# Ship (2006) Limited

## Annual Report and Financial Statements for the year ended 31 December 2016

**Registered no: 5820318**

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COMPANIES HOUSE

## Directors and advisers

**Director**

G P Nash

**Secretary and registered office**

Norose Company Secretarial Services Limited
3 More Riverside
London SE1 2AQ

**Auditor**

Ernst & Young LLP
25 Churchill Place
London E14 5EY

**Solicitor**

Norton Rose
3 More Riverside
London SE1 2AQ

**FRN:**

454986

## Strategic report

The director presents his strategic report for the year ended 31 December 2016.

### Review of the business

The Company's principal activity during the year was that of a holding company. The principal subsidiary company is a wholly owned non-life insurance company, The Underwriter Insurance Company Limited (TUIC), which was acquired on 20 July 2006. TUIC carried on non-life insurance business within the United Kingdom until 11 July 2003 when it ceased effecting new contracts of business.

On 31 March 2017, TUIC was sold to its former owner, The Underwriter Group Limited, for £10,000.

TUIC's principal activities during the year were to continue to operate broadly in line with the assumptions and projections contained in its Scheme of Operations ("SoO") approved by the directors and filed with the Prudential Regulation Authority (PRA).

In its revision of the SoO, the company has adopted future interest rates based on estimated conservative rates. Operational expenses were revised to reflect the current best forecast for the cost of administering the run-off, which is projected to last until 2024 for the majority of its claims.

The directors are of the view there are no environmental matters, nor social and community issues on which to report. The company has no employees other than its directors and with effect from 1 January 2010, management services have instead been provided by a related company, Vibe Services Management Limited ("VSML").

The key financial and other performance indicators are based on the activity in the subsidiary during the year were as follows:

| | 2016 | 2015 | Change |
|---|---|---|---|
| | £'000 | £'000 | % |
| Net claims paid | 987 | 2,576 | -61% |
| Technical account for general business | 1,933 | 1,310 | 48% |
| Investment return | 505 | 1,260 | -60% |
| Profit after tax - subsidiary | 2,033 | 2,018 | 0.74% |
| (Loss) / profit after tax – group | (1,651) | 1,924 | NA |
| Shareholders' funds of subsidiary | 10,441 | 8,680 | 20% |
| Net Technical provisions | 8,376 | 9,285 | -10% |
| Number of outstanding claims | 391 | 482 | -19% |

The technical account result for general business increased by 48% during the year as a result of a decrease in net claims incurred, offset by IBNR releases following the external actuarial review. The company has changed the presentation of the commutation balances previously shown as Reinsurance Creditors on the balance sheet that were offset against reinsurance recoveries on the balance sheet. There was a surplus of £686k that is included in the technical provisions movement.

Investment return decreased by 60% mostly as a result of lower funds available to invest.

Profit after tax decreased by 13% largely due to the TUIC share of the proceeds of the sale of tax losses received in 2015.

Shareholders' funds increased by 20%, this is due to retained earnings of £1.7m

# Strategic Report (continued)

## Review of the business (continued)

Net Technical provisions decreased by 10% due to the settlement of claims during the year and the release of surplus IBNR. Future claims emergence will likely deviate, perhaps materially, from the estimates made. There is inherent uncertainty in any estimate of claims reserves, especially as the reserves relate predominantly to liability claims. Estimates for future claims are subject to the outcome of events yet to incur, for example the likelihood of claimants bringing suit, the size of court awards, changes in the standards of liability and the attitudes of claimants towards the settlement of their claims. Adding to this uncertainty is the collectability of future reinsurance recoveries, the future direction of investment rates and the level of operational expenses.

The number of outstanding claims has decreased on the Employer's liability account from 425 to 345. The Employers Liability Tracing Office was established in 2010 and the number of new, small employer's liability claims had increased since its formation until recently.

## Principal risks and uncertainties

The principal risks and uncertainties facing the group are broadly grouped as: insurance, regulatory, financial and liquidity risk.

These risks were only effective until 31 March 2017, when the subsidiary was sold.

The risk management objectives and policies are driven by the need to protect the company's regulatory capital position, to meet obligations to policyholders when they fall due and to have the financial strength for the business.

# Insurance risk

The subsidiary issued insurance contracts that effect the transfer of risk from the insured to it. TUIC wrote primary or excess direct business in the London market. It specialised in liability classes of business, notably employers' liability, general liability, professional liability and contractors all risk. Small amounts of financial institutions, accident and health, property, goods in transit and a very small amount of motor and contingency business were also written. The Company is exposed to uncertainty surrounding the timing, frequency and severity of claims under the contracts.

TUIC uses several methods to assess and monitor reserve risk exposures. These include scenario analysis and stress testing. The final outcome of Employers Liability claims following the establishment of the Employers Liability Tracing Office remains a risk because new claims continue to be notified.

