ADVENT CAPITAL (No.3) LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2015

CONTENTS

Directors	T J Ambridge I M Hewitt (appointed as a director on 19 January 2016) P J Green (resigned as a director on 19 January 2016)
Company Secretary	N M Ewing ACII
Registered Office	2nd Floor 2 Minster Court London EC3R 7BB
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT
Solicitors	Clyde & Co LLP The St Botolph Building 138 Houndsditch London EC3A 7AR
Company Registration Number	5528808

The Directors present their Strategic Report for the year ended 31 December 2015.

Business Review

Advent Capital (No.3) Limited (the Company), a company incorporated in the United Kingdom, is the Corporate Member underwriting at Lloyd's supporting 100% of Syndicate 780's capacity.

Strategic Report

The key disclosures required by the Strategic Report have been considered in the sections below, being results of the business for the calendar year, future outlook and principal risks and uncertainties.

Result for the Calendar Year

For the year ended 31 December 2015, to the Company had a loss on ordinary activities before taxation of $37.7 million (2014: profit of $22.4 million).

The Company seeks to achieve consistent underwriting profitability through the exercise of disciplined underwriting and risk management practises, high degrees of service and professionalism attributable to its claims and other supporting operations, prudent technical reserve standards and valued long standing trading relationships.

The underwriting profit of $0.9 million and combined ratio of 99.4% (2014: $0.2 million underwriting profit and combined ratio of 99.8%) included prior years' reserves of $24.0 million (2014: $25.7 million).

Gross premiums written increased 16.1% to $240.5 million in 2015, from $207.1 million in 2014, due to growth in the Accident & Health (A&H) and the new Property Binders classes of business, partially offset by the competitive underwriting environment across many classes, particularly property reinsurance. For the year ended 31 December 2015, the portfolio mix was 76% insurance and 24% reinsurance business (2014: 55% insurance, 45% reinsurance).

For the year ended 31 December 2015, net premiums written increased by 13.8% to $174.8 million from $153.6 million in 2014, as with gross premiums written except that the A&H class of business has quota share reinsurance of up to 75% on business sourced with Fairmont (with $34.2 million of premiums written and $11.9 million of losses ceded (2014: $8.7 million and $1.7 million, respectively). In Q4, the Syndicate decreased the cession to 0% for all classes except for the London market catastrophe account and the Polish Re quota share arrangement for which cessions decreased to 50%, resulting in a reduction of ceded written premium of $4.7m and ceded earned premium of $3.4m. For 2015, written premium of $9.0 million and losses of $2.8 million were ceded in total (2014: $21.6 million and $4.6 million, respectively).

Net premiums earned increased by 13.9% to $157.9 million in 2015 from $138.8 million in 2014, reflecting the maturing of the Company's specialty insurance dominated business.

The lower expense ratio results from a stable expense based on higher net earned premiums.

Effect of the adoption of FRS 102

During 2015, the Company adopted FRS 102, *The Financial Reporting Standard in the UK*, and FRS 103, *Insurance Contracts*, and restated its 2014 results for the impact of the new accounting policies adopted. FRS 102 requires an entity to translate foreign currency monetary items using the closing rate and non-monetary items using the exchange rate at the date of the transaction. However FRS 103 requires an entity to treat all assets and liabilities arising from an insurance contract as monetary items. Accordingly, all items that were previously held as non-monetary items have been restated and are now shown as monetary items and translated at closing rates of exchange.

2016 Business Plans and Outlook

Syndicate 780's 2016 business plan and SCR have been approved by Lloyd's, with gross premiums of $316.4 million. Competitive market conditions continue to prevail across all classes of business, with surplus capacity putting pressure on rates, terms and conditions. In addition, broker portfolio placements and greater cedent risk retention has put pressure on signings. The Company views the Fairfax distribution network as a key differentiator in developing new business.

Internal Control and Risk Management

Overview

The Board of Directors ("Board") is responsible, working with the Advent Capital (Holdings) LTD group of companies ("Advent"), for the oversight of the Company's systems of internal control, for reviewing their effectiveness at least annually and for reporting on the effectiveness of controls in the Company's Annual Report and Accounts. Executive Management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

All employees are responsible for internal control and are informed of their role through detailed job descriptions, policies, procedures manuals and communications from Business Unit Leaders and the Board.

The Company's systems of internal control consist of a number of interrelated components as outlined below:

Control Environment
The control environment sets the tone of the business influencing the control consciousness of its directors and employees, sometimes referred to as the "tone at the top". It provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board.

The control environment is communicated to employees through the following key policies approved by the Board:

- Corporate objectives and risk appetite
- Code of Business Conduct and Ethics
- Whistle Blowing
- Anti-Bribery and Corruption, Confidentiality and Trading Responsibilities regarding Fairfax
- Anti-money laundering and financial crime
- Documented policies and procedures for each Business Unit

As a small organisation, the Company's culture is hands-on with extensive interaction between directors, Business Unit Leaders and employees and one which takes pride in maintaining strong underwriting disciplines throughout the insurance cycle while acknowledging the potential volatility in short term results arising from catastrophe events.

Risk Assessment
The Company faces a variety of risks from both internal and external sources that require identification, assessment and management. Risk management is the process that enables a business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess the risks against risk appetite;
- Where possible and commercially desirable, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured and assessed.

As the environment in which the Company is operating is constantly changing, the risk assessment process needs to be dynamic and updated on an on-going basis.

The key risks, as assessed by the Company, are set out below:

- **Insurance risk:**
  - ***Underwriting and risk selection:*** The Company is exposed to risk when underwriters select and price insurance and reinsurance business as there is uncertainty over the ultimate loss ratios.
  - ***Extreme losses***: Insurance costs are not fixed and known at the time a policy is issued, so claims can significantly exceed premiums received in any period. Although the frequency and severity of claims may have been priced accurately, in extreme circumstances, claims may be sufficiently large to threaten the Company's capital base.
  - ***Reserving:*** The Company has a provision on its balance sheet for the estimated ultimate cost of claims. Some of these claims are long tailed in nature and as such, they are susceptible to adverse development (e.g. due to latent exposures, legal reform and unforeseen deterioration of known losses).
- **Other financial risks:**
  - ***Credit risk:*** The Company is exposed to the risk that a counterparty will be unable to pay amounts in full when due. The Company is exposed to credit risk through reinsurance recoverables and amounts due from intermediaries and policyholders. There remains an increased risk of counterparty failure in a challenging economic climate.
  - ***Market risk:***
    - ***Matching*** – Mismatches in the duration of the Company's assets and liabilities to movements in interest rates may lead to an increase in capital requirements while a mismatch in assets and liabilities denominated in foreign currencies may lead to losses from changes in exchange rates.
    - ***Asset*** – The Company's investments (comprising individual holdings in sovereign and corporate fixed interest securities as well as equities, derivatives, real estate and cash) are also exposed to the risk of default and/or fluctuations in market prices.
    - ***Liquidity risk*** – The Company may not have cash available to pay obligations when due at a reasonable cost, particularly for major catastrophe events where it has to post US situs funds on gross incurred claims or where it has to pay gross claims before collecting the related reinsurance.
- **Operational risk:**
  - The Company is exposed to a range of operational risks, some of which could have a direct financial impact such as:
    - inaccurate **management information** (e.g. through staff error, inadequate processes or loss of IT systems) causing inadequate pricing, reserving or exposure management;
    - loss of office **facilities** (though fire, flood, terrorism, etc.);
    - **outsourcing** issues; and
    - **fraud**.
  - Other operational risks may not have direct financial losses, but may be equally damaging to the Company's business model if not managed effectively. These include:

- **Reputational**: Advent's business model relies on the maintenance of its good reputation. For example, Advent's ability to attract and retain staff or business from brokers will be undermined if it suffers reputational damage from the actions of the Company itself or indirectly due to the actions of employees.
- **Conduct**: Advent has a duty to ensure that the process and outcome from doing business with the Company is fair for all policyholders.
- **Regulatory**: Advent Underwriting Limited, our primary operational subsidiary, is regulated by the PRA, FCA and Lloyd's of London (Lloyd's). The Company is at risk of censure, fine or restriction of business if it fails to run the business in compliance with the applicable rules and regulations.
- **Cultural**: There is a risk that Advent fails to ensure it has a culture that promotes an effective and efficient working environment which encourages teamwork from all members of staff.
- **Political changes**: There is a risk that Advent's business model is impacted by changes to the economic landscape, for example, changes to the tax regime or the legal framework.

