- Deposits with credit institutions	-	-	3,032	-	-	-	3,032
- Overseas deposits	8,646	2,062	1,759	953	733	2,212	16,365
- Derivative assets	4	-	-	-	-	-	4
- Deposits with ceding undertakings	-	-	-	-	-	19	19
- Reinsurers' share of claims outstanding	-	24,442	106,066	-	-	1,263	131,771
- Cash at bank and in hand	-	-	13,481	-	-	-	13,481
Total credit risk	64,715	110,741	154,656	6,463	733	41,623	378,931
Non-syndicate:							
- Cash at bank and in hand	-	-	-	20,623	-	10	20,633

2016	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Syndicate:							
- Shares and other variable yield securities and units in unit trusts	31,831	-	-	-	-	47,171	79,002
- Debt securities and other fixed income securities	80,143	26,738	28,501	4,805	-	-	140,187
- Participation in investment pools	6,761	1,844	1,145	697	-	3	10,450
- 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
Total credit risk	132,126	36,485	94,800	6,351	-	49,950	319,712
Non-syndicate:							
- Cash at bank and in hand	-	-	-	8,717	-	17	8,734

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.

Maturity profiles

The table below summarises the maturity profile of the whole Syndicate's and 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.

2017	Up to a year £'000	1–3 years £'000	3–5 years £'000	Over 5 years £'000	Total £'000
Syndicate:					
Outstanding claim liabilities	152,783	116,472	35,320	23,003	327,578
Other	55,275	1,103	-	-	56,378
Non-syndicate:					
Other	17,342	-	-	-	17,342

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	40,007	755	-	-	40,762
Non-syndicate:					
Other	7,916	-	-	-	7,916

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.

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

- A financial market risk policy exists that sets out the assessment and determination of what constitutes financial market risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the managing agent's risk framework and compliance committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

- Strict control over derivative instruments (e.g. equity derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

- For assets backing outstanding claims provisions, financial market risk is managed by ensuring the duration and profile of assets are aligned to the technical provisions they are backing. This helps manage financial market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

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.

20. Insurance risk and financial risk management (continued)

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

2017	UK £ £000	US $ £000	CAD $ £000	EUR € £000	Other £000	Total £000
Syndicate:						
Total assets	57,298	427,759	21,606	21,848	34,705	563,216
Total liabilities	(62,944)	(429,444)	(14,667)	(20,738)	(29,467)	(557,260)
Net assets	(5,646)	(1,685)	6,939	1,110	5,238	5,956

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

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.

In part, foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Syndicate may also choose to utilise options for the Syndicate on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to members' value from reducing the chance of a reported loss due to changes in foreign currency exchange rates. The details of all foreign currency derivatives contracts entered into are given in note 13.

The table below gives an indication of the impact on the Syndicate's profit of a percentage change in the relative strength of sterling against the value of the main settlement currencies simultaneously. The analysis is based on the information as at 31 December 2017.

	2017 £'000	2016 £'000
Syndicate:		
Sterling weakens		
10% against other currencies	1,396	1,508
20% against other currencies	3,141	3,392
Sterling strengthens		
10% against other currencies	(1,142)	(1,234)
20% against other currencies	(2,094)	(2,262)

20. Insurance risk and financial risk management (continued)

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.

The Syndicate has no significant concentration of interest rate risk.

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

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on the Syndicate's profit of the effects of changes in interest rates on financial assets and liabilities for items recorded at fair value through profit and loss.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit or loss and equity	
	2017	2016
Changes in variables	£'000	£'000
Syndicate:		
+50 basis points	(618)	(1,012)
-50 basis points	630	571

The methods 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.

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.

20. Insurance risk and financial risk management (continued)

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 of the Syndicate 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	
	2017	2016
Changes in variables	£'000	£'000
Syndicate:		
S&P 500/FTSE 100 +5%	38	3
S&P 500/FTSE 100 -5%	(36)	(3)

The methods 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 2017 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 £13,155,700 (2016: £16,570,396) 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 £20,622,630 (2016: £8,717,015).

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 was a director of AHL until July 2017, is a 99.5% shareholder of 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.

24. Parent undertaking

The Company's immediate parent company is AHL, a company registered in England and Wales. The financial statements of this company can be obtained from 70 Gracechurch Street, London, EC3V 0XL.

On 20 July 2017, the entire share capital of AHL was acquired by Hannover Rück SE, the ultimate controlling party of which is Haftpflichtverband der Deutschen Industrie V.a.G. ("HDI").

Consequently, the Company's ultimate controlling party is HDI, a company registered in Germany.