# Regulatory risk

TUIC is subject to regulation by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). Their rules stipulate that sufficient margins of regulatory solvency be maintained and that customers are treated fairly. The company has procedures in place to ensure that these requirements are met with the ultimate aim of significantly exceeding them.

## Strategic Report (continued)

### Principal risks and uncertainties (continued)

## Financial risk

TUIC is exposed to financial risk through its financial assets. In particular, the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance contracts. The important components of financial risk to the Company are interest rate risk, exchange rate risk and credit risk. The Group does not hold derivatives.

TUIC's approach to risk management seeks to identify risks facing it, assess their potential impact, manage risk through mitigation (where appropriate), and report any failures to the Board.

## Liquidity Risk

Liquidity risk is the risk that TUIC will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash. TUIC's approach to managing liability is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

By order of the board

**G P Nash**
Director 23 June 2017

# Director's report

The director presents his annual report and financial statements for the year ended 31 December 2016.

### Principal activity and review of the business

On 20 July 2006, The Underwriter Insurance Company Limited (TUIC) was sold to the Company. TUIC surrendered its tax losses up to £71 million to the company for an incentive payment of £0.13 in the £.
The company transferred by group relief for payment the majority of its tax losses that arose in the period ending 31 December 2006 to its current ultimate shareholders. HMRC disputed the group loss relief claims by the ultimate shareholders, and the ultimate shareholders appealed to have the decision reviewed by a Tax Tribunal. As at the 31st December 2013, the tax loss surrender had not been agreed with HMRC and the Company did not recognise any income in respect of this sale, in accordance with FRS12 'Provisions, contingent assets and contingent liabilities', the above contingent asset had not been recognised within either the Group consolidated or company balance sheet.

During the period, HMRC agreed that the ultimate shareholder and TUIC could follow another similar case, Bupa Insurance and Moneta. The judgement in that case, issued on 16 June 2014, was in favour of Bupa. HMRC notified that they will not appeal the judgement and TUIC received a payment of £1.8m.This amount has been recognised in the financial statements.

The proceeds from the sale of group relief were held in escrow and in 2015 the escrow monies were released by the escrow agent on the instructions of all the consortium members except for one company that had been liquidated. The escrow agent released the funds in respect of the liquidated company on the receipt of a deed of indemnity from TUIC. Consequently a contingent liability exists that TUIC will have to refund £353,301 to the escrow agent.

## Going Concern

The company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and its exposure to insurance, financial and liquidity risk are described in the Strategic Report.

The company has considerable financial resources and the directors believe that there are adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern bases in preparing the annual report and accounts

### Results and dividends

The result for the year is a loss as set out in the profit and loss account on pages 11 and 12.

The director does not recommend the payment of a dividend for the year ended 31 December 2016 (2015: £nil).

### Share capital

On 28th June 2006 the company's issued share capital was increased to:
10,000 A Ordinary shares of 1p
1,090,000 B Ordinary shares of 1p

## Director's Report (cont'd)

### Details of Director

The name of the director who held office during the whole of the period is as shown on page 2.
No director had any interest in the share capital of the company during the year.

### Creditor payment policy

The Company's policy is to adhere to the terms and conditions agreed between it and its suppliers.

### Director's declaration

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware.

The director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

## Re-appointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution will be proposed at the board of directors meeting for the re–appointment of Ernst & Young LLP as the auditor of the Company.

## Post Balance Sheet event

On 31st March 2017, TUIC was sold to its former owner, The Underwriter Group Limited, for £10,000. The Company plans to be dissolved in 2017.

**By order of the board**

**G P Nash**
*Director*

## Statement of director's responsibilities

The director is responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the director to prepare financial statements for each financial year. Under that law the director has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the director is required to:

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

The director is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. He is also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The director is responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHIP (2006) LIMITED

We have audited the financial statements of Ship (2006) Limited for the year ended 31 December 2016 which comprise the Consolidated Profit and Loss Account, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts".

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

### Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

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

### Opinion on financial statements

In our opinion the financial statements:

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

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

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

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

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

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

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

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

Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
29 June 2017

## Consolidated Income statement
## for the year ended 31 December 2016

| | Notes | Year ended 31 Dec 2016 £'000 | £'000 | Year ended 31 Dec 2015 £'000 | £'000 |
|---|---|---|---|---|---|
| **Technical account – general business** | | | | | |
| Gross premiums written | *2a)* | **4** | | - | |
| Outward reinsurance premiums | *2(a),(b)* | - | | - | |
| **Earned premiums, net of reinsurance** | *2(b)* | **4** | | - | |
| Claims paid | | | | | |
| Gross amount | | **(1,022)** | | (10,105) | |
| Reinsurers' share | | **35** | | 7,529 | |
| Net of reinsurance | | **(987)** | | (2,576) | |
| Change in the provision for claims | | | | | |
| Gross amount | | **3,824** | | 11,976 | |
| Reinsurers' share | | **(289)** | | (7,410) | |
| Net of reinsurance | | **3,535** | | 4,566 | |
| **Claims incurred, net of reinsurance** | *2(b)* | | **2,548** | | 1,990 |
| Gross and net operating expenses | *4* | | **(639)** | | (709) |
| **Balance on the technical account - general business** | | | **1,914** | | 1,281 |