- **Other Risks:**

- **Group** – The risk of the Fairfax group being unable to support Advent, particularly in the provision of new capital if it is required.
- **Strategic** – Advent faces the risk of loss through the setting of an inappropriate strategy or the ineffective execution of an appropriate strategy.
- **Capital** – Advent has to ensure that it has sufficient capital from a regulatory perspective in order to trade at Lloyd's within the PRA's regulatory regime.

Ownership of risks and controls within the Company is clearly defined. The Risk Function coordinates an assessment of all risks through a quarterly risk review, carried out in line with policies and procedures, to ensure that risks remain relevant and up-to-date.

All risks have a risk appetite recommended by the Director of Risk & Compliance to the Board for its approval. When any risk falls outside the Company's risk appetite, action plans are agreed, implemented and monitored. Risk mitigation actions have clearly defined owners and implementation timescales.

The Company's risk appetite for extreme losses, its major Insurance risk, is to limit the pre-tax cost of a single event catastrophe loss, after reinsurance recoveries and reinstatement premiums, to $35 million.

This report has been prepared in accordance with the special provisions relating to small companies within Part 15 of the Companies Act 2006.

Control Activities
Control activities are the policies and procedures that are set by Executive Management to manage risk and support the delivery of the Company's objectives.

The Company maintains and updates policies and procedures addressing all key areas of the business.

Information, Communication and Key Performance Indictors
Appropriate information must be identified, captured and communicated in a form and timeframe that enables directors and employees to carry out their responsibilities. The Company has an established management information system for the production of operational, financial and compliance reports which allow the Executive Management and the Board to run and control the business.

The Company has established corporate objectives and risk appetite. The key performance data required for management and control purposes has been identified as the combined ratio, adequacy of reserves, exposure to catastrophe losses on a gross and net basis and performance against the approved business plan. Management reports are produced monthly for Executive Management and reported to the Board quarterly. Decision making is made at the appropriate level, within pre-agreed parameters, and communicated throughout the Company as required.

The Company maintains pro-active channels of communication with all key stakeholders including existing and prospective clients, staff, brokers, reinsurers, the shareholder, and regulators.

Monitoring
Internal control systems need to be monitored to assess the quality of the system over time. The Company achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of exception reports, together with a comprehensive risk based internal audit programme.

The audit programme is risk focussed with the majority of the activity centred upon those areas which are considered to generate the largest risks namely underwriting, reinsurance and claims.

The Company believes it has implemented an effective system of internal control.

Key Performance Indicators (KPIs)

The Directors of Advent manage the Group's operations at a syndicate level, rather than via the individual corporate member. For this reason, the Company's Directors believe that analysis using KPIs for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The development, performance and position of Advent, which includes the Company, is discussed in the financial review of Advent's Annual Report and Financial Statements, which does not form part of these Financial Statements.

Approved by the Board of Directors and signed on its behalf by:

N M Ewing ACII
Company Secretary
17 February 2016

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2015.

Future Outlook

The future outlook of the Company is discussed in the Strategic Report.

Dividends

The directors do not propose the payment of a dividend (2014: $Nil).

Directors

The names of the current directors are listed on page 2 with a change in directors, as noted there, subsequent to the end of the current financial year.

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements (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 prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102).

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 judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of 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.

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

Statement of disclosure of information to auditors

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

1) so far as each of them is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2015 of which the auditors are unaware; and

2) the director has taken all steps that he ought to have taken in his duty as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed at the Annual General Meeting.

Approved by the Board and signed on its behalf by:

N M Ewing ACII
Company Secretary
17 February 2016

Independent auditors' report to the members of Advent Capital (No. 3) Limited

Report on the financial statements

Our opinion

In our opinion, Advent Capital (No. 3) Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 31 December 2015;
- the Statement of Income and Retained Earnings for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Independent auditors' report to the members of Advent Capital (No. 3) Limited

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Mark Bolton

Mark Bolton (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
18 February 2016

STATEMENT OF INCOME AND RETAINED EARNINGS
TECHNICAL ACCOUNT - GENERAL BUSINESS
For the year ended 31 December 2015

	Note	2015 $000	2014 $000 (restated)
Earned premiums, net of reinsurance			
Gross premiums written	5	240,488	207,141
Outward reinsurance premiums		(65,728)	(53,545)
Net written premiums		**174,760**	**153,596**
Change in the gross provision for unearned Premiums		(30,347)	(20,805)
Change in the provision for unearned premiums, reinsurers' share		13,495	5,977
Earned premiums, net of reinsurance		**157,908**	**138,768**
Allocated investment return transferred from the non-technical account		(2,361)	23,373
Total technical income		**155,547**	**162,141**
Claims incurred, net of reinsurance			
Claims paid			
gross amount		(117,232)	(142,120)
reinsurers' share		23,158	35,903
Net claims paid		(94,074)	(106,217)
Change in the provision for claims			
gross amount		16,479	59,767
reinsurers' share		(7,756)	(27,987)
Change in the net provision for claims		8,722	31,780
Claims incurred, net of reinsurance		**(85,351)**	**(74,437)**
Net operating expenses	9	(76,751)	(65,066)
Total technical charges		**(162,102)**	**(139,503)**
Balance on the technical account for general business and (loss) profit for the year		**(6,555)**	**22,638**

The Notes on pages 14 to 33 are an integral part of these financial statements.

STATEMENT OF INCOME AND RETAINED EARNINGS
NON TECHNICAL ACCOUNT
For the year ended 31 December 2015

	Note	2015 $000	2014 $000 (restated)
Balance on the technical account for general business and (loss) profit for the year		(6,555)	22,638
Investment income	8	13,291	29,102
Unrealised gains on investments		3,609	30,885
Unrealised losses on investments	8	(54,166)	(38,419)
Investment expenses and charges	8	(1,513)	(1,927)
Allocated investment return transferred to the general business technical account	8	2,361	(23,373)
Other charges		5,232	4,512
(Loss) profit on ordinary activities before tax		(37,741)	23,418
Tax provision	11	9,001	(2,312)
(Loss) profit for the year		**(28,740)**	**21,106**
Accumulated losses at 1 January		(100,292)	(121,398)
Accumulated losses at 31 December		**(129,032)**	**(100,292)**

The income and expenses all relate to continuing operations.

There are no material differences between the (loss) profit on ordinary activities before taxation and the (loss) profit for the year stated above and their historical cost equivalents.

The Notes on pages 14 to 33 are an integral part of these financial statements.

STATEMENT OF INCOME AND RETAINED EARNINGS
NON TECHNICAL ACCOUNT
For the year ended 31 December 2015

	Note	2015 $000	2014 $000 (restated)
Assets			
Intangible assets	12	**401**	**1,008**
Financial investments			
Equities	6	87,841	65,743
Debt securities and other fixed income securities	6	277,363	352,784
Derivatives	6	4,750	3,474
Holdings in collective investment schemes	6	24,090	2,601
Overseas deposits	6	13,822	20,317
		407,866	**444,919**
Reinsurers' share of technical provisions			
Provision for unearned premiums		23,601	10,071
Claims outstanding		59,285	70,046
		82,886	**80,117**
Debtors			
Debtors arising out of direct insurance operations - intermediaries		59,056	38,036
Debtors arising out of reinsurance operations		38,869	50,564
Amounts due from group undertakings		-	28,664
Deferred taxation	11	7,611	-
Current taxation		539	14,432
Other assets		6,608	8,226
		112,683	**139,922**
Other Assets			
Cash at bank	13	**23,766**	**32,710**
Prepayments and accrued income			
Accrued interest		1,294	1,194
Deferred acquisition costs		28,575	17,883
		29,869	**19,077**
Total Assets		**657,741**	**717,753**

The Notes on pages 14 to 33 are an integral part of these financial statements.

ADVENT CAPITAL (No.3) LIMITED

STATEMENT OF INCOME AND RETAINED EARNINGS
NON TECHNICAL ACCOUNT
For the year ended 31 December 2015

	Note	2015 $000	2014 $000 (restated)
Liabilities and reserves			
Capital and reserves			
Called up share capital	14	80	80
Share premium account		131,400	131,400
Accumulated losses		(129,032)	(100,292)
Total shareholder's funds		**2,448**	**31,188**
Technical provisions			
Provision for unearned premiums		109,299	80,561
Claims outstanding		348,483	374,617
		457,782	**455,178**
Creditors			
Creditors arising out of (re)insurance operations		39,875	29,980
Amounts owed to group undertakings		148,162	195,867
Deferred tax liability	11	-	2,207
Other creditors		1,016	206
		189,053	**228,260**
Accruals and deferred income		**8,188**	**3,127**
Total liabilities		**657,741**	**717,753**

The financial statements on pages 10 to 33 were approved by the Board of Directors on 17 February 2016 and signed on its behalf by:

T J Ambridge — Director

I M Hewitt — Director

Company Registration Number: 5528808

The Notes on pages 14 to 33 are an integral part of these financial statements.

1. General Information

The Company participates in insurance business as an underwriting member at Lloyd's. The assets and liabilities arising as a result of the underwriting activities are held under various Lloyd's trust deeds for the benefit of policyholders.

2. Statement of compliance

The individual financial statements of the Company have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103, Insurance Contracts and the Companies Act 2006, under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410). The Company has also adopted Technical Release 1/99 "Accounting by Lloyd's Corporate Capital Vehicles" issued by the Institute of Chartered Accountants in England and Wales.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Company has adopted FRS 102 and FRS 103 in these financial statements. Details of the transition to FRS 102 and FRS 103 are disclosed in note 17.

(a) Basis of Preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(b) Going concern

The Company meets its day-to-day working capital requirements through the underwriting activities of Syndicate 780. Competitive market conditions continue to prevail across the insurance market with surplus capacity putting pressure on rates, terms and conditions. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate and have the resources available to meet members' and Lloyd's capital requirements. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

(c) Exemptions for qualifying entities under FRS 102

The Company has taken advantage of the exemption, under FRS 102 paragraph 1.12 (b), from preparing a statement of cash flows, on the basis that it is a qualifying entity and its parent Company, Advent Capital (Holdings) LTD (Advent), includes the Company's cash flows in its own consolidated financial statements.

(d) Foreign currency

(i) Functional and presentation currency

The Company's functional and presentational currency is US dollars.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using an average rate of exchange for the year. At each period end foreign currency monetary and non-monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses are presented in the income statement within "Net operating expenses" in the Balance on the technical account for general business.

Foreign exchange differences on non-syndicate transactions are reported in other charges in the non-technical account.

The Company uses forward exchange trades contracts to mitigate the exchange risk associated with claims in currencies other than its principle settlement currencies and to manage its currency balance sheet. Gains or losses on forward exchange contracts are recorded in the income statement within claims incurred, to the extent that they are used to hedge claims costs in non-settlement currencies. All other gains or losses are recorded within profit on exchange. The fair value of the forward exchange contracts is determined by reference to quoted period end exchange rates.

(e) General insurance business

The results for general insurance business written are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

i) Premiums written relate to business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the Company, less an allowance for cancellations.

3. Summary of significant accounting policies (continued)

ii) Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The unearned premium reserve is translated at closing rates of exchange.

iii) Acquisition costs, which represent commission and other related expenses, are allocated over the period in which the related premiums are earned.

iv) Reinsurance premium costs of "losses occurring during" policies are charged over the period for which coverage is provided. Other reinsurance premium costs are deferred over the period in which the premiums relating to business written are earned.

v) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

vi) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for IBNR, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.

vii) Provision is made at the year-end for the estimated costs of claims incurred but not settled at the balance sheet date, including the cost of IBNR to the Company. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the value of salvage and other recoveries. The Company takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.

(f) Investment Return

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

Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest income is recognized using the effective interest rate method.

Realised gains and losses on investments carried at current value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investment represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account of the investment return on investments supporting the insurance technical provisions and related shareholder's funds.

(g) Taxation

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement...

Current or deferred tax liabilities are not discounted.

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

(h) Intangible assets

Costs incurred by the Company in the Lloyd's auctions to acquire rights to participate on the Syndicate's underwriting years are included within intangible fixed assets and amortised over a fifteen year period from the start of the underwriting year of account (YOA) for which the costs are incurred.

3. Summary of significant accounting policies (continued)

(i) Impairment of non-financial assets

At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in income.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(k) Financial Instruments

The Company has chosen to adopt IFRS 9 and the disclosure requirements of Sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognized in income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognized the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognized. The impairment reversal is recognized in income.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value whereby:

a) listed investments are stated at market value on the balance sheet date,
b) unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date,
c) for investments where market quotes are unavailable, the Company uses estimation techniques to determine fair value.

Changes in fair value are recognized in income, except that investments in equity instruments that are not publically traded and whose fair values cannot be measured reliably are measured at cost less impairment.

ii) Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price.

Creditors arising out of reinsurance operations, amounts due to other group companies and other creditors are obligations to pay for services that have been acquired in the ordinary course of business. These obligations are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derivatives, including forward exchange contracts, are not basic financial instruments.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognized in in finance costs or income as appropriate.

The Company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

3. Summary of significant accounting policies (continued)

Financial liabilities are derecognized when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) Distributions to equity holders

Dividends and other distributions to the Company's shareholder are recognised as a liability in the period in which the dividends are approved. These amounts are recognised in the statement of changes in equity.

(n) Related party transactions

The Company discloses transactions with related parties which are not wholly owned with the same group. It does not disclose transactions with members of the same group that are wholly owned.

4. Critical accounting judgements and estimation uncertainty

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, be definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

i) Claims reserves

The establishment of claims reserves represents the area of greatest uncertainty in preparing insurance Company accounts. Reserves for future anticipated claims are made based on information available at the time of preparation of the accounts. Any "best estimate" of ultimate claims needs to be viewed as a point value within a likely range of outcomes. The nature of each insurer's business, and the reinsurance arrangements in place, influence how wide that likely range of outcomes will be.

The estimation of claims incurred but not reported (IBNR) is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high, such as casualty, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Company uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

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

- changes in the Company's underwriting and claims processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous years
- changes in the legal environment
- the effects of inflation
- changes in mix of business
- the impact of large losses
- movements in industry benchmarks

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

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

For major natural catastrophe events, the original loss estimate for all 'on risk' exposures is analysed using computer simulation to ascertain those accounts likely to be impacted. From the initial output, modelled loss estimates, per account, are generated. An underwriting review of the account, by cedant, is then conducted to validate the individual loss estimates and, where applicable, amend the model driven estimates with underwriter input relevant to the particular features of the loss and its anticipated impact on an account. Where accounts cannot be analysed, using catastrophe-modelling software, benchmark analysis is conducted, again on an account-by-account basis, to generate loss estimates. As more specific client information becomes available the ultimate loss estimates are updated from the initial forecast to reflect the client specific data.

4. Critical accounting judgements and estimation uncertainty (continued)

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

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Actual claims experience will always differ from projected estimates. Such differences in relation to risks previously earned are recognised in the income statement in the accounting period during which the difference is identified.

The Company's claims reserves are calculated by the Company's Head of Reserving with input from the Head of Claims and underwriters. These reserves are reviewed and approved monthly by the Reserve Group and quarterly by the Board. Annually, the reserves of the Syndicate are reviewed by external actuaries who issue a valuation opinion on the adequacy of reserves.

5. Insurance Risk Management

The Company is exposed to insurance risk through its underwriting activities. Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board sets the Company's overall risk appetite for insurance and catastrophe risk with specific parameters for risk set out in the approved annual business plan. Management of insurance risk on an operational basis is the responsibility of the Chief Underwriting Officer of Advent Underwriting (AUL).