## Consolidated income statement
## for the year ended 31 December 2016

| Non – technical account – general business | Notes | Year ended 31 Dec 2016 £'000 | Year ended 31 Dec 2015 £'000 |
|---|---|---|---|
| **Balance on the general business technical account** | | **1,914** | 1,281 |
| Investment income | | **352** | 1,585 |
| Investment expenses and charges | | **(97)** | (105) |
| Realised gains on investments | | | |
| Unrealised gains/(losses) on investments | | **250** | (220) |
| Realised (losses) on exchange | | | (63) |
| Unrealised losses on exchange | | **(266)** | (11) |
| Amortisation of goodwill and adjustment to Deferred Consideration | *9(b)* | **(3,419)** | (83) |
| Other Income | | **26** | 18 |
| **Profit /(loss) on ordinary activities before tax** | | **(1,240)** | 2,402 |
| Tax on profit on ordinary activities | *7(i)* | **(411)** | (478) |
| Profit for the financial year attributable to members of the company | | **(1,651)** | 1,924 |

The notes on pages 18 to 38 form part of these financial statements.

All amounts are derived from discontinued operations. As described in Note 1, the company ceased to effect new contracts of insurance from 11 July 2003.

There is no Statement of comprehensive income as the company has no recognised gains or losses other than the profit for the period.

## Statement of changes in equity
## for the year ended 31 December 2016

| | **2016** | | |
|---|---|---|---|
| | ***Called up Share Capital*** | ***Profit and loss account*** | ***Total*** |
| | **£'000** | **£'000** | **£'000** |
| At 1 January 2016 | **11** | **2,052** | **2,063** |
| Total comprehensive income for the year | | **(1,651)** | **1,729** |
| At 31 December 2016 | **11** | **401** | **3,792** |

| | 2015 | | |
|---|---|---|---|
| | *Called up Share Capital* | *Profit and loss account* | *Total* |
| | £'000 | £'000 | £'000 |
| At 1 January 2015 | 11 | 7,028 | 7,039 |
| Total comprehensive income for the year | | 1,924 | 1,924 |
| Dividends paid | | (6,900) | (6,900) |
| At 31 December 2015 | 11 | 2,052 | 2,063 |

The notes on pages 18 to 38 form part of these financial statements.

# Statement of financial position
# as at 31 December 2016

| | Notes | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Called up share capital | *10* | **11** | 11 |
| Profit and Loss Account | | **401** | 2,053 |
| **Shareholders' funds attributable to equity interests** | | **412** | 2,064 |
| **Technical provisions** | | | |
| Provision for claims outstanding | *11* | **14,898** | 17,866 |
| | | **14,898** | 17,866 |
| **Creditors** | | | |
| Creditors arising out of direct insurance operations | | | |
| Creditors arising out of reinsurance operations | *13* | **72** | 2,029 |
| Other creditors including taxation and social security | *13* | **517** | 579 |
| | | **589** | 2,608 |
| **Accruals and deferred income** | | | |
| Accrued expenditure | | **151** | 224 |
| Provision for deferred consideration | *16* | **10,002** | 7,657 |
| **Total equity and liabilities** | | **26,052** | 30,419 |

The notes on pages 18 to 38 form part of these financial statements.

These financial statements were approved by the board of directors on 29 June 2017 and were signed on its behalf by:

**G P Nash**
*Director*

# Statement of financial position as at 31 December 2016

| | Notes | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Intangible Assets** | | | |
| Goodwill | *9(b)* | **-** | 1,074 |
| **Investments** | | | |
| Other financial investments | *9(a)* | **18,447** | 19,822 |
| **Reinsurers' share of technical provisions** | | | |
| Claims outstanding | *11* | **6,522** | 8,581 |
| **Debtors** | | | |
| Debtors arising out of reinsurance operations | | **13** | 9 |
| **Other assets** | | | |
| Cash at bank and in hand | | **1,036** | 912 |
| **Prepayments and accrued income** | | | |
| Accrued interest | | **-** | 1 |
| Prepaid operational expenses | | **33** | 20 |
| Sundry debtors | | **1** | - |
| | | **34** | 21 |
| **Total assets** | | **26,052** | 30,419 |

The notes on pages 18 to 38 form part of these financial statements.