The Company writes property insurance and reinsurance business, including catastrophe-exposed business, and specialised lines including energy, marine, marine excess of loss and accident & health (A&H). The Company manages its underwriting activities on a line of business basis with the four segments having the following insurance risk characteristics:

a) The Reinsurance segment consists of the Company's property and casualty treaty reinsurance classes. The property treaty class offers property catastrophe and individual risk cover for insurance and reinsurance contracts written predominantly on a "losses occurring during policy period" basis with generally no risks in excess of 12 months and with a large proportion of risks expiring at 31 December each year. The casualty treaty class provides excess of loss coverage for general casualty classes such as auto liability, medical malpractice, workers compensation and associated exposures, with an emphasis on clash business. The majority of the account is written in the United States and no business is written on an unlimited basis.

b) The Marine Insurance segment includes a broad range of products including marine, offshore energy portfolios with coverage provided for individual risk and catastrophe accumulations and marine hull & machinery, liability and cargo insurance. The energy portfolio consists of short tail offshore physical damage and operator's extra expense cover written on a direct basis. Most risks are written on an excess or limited conditions basis with the objective of avoiding exposure to attritional losses. The marine hull & machinery, liability and cargo accounts are written on both a primary and excess direct basis, as well as through binding authorities.

c) The Non-Marine Insurance segment comprises the Company's property, terrorism and accident & health insurance classes. The property classes include commercial property, personal lines and commercial automobile physical damage insurance written in the open market on both a lead and following basis, either through underwriting facilities or on an individual risk basis. The Terrorism account, which is written on both a direct basis and through binding authorities, provides cover for the risk of terrorist attacks and political violence on property throughout the world. The accident & health account provides a wide range of medical and accident coverage, primarily through binding authorities.

d) The discontinued segment includes classes of business written prior to 2012.

The Board of Directors sets the Company's overall risk appetite for insurance and catastrophe risk with specific parameters for risk set out in the approved annual business plan. Management of insurance risk on an operational basis is the responsibility of the Chief Underwriting Officer of Advent Underwriting (AUL).

i) Segmental analysis

The tables below detail the Company's underwriting performance by segment. Acquisition costs, consisting of direct brokerage commissions, are allocated to each segment on a direct basis while operating costs, including underwriting costs, where they cannot be specifically attributed, are either allocated based on gross premiums written or gross premiums earned. The Company does not prepare a segmented balance sheet by line of business and accordingly, has presented key insurance account balances only.

5. **Insurance Risk Management (continued)**

31 December 2015	Reinsurance $000	Marine $000	Non-Marine Insurance $000	Discontinued $000	Underwriting result $000	Corporate & other $000	Total $000
Gross premiums written	56,515	51,092	132,691	190	240,488	-	240,488
Net premiums written	48,215	43,600	82,075	870	174,760	-	174,760
Net earned premium	48,820	46,982	62,721	876	159,399	(1,491)	157,908
Net claims incurred	(20,631)	(26,187)	(39,126)	593	(85,351)	-	(85,351)
Acquisition costs	(4,349)	(13,738)	(16,754)	(53)	(34,894)	368	(34,526)
Operating expenses*	(8,755)	(10,557)	(18,911)	(67)	(38,290)	(3,935)	(42,225)
Underwriting profit (loss)	**15,085**	**(3,500)**	**(12,070)**	**1,349**	**864**	**(5,058)**	**(4,194)**
Claims ratio	42.3%	55.7%	62.4%	(67.6%)	53.5%	-	-
Acquisition cost ratio	8.9%	29.2%	26.7%	6.0%	21.9%	-	-
Operating cost ratio	26.8%	22.5%	30.2%	7.6%	24.0%	-	-
Expense ratio	4.1%	51.7%	56.9%	13.6%	45.9%	-	-
Combined ratio	**69.1%**	**107.4%**	**119.3%**	**(54.0%)**	**99.4%**	**-**	**-**
Balance sheet accounts							
Reinsurers share of outstanding claims	38,819	1,324	19,142	-	59,285	-	59,285
Reinsurers share of unearned premium	1,568	2,417	19,616	-	23,601	-	23,601
Deferred acquisition costs	3,124	6,608	18,843	-	28,575	-	28,575
Other assets							546,010
Total assets	**43,511**	**10,349**	**57,601**	**-**	**111,460**	**-**	**657,741**
Outstanding claims	(225,438)	(32,224)	(58,765)	(32,056)	(348,483)	-	(348,483)
Unearned premium	(19,242)	(24,683)	(65,374)	-	(110,299)	-	(109,299)
Other liabilities							(199,959)
Total liabilities	**(244,680)**	**(56,907)**	**(124,139)**	**(32,056)**	**(457,782)**	**-**	**(657,741)**

31 December 2014 (re-stated)	Reinsurance $'000	Marine $'000	Non-Marine Insurance $'000	Discontinued $'000	Underwriting result $000	Corporate & other $000	Total $000
Gross premiums written	82,031	60,869	65,693	(1,452)	207,141	-	207,141
Net premiums written	58,893	50,339	45,747	(1,383)	153,596	-	153,596
Net earned premium	57,355	39,861	42,710	(1,157)	138,768	-	138,768
Net claims incurred	(27,699)	(27,927)	(21,814)	3,003	(74,387)	-	(74,437)
Acquisition costs	(6,234)	(10,277)	(11,159)	362	(27,308)	-	(27,308)
Operating expenses*	(13,808)	(11,199)	(12,886)	208	(37,684)	-	(37,684)
Underwriting profit (loss)	**9,614**	**(9,542)**	**(3,149)**	**2,416**	**(661)**	**-**	**(661)**
Claims ratio	48.3%	70.1%	51.1%	-	53.7%	-	-
Acquisition cost ratio	10.9%	25.8%	26.1%	-	19.7%	-	-
Operating cost ratio	24.1%	28.1%	30.2%	-	27.2%	-	-
Expense ratio	34.9%	53.9%	56.3%	-	46.9%	-	-
Combined ratio	**83.2%**	**123.9%**	**107.4%**	**-**	**100.4%**	**-**	**-**
Balance sheet accounts							
Reinsurers share of outstanding claims	56,950	2,855	10,241	-			70,046
Reinsurers share of unearned premium	2,428	1,956	5,687	-			10,071
Deferred acquisition costs	3,045	6,772	8,066	-			17,883
Other assets	-	-	-	-			619,753
Total assets	**62,423**	**11,583**	**23,994**	**-**			**717,753**
Outstanding claims	(215,833)	(61,138)	(50,375)	(47,271)			(374,617)
Unearned premium	(21,049)	(27,330)	(32,182)	-			(80,561)
Other liabilities	-	-	-	-			(262,575)
Total liabilities	**(236,882)**	**(88,468)**	**(82,557)**	**(47,271)**			**(717,753)**

* Excludes FX gains/(losses)

All premiums are concluded in the United Kingdom.

5. Insurance Risk Management (continued)

The geographical analysis of premiums by destination is as follows:

	2015 $000	2014 $000
UK	58,624	48,538
Other EU	17,609	25,342
US and Canada	126,297	99,053
Other	37,958	34,208
	240,488	207,141

ii) Catastrophe Exposure

Lloyd's defines its own set of Realistic Disaster Scenarios (RDS) events for which all syndicates must report their exposures. The Company's pre-tax exposure, before and after reinsurance, to its major RDS scenarios are set out below:

Catastrophe event	Industry Loss US$Bn	1 January 2016 Gross loss $m	1 January 2016 Net loss $m	1 January 2015 Gross loss $m	1 January 2015 Net loss $m
Florida Windstorm – Miami	125	72.8	24.0	63.3	23.3
Florida Windstorm – Pinellas	125	75.1	23.5	71.7	26.8
Gulf of Mexico Windstorm	112	78.8	21.9	79.8	30.4
USA North East Windstorm	78	52.2	21.1	54.8	29.4
Los Angeles Earthquake	78	94.4	27.8	76.3	32.8
European Windstorm	30	10.3	6.6	11.5	7.5
Japan Earthquake	65	13.3	9.2	14.0	10.0

As the catastrophe element of the underwriting portfolio remains Property Insurance biased, we maintain a more traditional Catastrophe excess of loss reinsurance structure for the 2016 underwriting year.

Our largest net wind scenario is a Florida (wind) event, driven mainly by the property open market and property binder portfolio, and would result in an estimated after tax loss of $19.2 million or 12.7% of Advent's shareholders' equity (2015: USA North East Windstorm catastrophe event : $29.4 million and 16.7% respectively).

The Company's approach to underwriting is governed by key principles which run throughout the underwriting units and are continuously monitored by management. Strict underwriting guidelines are adopted in terms of class of business, line size and in terms of policy periods, which are preferably limited to 12 months (plus odd time). The Company's policy is that it does not write excess of loss reinsurance contracts on an unlimited basis in any business segment. Any risk outside agreed guidelines must be approved by the Chief Underwriting Officer before the risk is underwritten and is reported to the Executive Committee. The Chief Underwriting Officer reports regularly to the Executive Committee and the Board on underwriting results against the approved business plan.