## Consolidated Statement of Cash Flows
## for the year ended 31 December 2016

| | Notes | Year ended 31 Dec 2016 £'000 | Year ended 31 Dec 2015 £'000 |
|---|---|---|---|
| **Net cash outflow from operating activities** | *15* | **(1,514)** | (2,850) |
| **Returns on investments and servicing of finance** | | | |
| Investment income and gains | | **337** | 1,291 |
| Investment expenses and charges | | **(72)** | (87) |
| | | **265** | 1,204 |
| **Dividend paid** | | **-** | (6,900) |
| **Net cash outflow before management of liquid resources and financing** | | **(1,250)** | (8,546) |
| **Management of liquid resources** | | | |
| Decrease in financial investments | | **1,375** | 8,311 |
| Increase/(Decrease) in cash | | **125** | (235) |

# Parent Company Balance Sheet
# as at 31 December 2016

| | Notes | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Investments** | | | |
| Subsidiary undertakings | *16* | **10,002** | 7,657 |
| | | **10,002** | 7,657 |
| **Current Assets** | | | |
| Cash at bank and in hand | | **5** | 4 |
| Prepaid operational expenses | | **5** | - |
| **Total assets** | | **10,012** | 7,661 |
| **LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Called up share capital | *10* | **11** | 11 |
| Retained losses | | **(38)** | (44) |
| **Total capital and reserves** | | **(27)** | (33) |
| **Creditors** | | | |
| Other creditors | | **37** | 37 |
| Provision for deferred consideration | *16* | **10,002** | 7,657 |
| **Total liabilities** | | **10,012** | 7,661 |

These financial statements were approved by the board of directors on 28 June 2017 and were signed on its behalf by:

**G P Nash**
*Director*

## Notes to the Financial Statements

### 1 Accounting policies

**1.1 Statement of compliance**

Ship (2006) Limited is a limited liability company incorporated in England. It has a subsidiary The Underwriter Insurance Company Limited which is a limited liability company incorporated in England. The Registered Office is 5th floor, 90 Fenchurch Street, London EC3M 4ST. The financial statements cover those of the individual entity and are prepared as at 31 December 2016 and for the year ended 31 December 2016.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

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

The company transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2015. The transition to FRS 102 and FRS 103 has not affected the reported financial position or financial performance. There were no adjustments as a result of this conversion

**1.2 Basis of preparation**

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 29 June 2017.

The financial statements are prepared in sterling which is the presentation and functional currency of the company and rounded to the nearest £'000.

As permitted by FRS 103 the Company continues to apply the existing accounting policies that were applied prior to this standard, for its insurance contracts and investments with a discretionary participation feature (DPF).
The balance sheet of the parent company ("the Company") is prepared in accordance with the provisions of Schedule 1 of the Large and Medium-sized Groups (Accounts and Reports) Regulations 2008. No profit and loss account is presented for the Company as permitted by section 408 of the Companies Act 2006. The profit/ loss for Ship (2006) Limited was £5,878 (2015: loss £ 10,926)

The company owns 100% of the share capital of The Underwriter Insurance Company Limited. Following deterioration in this company's financial strength, from 11 July 2003 the directors decided that the company should cease to effect new contracts of insurance. The directors of The Underwriter Insurance Company Limited concluded on the basis of information currently available that the run-off will be solvent and that the company anticipates that it will continue to meet all valid claims in full. The accounts of that company were therefore prepared on a going concern basis at 31 December 2016.

**Basis of consolidation**

The group financial statements consolidate the financial statements of Ship (2006) Limited and its wholly owned subsidiary undertakings drawn up to 31 December each year. All intra group balances, transactions, income and expenses and profits and losses arising from intra group transactions are eliminated in full on consolidation.

The Underwriter Insurance Company Limited has been included in the group financial statements using the acquisition method of accounting. The purchase consideration has been allocated to the assets and liabilities on the basis of cost at the date of acquisition.

In the parent company financial statements investments in subsidiary undertakings are accounted for at the lower of cost and net realisable value.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### 1.3 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following are the company's key sources of estimation uncertainty:

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

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

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Further details are given in note 14.

***Taxation***
The company establishes provisions based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing interpretations of tax regulations by the tax authority.

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

Further details are contained in Note 7.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

### 1.4 Significant accounting policies

**Financial investments**
The company has elected to use the recognition and measurement provisions of IAS 39 for financial investments instead of the recognition and measurement provisions of IFRS 9 or Sections 11 and 12 of FRS 102.