The Company uses reinsurance, including excess of loss and quota share reinsurance, to reduce the impact of probable maximum losses following major catastrophe events to levels within the Company's risk appetite for exposure to such catastrophe losses. The reinsurance programme is determined predominantly using the Company's 1:100 and 1:250 Exceedance Probability curves as a guide to the amount of cover required along with Advent's own perception of risk for the key areas and considers number of other factors including reinsurance security, availability of reinsurers and retrocessional reinsurers, pricing, terms and conditions and commercial relationships are reviewed prior to purchase. The key catastrophe protection is validated against prior year losses and the Solvency II Internal model to assess cost, benefits and efficiency of recoveries before confirming final purchase to the broker.

Specific protections are purchased to cover the major classes written and the programme is designed to provide significant vertical cover for major losses. The Company records all of its exposures and uses RDS analysis and industry accepted third party catastrophe modelling software to monitor and analyse its peak exposures and estimated losses, based on key concentrations of risk. For worldwide territories where catastrophe modelling software is not available, the Chief Underwriting Officer is responsible for reviewing and approving probable maximum loss estimates to ensure any catastrophe loss will be within the Company's approved risk appetite for that territory.

5. Insurance Risk Management (continued)

iii) Claims outstanding

The movement in the Company's claims reserves for the year ended 31 December 2015 is set out below:

31 December 2015	**Provision for unearned premiums**	**Claims outstanding**	**Total**
	$000	**$000**	**$000**
Gross			
At 1 January 2015	80,562	374,617	455,179
Exchange adjustments	(1,610)	(9,655)	(11,265)
Movements in provisions			
- Current year	30,347	132,948	163,295
- Prior years	-	(32,195)	(32,195)
- Paid claims	-	(117,232)	(117,232)
At 31 December 2015	**109,299**	**348,483**	**457,782**
Reinsurers' share			
At 1 January 2015	10,071	70,046	80,117
Exchange adjustments	35	(3,005)	(2,970)
Movements in provisions			
- Current year	13,495	23,006	36,501
- Prior years	-	(7,605)	(7,605)
- Paid recoveries	-	(23,157)	(23,157)
At 31 December 2015	**23,601**	**59,285**	**82,886**
Net			
At 31 December 2015	**85,698**	**289,198**	**374,896**

31 December 2014	**Provision for unearned premiums (restated)**	**Claims outstanding**	**Total**
	$000	**$000**	**$000**
Gross			
At 1 January 2014	60,543	445,846	506,389
Exchange adjustments	(787)	(11,414)	(12,201)
Movements in provisions			
- Current year	20,805	118,554	139,359
- Prior years	-	(36,249)	(36,249)
- Paid claims	-	(142,120)	(142,120)
At 31 December 2014	**80,561**	**374,617**	**455,178**
Reinsurers' share			
At 1 January 2014	4,268	102,114	106,382
Exchange adjustments	(174)	(4,080)	(4,254)
Movements in provisions			
- Current year	5,977	18,430	24,407
- Prior years	-	(10,514)	(10,514)
- Paid recoveries	-	(35,904)	(35,904)
At 31 December 2014	**10,071**	**70,046**	**80,117**
Net			
At 31 December 2014	**70,490**	**304,571**	**375,061**

For the year ended 31 December 2015, improvement in prior years' claims, net of reinstatement premiums and reinsurance recoveries, amounted to $24.0 million (2014: $26.6 million).

The claims balance is further analysed between notified outstanding claims and IBNR below:

	2015		**2014**	
	Gross	**Net**	**Gross**	**Net**
	$000	**$000**	**$000**	**$000**
Notified outstanding claims	132,745	109,037	165,423	129,685
IBNR	215,738	180,151	209,194	174,886
Outstanding claims	**348,483**	**289,188**	**374,617**	**304,571**
Percentage of IBNR to notified outstanding claims	163%	165%	126%	135%

5. Insurance Risk Management (continued)

The breakdown of the gross and net claims reserves by category of claims is set out below.

	2015		2014	
	Gross $000	Net $000	Gross $000	Net $000
Large catastrophe provisions	48,505	20,903	76,613	36,937
All other short tail provisions	164,732	133,039	173,230	142,860
Long-tail casualty provisions	135,246	135,246	124,774	124,774
Total	348,483	289,188	374,617	304,571

Large catastrophe provisions include major hurricanes and earthquakes. All other short tail provisions represent coverages where the majority of claims are expected to be reported within two years of the occurrence of the claim. Long tail provisions consist of Syndicate 780's casualty and personal accident accounts.

The projected pay out of the ultimate gross and net claims reserves at 31 December 2015 is as follows:

Payment within	1 year	2 years	3 years	4 years	5 years	More than 5 years
	$000	$000	$000	$000	$000	$000
Gross	134,033	55,817	55,817	22,671	22,676	57,469
Net	110,131	46,606	46,606	18,930	18,930	47,985

The pay out patterns have been estimated based on the historical payment patterns at a class of business level. Future payment patterns are inherently uncertain.

Unearned premiums are expected to be earned approximately 90% in 2016 and the balance in 2017.

The following table shows the adverse or favourable development of claims, on a gross and net basis, determined on an accident year basis, from the amounts originally estimated at the end of the preceding year. Claims in currencies other than US dollars have been reconverted at 31 December 2015 exchange rates for all accident years.

5. Insurance Risk Management (continued)

Earned gross claims

Accident year	**2006& prior $m**	**2007 $m**	**2008 $m**	**2009 $m**	**2010 $m**	**2011 $m**	**2012 $m**	**2013 $m**	**2014 $'m**	**2015 $'m**	**Total $'m**
At the end of accident year	2,304	85	258	108	232	400	136	120	112	131	
One year later	2,299	91	278	125	211	406	137	119	108		
Two years later	2,287	85	266	122	207	409	132	110			
Three years later	2,290	82	257	118	215	390	128				
Four years later	2,284	80	257	113	216	383					
Five years later	2,277	79	257	115	215						
Six years later	2,275	81	256	112							
Seven years later	2,267	79	256								
Eight years later	2,263	80									
Nine years later	2,260										
Estimate of cumulative claims	**2,260**	**80**	**256**	**112**	**215**	**383**	**128**	**110**	**108**	**131**	**3,783**
Cumulative paid claims											3,439
Gross claims liability *											**344**
Favourable (unfavourable) development	**2**	**-**	**-**	**3**	**1**	**7**	**4**	**9**	**5**	**-**	**31**

* Gross Claims reserves per balance sheet of $348 million include additional claims handling provision of $5 million.

Earned net claims

Accident year	**2006& prior $m**	**2006 $m**	**2007 $m**	**2008 $m**	**2009 $m**	**2010 $m**	**2011 $m**	**2012 $m**	**2013 $'m**	**2014 $'m**	**Total $'m**
At the end of accident year	1,632	83	202	93	146	219	116	107	95	108	
One year later	1,617	90	221	112	133	224	118	111	91		
Two years later	1,609	84	215	110	137	229	113	104			
Three years later	1,615	81	212	106	134	213	111				
Four years later	1,634	79	208	101	135	208					
Five years later	1,626	78	208	103	136						
Six years later	1,629	80	208	100							
Seven years later	1,618	79	207								
Eight years later	1,617	79									
Nine years later	1,615										
Estimate of cumulative claims	**1,615**	**79**	**207**	**100**	**136**	**208**	**111**	**104**	**91**	**108**	**2,759**
Cumulative paid claims											2,474
Net claims liability *											**285**
Favourable (unfavourable) development	**2**	**-**	**-**	**3**	**-**	**5**	**2**	**7**	**5**	**-**	**24**

* Net Claims reserve per balance sheet of $305 million include additional claims handling provision of $5 million.

5. Insurance Risk Management (continued)

iv) Outwards reinsurance

Ceded reinsurance written:

The Company's reinsurance costs as a percentage of gross written premiums is set out below:

	2015 $000	2014 $000
Gross premiums written (GPW)	240,488	207,141
Ceded reinsurance premiums (third party)	(19,664)	(21,956)
Ceded reinsurance premiums (affiliate)	(46,064)	(31,589)
Total reinsurance premiums	(65,728)	(53,545)
Net premiums written	174,760	153,596
Third party reinsurance premiums as a percentage of GPW	8.2%	10.6%

The security of the Company's proposed and existing reinsurers is reviewed and approved by the Outwards Reinsurance Committee, to ensure that the outward placements are with reinsurers of an acceptable level of security. The core list of approved reinsurers currently consists of 14 (2014: 28) Lloyd's syndicates and 14 (2014: 34) reinsurance companies all of which are rated A- or higher, or where policy limits are fully collateralised.

Reinsurers are selected depending on their rating by either AM Best or Standard & Poors. No reinsurer is selected with a rating below A except in specific circumstances and with the prior approval of the Advent's Outwards Reinsurance Committee or where the policy limits are fully collateralised by acceptable security, currently US Treasury bills or equivalent funds. For the extension of the 2015 reinsurance programme to 31 March 2016, the Company's reinsurance exposure is provided by reinsurers rated as follows:

Reinsurers	Exposure $000
A++	10,000
A+ Companies	40,585
A+ Lloyd's syndicates	30,207
A Companies	64,416
Not rated – fully collateralised limits	15,000
Total exposure	**160,208**

The Company reviews amounts due from reinsurers on paid losses, amounts recoverable from reinsurers on outstanding losses and amounts in dispute to determine if a provision for bad debts is required. The Company's policy is to provide for reinsurer bad debts in situations where it does not expect to collect the full amount outstanding due to the financial position of the reinsurer or due to disputes over coverage.

Reinsurance recoverable:

At 31 December 2015, the Company's reinsurance recoverable on outstanding claims amounted to $59.3 million with reinsurers who had the following risk ratings by AM Best (or equivalent S&P rating in the absence of an AM Best rating):

Risk Rating	$000	%
A+	9,146	15.4%
Lloyd's	3,985	6.7%
A	5,427	9.2%
Affiliates	40,727	68.7%
Total	59,285	100.0%

Trust funds of $34.2 million are held as security for certain balances from affiliates.

v) Debtors arising from insurance and reinsurance operations

The table below sets out the analysis of the debtors arising from insurance and reinsurance operations, at cost and fair value.

	2015 $000	2014 $000
Insurance and reinsurance premiums due	20,224	13,089
Pipeline premium	73,664	69,171
Reinsurance recoveries on paid claims	4,037	6,340
	97,925	88,600

Pipeline premium represents amounts receivable in respect of premiums incepted on binder business for which notification from the broker has not yet been received, together with reinstatement premiums on claims. The estimate of the likely settlement date for reinstatement premiums due is intrinsically related to the estimate of the likely settlement dates for the major losses. Almost all of this balance would generally be expected to be recovered within one year.

5. Insurance Risk Management (continued)

The reinsurance recoveries accrued on paid claims is further analysed below:

	2015 $000	2014 $000
Fully performing	4,037	6,340
Past due	-	-
	4,037	6,340

Of the remaining debtor balances, it is expected that substantially all of the insurance and reinsurance premiums due and approximately 90% of the deferred acquisition costs will be received or expensed within one year. Other than reinsurance recoveries as noted above all of these debtors are fully performing.

vi) Sensitivity analysis

The Company is subject to Insurance risk from three sources, underwriting risk, claims risk and reserve risk.

Underwriting risk:

The risk that a policy will be written for too low a premium or provide inappropriate cover. The Company is exposed to general market trends around the pricing of (re)insurance, consequently premiums received for a given level of cover can vary from plan.

The table below shows the impact on the Company's result further to the general pricing environment varying by 5% and 10% compared to actual experience. This impact is assumed to result in net earned premiums increasing or decreasing in proportion to the pricing variance, whilst claims experience remains constant.

31 December 2015	**-10%**	**-5%**	**Actual result**	**+5%**	**+10%**
	$000	**$000**	**$000**	**$000**	**$000**
Net earned premiums	142,117	150,013	157,908	165,803	173,699
Net claims incurred	(85,351)	(85,351)	(85,351)	(85,351)	(85,351)
Profit (loss) before tax	**(50,080)**	**(43,911)**	**(37,742)**	**(31,572)**	**(25,403)**
Combined ratio	**111.6%**	**106.9%**	**102.8%**	**98.8%**	**95.3%**
31 December 2014					
	$000	**$000**	**$000**	**$000**	**$000**
Net earned premiums	124,891	131,830	138,768	145,706	152,645
Net claims incurred	(74,388)	(74,388)	(74,388)	(74,388)	(74,388)
Profit (loss) before tax	**7,299**	**12,869**	**23,418**	**24,007**	**29,577**
Combined ratio	**110.2%**	**105.4%**	**100.5%**	**97.3%**	**93.8%**

Claims risk:

The risk that the frequency or severity of insured events will be higher than expected.

The table below shows the impact on the Company' s results further to claims experience in the year varying by 5% and 10% compared to actual experience. This impact is assumed to result in net claims incurred increasing or decreasing proportionately, whilst all other balances remain constant.

31 December 2015	**-10%**	**-5%**	**Actual result**	**+5%**	**+10%**
	$000	**$000**	**$000**	**$000**	**$000**
Net earned premiums	157,908	157,908	157,908	157,908	157,908
Net claims incurred	(76,816)	(81,084)	(85,351)	(89,619)	(93,886)
Profit (loss) before tax	**(29,206)**	**(33,474)**	**(37,742)**	**(42,009)**	**(46,277)**
Combined ratio	**97.3%**	**100.0%**	**102.8%**	**105.4%**	**108.1%**
31 December 2014					
	$000	**$000**	**$000**	**$000**	**$000**
Net earned premiums	138,768	138,768	138,768	138,768	138,768
Net claims incurred	(66,993)	(70,715)	(74,437)	(78,159)	(81,881)
Profit (loss) before tax	**42,512**	**38,790**	**23,418**	**31,436**	**27,624**
Combined ratio	**94.5%**	**97.2%**	**100.5%**	**102.5%**	**105.2%**

5. Insurance Risk Management (continued)

Reserve risk:

The risk that estimates of claims subsequently prove to be insufficient.

The table below shows the impact on the Company's results further to an additional deterioration or improvement in the Company's opening *net reserves of 5% and 10% compared to actual experience.*

31 December 2015	**-10%**	**-5%**	**Actual result**	**+5%**	**+10%**
	$m	**$m**	**$m**	**$m**	**$m**
Net earned premiums	157,908	157,908	157,908	157,908	157,908
Net claims incurred	(122,813)	(104,082)	(85,351)	(66,620)	(47,890)
Profit (loss) before tax	**(75,203)**	**(56,472)**	**(37,742)**	**(19,011)**	**(280)**
Combined ratio	**126.4%**	**114.5%**	**102.8%**	**90.8%**	**78.9%**
31 December 2014					
Net earned premiums	138,768	138,768	138,768	138,768	138,768
Net claims incurred	(118,973)	(96,680)	(74,388)	(52,096)	(29,803)
Profit (loss) before tax	**(6,931)**	**14,093**	**35,117**	**56,141**	**77,165**
Combined ratio	**130.2%**	**115.0%**	**99.8%**	**84.7%**	**69.5%**

6. Financial Risk Management

i) Financial Instruments

	2015	**2014**
	$000	**$000**
Financial assets at fair value through profit or loss		
Carrying Value		
Equities	87,841	65,743
Debt securities and other fixed income securities	277,363	352,784
Derivative financial instruments	4,750	3,474
Holdings in collective investment schemes	24,090	2,601
Overseas deposits	13,822	20,317
	407,866	444,919
Cost		
Equities	164,327	105,660
Debt securities and other fixed income securities	266,123	327,495
Derivative financial instruments	22,244	22,244
Holdings in collective investment schemes	24,445	2,847
Overseas deposits	13,822	20,317
	490,961	478,563

Overseas deposits are lodged as a condition of conducting underwriting business in certain countries.

At 31 December 2015, investments of $122.9 million (2014: $119.5 million) were held in US situs and other regulatory deposits available for the payment of claims in those jurisdictions and are not available for the payment of other claims and obligations.

At 31 December 2015, cash and investments of $253.0 million (2014: $199.4 million) were held within FIS to support the Syndicate's underwriting activities and for uncalled losses.

The Company enters into forward currency contracts to mitigate the exchange rate risk on its balance sheet. At 31 December 2015, the outstanding contracts mature within 6 months (2014: 6 months) of the year end. The Syndicate is committed purchase NZ$15.5 million and CAD$10.0 million for exchange of GBP sterling and US Dollars respectively.