The company classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. The company determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the company's documented investment strategy is to manage financial investments acquired on fair value basis. The available for sale category is used only in cases when the investments are passively managed and the Company held none of these at year end 2016 or 2015.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date the company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Financial assets at fair value through profit or loss** has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. All of the company's assets are held for trading. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

**Cash and cash equivalents**

Cash and cash equivalents in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**Fair value of financial assets**

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

**Investment return**
Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.
Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.
Investment return has been wholly attributed to the non-technical account.
**Insurance contracts**
***Production classification***
Insurance contracts are those contracts when the company has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.
Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

***Gross Premiums***
Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into prior to the cessation of underwriting on 11 July 2003, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. Additional or return premiums are treated as a remeasurement of the initial premium. Gross written premiums are stated gross of commission.
Under some policies, written premiums are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. Where written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. Where written premiums are subject to a reduction, a remeasurement taking account of such a reduction is made as soon as there is an obligation to the policyholder.

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

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

**Fees and Commission Income**
Insurance policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognised as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognised over those future periods.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

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

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

**Technical provisions**
Technical provisions comprise claims outstanding, provisions for unearned premiums, provisions for unexpired risk and equalisation provisions.

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

**Reinsurance Assets**
The company ceded insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.
Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the statement of profit or loss.

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

**Provisions**
Provisions are recognised when the company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The run-off provision has been established which consists of all estimated costs incurred in the administration of the run-off less projected investment returns.

**Foreign currencies**
The company's functional currency and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

# Notes to the Financial Statements (continued)

## 1 Accounting policies (continued)

**1.4 Significant accounting policies (continued)**

**Taxation**
**Current tax**
Current tax liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the profit and loss account.

**Deferred tax**
Deferred tax is recognised in respect of all timing differences, which are differences between taxable profits and total comprehensive income that 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 measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax is recognised only to the extent that it is more likely than not, that future taxable profits will be available against which the asset can be utilised.

***Dividends***
Dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the shareholders. Interim dividends are deducted from equity when they are paid.

## 2 Analysis by class of business

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

| **2016** | **Gross Premium** | **Gross claims incurred** | **Gross Operating Expenses** | **Reinsurance Balance** | **Total** | **Net Technical Provisions** |
|---|---|---|---|---|---|---|
| **General business** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Liability | **4** | **2,785** | **(592)** | **(252)** | **1,945** | **8,147** |
| Property | **-** | **17** | **(27)** | **(2)** | **(12)** | **229** |
| **Total** | **4** | **2,802** | **(619)** | **(254)** | **1,933** | **8,376** |

| 2015 | Gross Premium | Gross claims incurred | Gross Operating Expenses | Reinsurance Balance | Total | Technical Provisions |
|---|---|---|---|---|---|---|
| General business | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Liability | - | 1,860 | (660) | 132 | 1,332 | 9,032 |
| Property | - | 11 | (20) | (13) | (22) | 253 |
| Total | - | 1,871 | (680) | 119 | 1,310 | 9,285 |

Gross operating expenses are the same as net operating expenses shown in the consolidated profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for the year.

## Notes to the Financial Statements (continued)

## 2 Analysis by class of business (continued)

### (b) Geographical analysis

**2016**

| | Gross written premiums £'000 | Outward reinsurance premiums £'000 | Net earned premiums £'000 | Net incurred claims £'000 | Gross operating expenses £'000 |
|---|---|---|---|---|---|
| Risks located in the UK | 4 | - | 4 | 599 | 575 |
| Risks located in Europe | - | - | - | 296 | 20 |
| Risks located elsewhere | - | - | - | 1,653 | 24 |
| | 4 | - | 4 | 2,548 | 619 |

**2015**

| | Gross written premiums £'000 | Outward reinsurance premiums £'000 | Net earned premiums £'000 | Net incurred claims £'000 | Gross operating expenses £'000 |
|---|---|---|---|---|---|
| Risks located in the UK | - | - | - | 3,713 | 616 |
| Risks located in Europe | - | - | - | (222) | 19 |
| Risks located elsewhere | - | - | - | (1,501) | 45 |
| | - | - | - | 1,990 | 680 |

## 3 Investment return

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Income from other financial investments | 328 | 1,411 |
| Net gains on realisation of investments | 24 | 174 |
| **Total investment income** | 352 | 1,585 |
| Net unrealised (losses) / gains on investments | 250 | (220) |
| Investment expenses and charges | (97) | (105) |
| Total investment return | 505 | 1,260 |

## Notes to the Financial Statements (continued)

**4 Net operating expenses**

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Administrative expenses | **639** | 709 |

| Included in administrative expenses are: | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Staff costs | **77** | 110 |
| Run-off costs (including salaries & wages) | **408** | 400 |
| Professional costs | **71** | 100 |
| Other costs | **83** | 98 |

**Auditor's remuneration**

The remuneration of the auditor is analysed as follows;

| | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|
| Audit of the financial statements | **10** | 10 |
| Other fees payable to the auditor | | |
| - statutory audit of subsidiaries | **33** | 36 |
| - Solvency II | **26** | - |
| | **69** | 46 |

**5 Staff numbers and costs**

With the exception of one director, the Company does not employ any staff.