The forward exchange contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the forward exchange rates for USD:CAD and NZD:GBP.

ii) Fair value estimation

FRS 102 requires the Company to categorise its investment portfolio in terms of the quality of the pricing information used to value the individual assets. The different levels have been defined as follows:

6. **Financial Risk Management (continued)**

All short dated government debt is classified as Level 1, as there is an active market and prices are available from multiple sources. The Company has also designated its equity portfolio as Level 1 as all holdings are listed on recognised exchanges with observable prices. The Company's participation in overseas deposits is split between Levels 1 and 2 based upon information provided by Lloyd's.

Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. Included in the Level 3 classification are deflation derivatives and investments in convertible debentures. The Company has categorised the deflation derivatives as Level 3 due to the pricing being model derived from a single broker. The Company has categorised the convertible debentures as Level 3as they are unrated and not frequently traded.

The remainder of the portfolio is considered to be Level 2, as these assets are valued based upon prices quoted in markets that are less active, have fewer sources or are derived from prices quoted in an active market.

The following table presents the Company's assets that are measured at fair value, together with an analysis of when they mature.

At 31 December 2015	**Total $000**	**Less than 1 year $000**	**1 to 2 years $000**	**2 to 3 years $000**	**More than 3 years $000**
Level 1					
Debt securities and other fixed income securities	157,639	157,639	-	-	-
Equities	77,503	-	-	-	-
Overseas deposits	8,075	2,342	4,239	1,143	351
	243,217	159,981	4,239	1,143	351
Level 2					
Debt securities and other fixed income securities	105,352	-	-	-	105,352
Equities	10,338	-	-	-	-
Forward exchange contracts	1,104	1,104	-	-	-
Holdings in collective investment schemes	22,253	-	-	-	-
Overseas deposits	5,747	1,962	1,186	1,411	1,188
	144,794	3,066	1,186	1,411	106,540
Level 3					
Deflation derivatives	3,646	-	-	-	3,646
Convertible debentures	14,372	-	-	-	14,372
Holdings in collective investment schemes	1,837	-	-	-	-
	19,855	-	-	-	18,018
	407,866	**163,047**	**5,425**	**2,554**	**124,909**

At 31 December 2014	**Total $000**	**Less than 1 year $000**	**1 to 2 years $000**	**2 to 3 years $000**	**More than 3 years $000**
Level 1					
Debt securities and other fixed income securities	195,260	195,260	-	-	-
Equities	65,743	-	-	-	-
Syndicates' overseas deposits	9,347	5,088	115	3,105	1,039
	270,350	200,348	115	3,105	1,039
Level 2					
Debt securities and other fixed income securities	132,479	16,689	-	-	115,790
Convertible bonds	14,379	-	-	-	14,379
Holdings in collective investment schemes	2,601	2,601	-	-	-
Overseas deposits	10,970	964	3,045	4,156	2,805
	160,429	20,254	3,045	4,156	132,974
Level 3					
Deflation derivatives	3,474	-	-	-	3,474
Convertible debenture	10,666	-	-	-	10,666
	14,140	-	-	-	14,140
	444,919	**220,602**	**3,160**	**7,261**	**148,153**

At 31 December 2015 and 2014, the Level 3 investments comprised of an investment in Euro deflation derivatives with a notional amount of €1.3 billion as well as convertible debentures, an investment scheme holding Real Estate assets and FX forwards. The maximum loss to the Company from the deflation derivative investments is the market value of $3.6 million at 31 December 2015 (2014: $3.5 million). Level 3 investment movements are summarised as follows:

	2015 $000	**2014 $000**
Balance at 1 January	14,140	1,388
Purchase of investments	5,597	11,500
Profit recognised in the income statement	118	1,252
Balance at 31 December	19,855	14,140

6. Financial Risk Management (continued)

iii) Interest rate risk

The table below sets out the sensitivity of the Company's fixed income portfolio to unexpected changes in interest rates, by currency of investment.

Change in Interest rates (Basis points)	US $000
+200	(32,012)
+100	(17,615)
-100	48,584
-200	21,694

iv) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The Company monitors its liquidity needs through daily monitoring and monthly cash flow forecasts.

v) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- amounts due from corporate bondholders;
- amounts due from reinsurers on paid and outstanding losses;
- amounts due from policyholders and intermediaries; and
- counterparty risk with respect to derivative transactions.

The Company places limits on its exposure to any single counterparty for investments and reinsurers and to geographical and industry segments. The tables below summarise the assets subject to credit risk by Standard & Poors (S&P) credit rating, or equivalent where no S&P rating is available.

At 31 December 2015	AAA $000	AA $000	A $000	BBB $000	Below BBB $000	Not Rated $000	Total $000
Debt securities	175,846	91,622	3,779	-	6,116	-	277,363
Collective investment schemes	-	-	-	-	-	24,090	24,090
Overseas deposits	8,416	3,125	1,926	323	16	16	13,822
Derivatives	-	-	-	-		4,750	4,750
Reinsurance recoverable	-	-	59,285	-	-	-	59,285
Other assets	-	-	-	-	-	6,767	6,767
Cash and cash equivalents	-	1,840	21,227	-	-	-	23,067
Total	184,262	96,587	86,217	323	6,132	35,623	409,144

At 31 December 2014	AAA $000	AA $000	A $000	BBB $000	Below BBB $000	Not Rated $000	Total $000
Debt securities	28,630	210,608	71,890	-	18,211	23,445	352,784
Collective investment schemes	-	13	74	-	-	2,514	2,601
Overseas deposits	10,312	6,978	2,866	160	-	1	20,317
Derivatives	-	-	-	-	-	3,474	3,474
Reinsurance recoverable	-	12,362	57,481	-	-	203	70,046
Other assets	-	-	-	-	-	8,226	8,226
Cash and cash equivalents	-	859	31,851	-	-	-	32,710
Total	38,942	230,820	164,162	160	18,211	37,863	490,158

Collateral is provided to the Company as security over reinsurance recoverable balances due from some reinsurers. At 31 December 2015, collateral totalling $34.2 million was available to the Company (2014: $26.9 million). No other collateral is provided for the benefit of the Company.

Debtors arising from insurance and reinsurance operations comprise premiums due from insureds and reinsureds, but not paid at 31 December 2015. The balance includes reinstatement premiums due on losses, which will be collected when the associated claims are paid.

vi) Foreign exchange risk management

The Company's operations are conducted in a number of currencies, the principal ones of which are US$, £, CDN$ and Euro. The Company's policy is that it is not in the business of taking or speculating on foreign currency risk. Its objective is to match each principal currency position.

On a monthly basis the Company reviews its consolidated foreign currency balance sheet, prepared in its principal currencies. Action is taken to reduce or mitigate foreign currency mismatches through the purchase or sale of the appropriate currencies or the use of forward exchange transactions where necessary.

6. Financial Risk Management (continued)

The Company makes use of a currency translation service from Xchanging, whereby premiums and claims receivable in currencies outside the Syndicate's settlement currencies (currently US$, £, CDN$ and Euro) are translated at the spot rate of exchange to Sterling (or in some cases US$) at the date of payment of the claim or receipt of the premium. Advent has used forward exchange contracts to hedge the expected settlement cost of claims in non-settlement currencies where required.

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the preparation of these accounts were:

	2015		2014	
	Period average Rate	Period end Rate	Period average Rate	Period end Rate
	$	$	$	$
Sterling	0.6543	0.6785	0.6069	0.6413
Euro	0.9017	0.9206	0.7526	0.8264
Canadian dollar	1.2772	1.3891	1.1041	1.1582

The Company's gross premiums were written in the following currencies:

	2015		2014	
	$m	%	$m	%
US dollar	191,783	79.8	168,923	81.5
£ sterling	29,868	12.4	10,852	5.3
Canadian dollar	4,582	1.9	7,574	3.6
Euro	14,255	5.9	19,792	9.6
	240,488	100.0	207,141	100.0

The Company's asset and liability positions in its major foreign currencies were as follows:

31 December 2015	**US$000**	**£000**	**CDN$000**	**€000**	**NZ$000**	**JPY000**	**AU$000**
Total assets	697,876	76,034	31,221	57,416	5,151	68,243	12,042
Total liabilities	(391,966)	(104,603)	(17,131)	(47,908)	(23,984)	(300,629)	(9,489)
Net assets (net liabilities)	305,910	(28,569)	14,090	9,508	(18,833)	(232,386)	2,553
31 December 2014	**US$000**	**£000**	**CDN$000**	**€000**	**NZ$000**	**JPY000**	**AU$000**
Total assets	625,067	71,663	24,652	46,013	6,028	265,526	18,579
Total liabilities	(367,433)	(108,759)	(18,607)	(40,168)	(28,654)	(234,595)	(9,332)
Net assets (net liabilities)	257,634	(37,096)	6,045	5,845	(22,626)	(30,931)	9,247

At 31 December 2015, the Company had outstanding sterling forward foreign exchange contracts to purchase NZ$15.5 million to reduce its currency exposures. Post year end the Syndicate entered into a US dollar forward foreign exchange contract for the sale of CAN$5.0 million to reduce its currency exposures.