**6 Directors' emoluments**

Emoluments borne by that subsidiary in respect of the Director of this company were as follows.

| | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|
| Fees | | |
| Emoluments | **10** | 4 |
| | **10** | 4 |

There are no contributions to pension schemes, no share options and no long term incentive plans.

## Notes to the Financial Statements (continued)

### 7 Taxation

7(i) Tax on profit/(loss) on ordinary activities

The charge is made up as follows:

| | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|
| **Current tax**: | | |
| UK corporation tax charge | **411** | 478 |
| Total tax charge for the period | **411** | 478 |

7(ii) Factors affecting the current tax charge/(credit) for the period.

| | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|
| **Profit/(loss) on ordinary activities before tax** | **2,123** | 2,402 |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015 20.25%) | **425** | 492 |
| Effects of: | | |
| Amortisation of goodwill on consolidation | **9** | 11 |
| Tax losses utilised | **-** | 2 |
| Other timing differences | | |
| Capital allowances in excess of depreciation | **(23)** | (27) |
| Prior year adjustment for consortium relief | | |
| **Total current tax (note 7(i))** | **411** | 478 |

7(iii) Factors that may affect future tax charges (tax effect at current rate of tax)

| | 31 Dec 2016 £'000 | 31 Dec 2015 £'000 |
|---|---|---|
| Capital allowances carried forward | **87** | 113 |
| General provisions carried forward | **14** | 27 |
| Total unrecognised deferred tax asset/( liability) | **101** | 140 |

# Notes to the Financial Statements (continued)

## 7 Taxation (continued)

A reduction in the UK corporation tax rate from 21% to 20% took effect from 1 April 2015. The government has enacted further changes on 1 April 2017 and 1 April 2020 to 19% and 17% respectively.

(a) Deferred tax
TUIC has an unrecognised deferred tax asset of £101k (2015: £140k) which is calculated on the enacted UK corporation tax rate of 17% in respect of fixed asset timing differences and other timing differences. The deferred tax asset has not been recognised due to the uncertainly of the company having sufficient taxable profits in the foreseeable future to utilise these allowances.

## 8 Dividends

No dividends were paid in respect of the year ended 31 December 2016 (2015: £6.9m).

## 9 Investments

| | **Carrying value £'000** | **2016 Purchase price £'000** | **Listed £'000** |
|---|---|---|---|
| Collective investment schemes | **18,334** | **18,151** | **18,334** |
| Deposits with credit institutions held at amortised cost | **113** | **113** | **-** |
| | **18,447** | **18,264** | **18,334** |

| | Carrying value £'000 | 2015 Purchase price £'000 | Listed £'000 |
|---|---|---|---|
| Collective investment schemes | 19,398 | 19,383 | 19,398 |
| Deposits with credit institutions held at amortised cost | 424 | 424 | - |
| | 19,822 | 19,807 | 19,398 |

Other financial investments
The amount of change during the period and cumulatively in the fair value of financial instruments held at fair value through profit and loss (other than derivatives) attributable to changes in credit risk was £0.2m and £0.02m (2015: £0.2m and £0.2m)

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

# Notes to the Financial Statements (continued)

**9 Investments (continued)**

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy:

| | **2016** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **£'000** | **£'000** | **£'000** | **£'000** |
| Collective investment schemes | **1,367** | **16,967** | **-** | **18,334** |
| | **1,367** | **16,967** | **-** | **18,334** |

| | 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | £'000 | £'000 | £'000 | £'000 |
| Collective investment schemes | 2,439 | 16,959 | - | 19,398 |
| | 2,439 | 16,959 | - | 19,398 |

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.
Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the company's own models whereby the significant inputs into the assumptions are market observable.
Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Company's own data.

**9(b) Investments in subsidiaries**

On 20th July 2006, the company acquired The Underwriter Insurance Company Limited for an initial consideration of £10,000. Further consideration is payable contingent upon the surplus arising on the scheme of arrangement operated by The Underwriter Insurance Company Limited (see note 16). The investment in The Underwriter Insurance Company Limited has been included in the consolidated balance sheet at its cost on the date of acquisition.

## Notes to the Financial Statements (continued)

**9 Investments (cont'd)**

Analysis of the acquisition of The Underwriter Insurance Company Limited:

Net assets at the date of acquisition:

| | Book value £'000 |
|---|---|
| Investments | 105,085 |
| Reinsurers' share of technical provisions | 51,419 |
| Debtors arising out of reinsurance operations | 1,436 |
| Cash | 3,037 |
| Prepayments and accrued income | 1,955 |
| Creditors | (1,231) |
| Technical Provisions | (151,901) |
| Net Assets | 9,800 |
| Discharged by: | |
| Initial consideration | 10 |
| Deferred consideration | 4,509 |
| Negative Goodwill | 5,281 |

The goodwill at the end of the year was impaired as a result of the sale of TUIC to The Underwriter Group on 31 March 2017 and the goodwill has been written off.