The Company recorded foreign exchange gains and losses in the income statement as follows:

	2015	2014
	$000	$000
Underwriting activities	9,725	1,773
Corporate activities	(2,851)	(1,388)
Profit on exchange	6,874	385

The effect on profit before tax of a 5% increase or decrease in the closing exchange rates on the foreign currency balance sheet at 31 December 2015 is approximately $1.7 million (2014: $0.8 million) given the Company's policy of minimising foreign currency mismatches on a monthly basis.

7. (Loss) profit on ordinary activities before tax

(Loss) profit is stated after charging:

	2015	2014
	$000	$000
Audit fees payable to the Company's auditors	395	502
Amortisation of syndicate capacity	607	385

In accordance with SI 2008/489 the Company has not disclosed the fees payable to the Company's auditor for 'Other services' as this information is included in Advent's financial statements.

8. Investment return

	2015 $000	2014 $000
Investment income		
Income from financial investments	7,404	8,508
Gains on the realisation of investments	10,782	20,594
	18,186	29,102
Investment expenses and charges		
Investment management expenses	(1,513)	(1,286)
Losses on the realisation of investments	(4,895)	(641)
	(6,408)	(1,927)
Unrealised gains on investments	3,609	30,885
Unrealised losses on investments	(54,166)	(38,419)
	(50,557)	(7,534)
Total investment return	(38,779)	19,641

9. Net Operating Expenses

	2015 $000	2014 $000
Acquisition costs	40,542	31,166
Change in deferred acquisition costs	(6,016)	(3,784)
Administrative expenses	42,225	37,684
	76,751	65,066

10. Employees & Directors

The Company does not have any employees. The Company is charged a single management charge by Advent based on the total actual expenses of the group companies that employ staff, which is included in net operating expenses. The specific element of the costs of employees or Directors are therefore not identified. The Executive Directors emoluments are included in the key management emoluments as disclosed in Advent's financial statements.

The Executive Directors emoluments are included in the key management emoluments as disclosed in Advent's financial statements.

11. Tax provision

(a) Tax expense included in profit and loss

	2015 $000	2014 $000
Current tax:		
UK Corporation tax on (loss) profit for the year	(7,643)	4,814
Results not yet taxed	9,403	(18,051)
Effect of transfer pricing adjustment	(827)	(908)
Other adjustments	(561)	88
Prior years' adjustment	232	(651)
Total current tax	684	(14,708)
Deferred tax:		
Origination and reversal of timing difference	(9,403)	16,792
Effect of tax rate change on opening balance	103	-
Prior years' adjustment	(305)	228
Total deferred tax	(9,685)	17,020
Tax on (loss) profit	(9,001)	2,312

(b) Reconciliation of tax charge

	2015 $000	2014 $000
(Loss) profit multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	(7,643)	4,814
Effects of:		
Results not yet taxed	9,403	(18,051)
Effect of transfer pricing adjustment	(827)	(908)
Other adjustments	69	88
Prior years' adjustment	232	(496)
Income not taxable	(630)	(155)
Current tax credit for the year	684	(14,708)

Factors that may affect future tax charges

Deferred tax is provided on the annually accounted technical result of each underwriting YOA. A deferred tax asset is only recognised where forecasts show that the taxable loss will be utilised in the foreseeable future.

The Company incurs US tax on its share of the syndicate's deemed US underwriting profits. This tax is recoverable to the extent that UK tax arises on taxable syndicate profits for the appropriate years of account. Some US tax incurred will be irrecoverable due to the differences between UK and US tax rates and the timing of US and UK syndicate profits for tax purposes.

Deferred tax is provided on the technical account in respect of open YOA which remain undistributed at 31 December 2015, namely the 2013, 2014 and 2015 years of account. As the functional currency of the Company is US dollars, the assets/liabilities provided are based on the dollar reported value of the open YOA result. As final distribution of the relevant years of account will be determined in Sterling, the ultimate taxation liability of open YOA may therefore change as a result of valuation changes between US dollar and Sterling in the interim period.

A deferred tax asset of $6.4 million has been established for at 31 December 2015 (2014: deferred tax liability $2.2 million).

12. Intangible assets

Syndicate Underwriting Capacity	2015 $000	2014 $000
Cost		
At 1 January and 31 December	7,855	7,855
Accumulated Depreciation		
At 1 January	6,847	6,462
Charge for the year	607	385
At 31 December	7,454	6,847
Net Book Value		
At 31 December	401	1,008

13. Cash and Bank

	2015 $000	2014 $000
Syndicate cash at bank	23,648	32,560
Deposits with credit institutions	118	150
	23,766	32,710

14. Called up share capital

	2015 $000	2014 $000
Allotted and fully paid		
200,001 (2014: 200,001) Ordinary shares of $0.40 each	80	80

15. Related parties and parent Company

The immediate parent undertaking is Advent. Advent is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Advent can be obtained from 2nd Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB.

The ultimate parent undertaking and controlling party is Fairfax Financial Holdings Limited (Fairfax), a Company incorporated in Canada. Fairfax is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2015. The consolidated financial statements of Fairfax are available from 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7.

The Company has carried out transactions with fellow subsidiaries of Fairfax during the year. Inwards reinsurance premiums from related parties are set out below.

	2015 $000	2014 $000
Crum & Forster	44	-
Northbridge Financial Corporation	-	140
Zenith Insurance Company	161	110
Brit Insurance	1,316	-
Fairfax Brazil	-	(317)
Polish Re	7,943	9,438
Hudson Insurance Company	443	470
	9,907	9,841

The negative Fairfax Brazil premium relates to adjustments to prior years' premium estimates.

16. Related parties and parent Company (continued)

Ceded outwards reinsurance premiums and related reinsurance recoveries to / from related parties are set out in the table below.

	Reinsurance Premiums		Reinsurance Recoveries	
	2015	2014	2015	2014
	$000	$000	$000	$000
Wentworth	8,994	21,578	2,892	4,590
Odyssey Re	2,791	873	(106)	-
Polish Re	237	891	499	1,255
United States Fire	34,042	8,247	11,971	1,684
Riverstone Insurance Ltd	-	-	57	-
	46,064	31,589	15,313	7,529

The Company incurred investment management fees to Hamblin Watsa Investment Counsel of $1.5 million (2014: $1.4 million).

All transactions with these parties were conducted at arm's length and at normal commercial terms.

17. Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under the former UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile profit for the year ended 31 December 2014 and the total equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

Profit for the financial year		2014
		$'000
UK GAAP – as previously reported		20,285
Foreign currency translation	A	1,027
Total adjustment to profit before tax for the year		**1,027**
Deferred tax impact of adjustments	B	
- Foreign currency translation		(206)
Total adjustment to tax expense		**(206)**
Total adjustment to profit for the year		**821**

Total shareholder's funds		1 January 2014	31 December 2014
		$000	$000
UK GAAP – as previously reported		10,373	30,658
Foreign currency translation	A	(364)	663
Deferred tax impact of adjustments	B		
- Foreign currency translation		73	(133)
FRS 102		**10,082**	**31,188**

A Foreign currency translation

FRS 102 requires an entity to translate foreign currency monetary items using the closing rate and non-monetary items using the exchange rate at the date of the transaction. However FRS 103 *Insurance Contracts* requires an entity to treat all assets and liabilities arising from an insurance contract as monetary items. Accordingly, all items that were previously held as non-monetary items have been restated and are now shown as monetary items and translated at closing rates of exchange. For the year ended 31 December 2014 an additional profit before tax of $1,026,000 was recognised in the income statement and shareholder's funds at 31 December 2014 were increased by $530,000.

B Deferred taxation

The Company has accounted for deferred taxation on transition as follows:

(a) Foreign currency translation – Deferred tax of $133,000 has been recognised at 20% as a result of the change from converting non-monetary items at historical rates to period end rates.