**10 Authorised and issued share capital**

| | 31 Dec 2016 £ | 31 Dec 2015 £ |
|---|---|---|
| Authorised: | | |
| 10,000 A ordinary shares of 1p each | 100 | 100 |
| 1,090,000 B ordinary shares of 1p each | 10,900 | 10,900 |
| | 11,000 | 11,000 |
| Allotted, called up and fully paid: | | |
| 10,000 A ordinary shares of 1p each | 100 | 100 |
| 1,090,000 B ordinary shares of 1p each | 10,900 | 10,900 |
| | 11,000 | 11,000 |

## Notes to the Financial Statements (continued)

### 11 Claims outstanding

| | 2016 Gross | 2016 Reinsurance | 2016 Net | 2015 Gross | 2015 Reinsurance | 2015 Net |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| Notified outstanding claims | **8,619** | **5,234** | **3,385** | 9,901 | 6,645 | 3,256 |
| Provision for claims incurred but not reported | **5,677** | **1,288** | **4,389** | 7,208 | 1,936 | 5,272 |
| | **14,296** | **6,522** | **7,774** | 17,109 | 8,581 | 8,528 |
| Claims handling expenses | **602** | **-** | **602** | 757 | - | 757 |
| | **14,898** | **6,522** | **8,376** | 17,866 | 8,581 | 9,285 |

Reserve improvement during 2016 was £402k (2015: £1,085k deterioration) which relates predominantly to an improvement on the PI Excess of £438k (2015 £121k deficiency)

In order to assess the appropriate level of technical provisions to hold for future claims, the company has commissioned an external actuarial review to conduct an independent review and make a best estimate assessment of future IBNR. The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant material adjustments to the amounts provided and a financial provision is being held for a margin to the 60th percentile to protect against future volatility.

Included in the above figures are financial provisions estimated by senior management and the actuarial review totalling £0m (2015: £0.6m).

### 12 Other provisions

| **Run-off provision** | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Total projected expenditure costs | **(1,987)** | (2,138) |
| Total projected investment income | **2,750** | 3,034 |
| | **763** | 896 |

The run-off provision is required for all estimated costs less projected investment returns. The investment returns are deemed to exceed these costs, hence no run-off provision was booked.

# Notes to the Financial Statements (continued)

## 13 Creditors

| Amounts due within one year | **2016** | 2015 |
|---|---|---|
| | **£'000** | £'000 |
| Arising out of reinsurance operations | | |
| Due within one year | | |
| Amounts due to reinsurers | **72** | 71 |
| Amounts due in respect of commutations | **-** | 1,958 |
| | **72** | 2,029 |
| Other creditors including taxation | | |
| Amounts due to related companies | **132** | 101 |
| Taxation | **385** | 478 |
| | **517** | 579 |

During 2010, the Company agreed a commutation with Gerling Globale and a cash settlement was received. This settlement was held as a creditor on the balance sheet to cover Gerling Globale's share of reinsurance recoveries within Technical Reserves. The company has amended the presentation of the commutation balances previously shown as Reinsurance Creditors as a result of better understanding of the accounts on the balance sheet. The commutation balance was offset against reinsurance recoveries on the balance sheet. There was a surplus of £686k that is included in the technical provisions movement.

## 14 Risk Management

### (a) Governance framework

The primary objective of the company's risk and financial management framework is to protect the company's shareholders from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The company has, given its small size and involvement of directors on a day to day basis, consolidated the governance (including risk management) into two committees; the Executive Committee and the Ad Hoc Committee.
The company has articulated its risk appetite in a series of statements which have been agreed by the board of directors. A range of supporting metrics has been developed in order to review actual performance compared with the stated appetite. Performance and risk exposure against tolerance levels is monitored regularly by the company's management and on an aggregate basis by the Executive Committee and reported to the board of directors.

### (b) Capital management objectives, policies and approach

The company seeks to optimise the structure of capital to ensure policyholders' protection for the duration of the run-off. The company's approach to managing capital involves managing assets, liabilities and risks in a coordinated way, assessing shortfalls between reported and required capital on a regular basis and taking appropriate actions to influence the capital position of the company in the light of changes in economic conditions and risk characteristics.

The company is subject to capital requirements imposed by the Prudential Regulation Authority (PRA). Throughout the year the company has complied with PRA's Solvency II which is used to calculate the company's capital requirement.

The company commissioned an external actuarial SCR. The SCR was £3,383k (2015 £3,565k).

# Notes to the Financial Statements (continued)

## 14 Risk Management (continued)

### (c) Insurance risk

The principal risk the company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long–term claims. Therefore, the objective of the company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by using methods to assess and monitor reserve risk exposures, these include scenario analysis and stress testing. The company also purchased reinsurance as part of its risk mitigation programme. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The company's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The table below sets out the concentration of outstanding claims liabilities by class:

| | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| | **Gross** | **Reinsurance** | **Net** | Gross | Reinsurance | Net |
| | **£'000** | **£'000** | **£'000** | £'000 | £'000 | £'000 |
| Contractors all Risks | **31** | **-** | **31** | 351 | 98 | 253 |
| Employers Liability | **5,509** | **2,405** | **3,104** | 6,347 | 3,051 | 3,296 |
| Financial Institutions | **55** | **-** | **55** | 77 | (11) | 88 |
| Professional Indemnity | **4,288** | **2,926** | **1,362** | 5,216 | 3,792 | 1,424 |
| General Liability | **4,413** | **1,191** | **3,222** | 5,118 | 1,651 | 3,467 |
| Total excluding claims handling expenses | **14,296** | **6,522** | **7,774** | 17,109 | 8,581 | 8,528 |

**Key assumptions**

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.
Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

*Sensitivities*

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

As part of the actuarial reserve review, in order to estimate the volatility in reserves, various analysis was carried out and results produced which illustrate the increase in gross and net IBNR at various percentiles calculated.

## Notes to the Financial Statements (continued)

**14 Risk Management (continued)**

**(c) Insurance risk (continued)**

| **2016** | **Change in assumptions** | **Impact on gross liabilities** | **Impact on net liabilities** | **Impact on profit before tax** | **Impact on equity** |
|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| IBNR at 65th percentile | Increase from 60th to 65th percentile | 195 | 140 | (140) | (112) |
| IBNR at 75th percentile | Increase from 60th to 75th percentile | 475 | 369 | (369) | (294) |

| **2015** | Change in assumptions | Impact on gross liabilities | Impact on net liabilities | Impact on profit before tax | Impact on equity |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| IBNR at 65th percentile | Increase from 60th to 65th percentile | 273 | 186 | (186) | (148) |
| IBNR at 75th percentile | Increase from 60th to 75th percentile | 631 | 624 | (624) | (498) |

(c)

*Claims development table*
FRS 103 requires the disclosure of historical claims development. The company's claims arose from policies written over ten years ago and to a large extent are fully developed. Consequently the company believes that the production of a claims development table covering the last five years is not meaningful or useful and that sensitivity analysis of reserving risk is more relevant. Accordingly the company has not disclosed a claims development table.

**(d) Financial risk**

**(1) Credit risk**
Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.
The following policies and procedures are in place to mitigate the exposure to credit risk:

- A credit risk policy setting out the assessment and determination of what constitutes credit risk for the company. Compliance with the policy is monitored and exposures and breaches are reported to the company risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Net exposure limits are set for each counterparty or group of counterparties (i.e. limits are set for investments and cash deposits and minimum credit ratings for investments that may be held).

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

# Notes to the Financial Statements (continued)

**14 Risk Management (continued)**

**(1) Credit risk (continued)**

| 31 December 2016 | Neither past due nor impaired | Past due | Impaired | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Collective investment schemes | 18,334 | - | - | 18,334 |
| Deposits with credit institutions | 113 | - | - | 113 |
| Reinsurers' share of claims outstanding | 6,522 | - | - | 6,522 |
| Debtors arising out of reinsurance operations | 13 | - | - | 13 |
| Other debtors | 1 | - | - | 1 |
| Cash at bank and in hand | 1,031 | - | - | 1,031 |
| | 26,014 | - | - | 26,014 |

| 31 December 2015 | Neither past due nor impaired | Past due | Impaired | Total |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| Collective investment schemes | 19,398 | - | - | 19,398 |
| Deposits with credit institutions | 424 | - | - | 424 |
| Reinsurers' share of claims outstanding | 8,581 | - | - | 8,581 |
| Debtors arising out of reinsurance operations | 9 | - | - | 9 |
| Other debtors | - | - | - | - |
| Cash at bank and in hand | 908 | - | - | 908 |
| | 29,320 | - | - | 29,320 |

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

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

## Notes to the Financial Statements (continued)

**14 Risk Management (continued)**

**(1) Credit risk (continued)**

| 31 December 2016 | AAA | AA | A | BBB | Not rated | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Collective investment schemes | 7,659 | 1,059 | 6,228 | 2,662 | 726 | 18,334 |
| Deposits with credit institutions | - | - | 113 | - | - | 113 |
| Reinsurers share of claims outstanding | - | 5,300 | 996 | 226 | - | 6,522 |
| Other Debtors | 1 | - | - | - | - | 1 |
| Debtors arising out of reinsurance operations | - | 13 | - | - | - | 13 |
| Cash at bank | 943 | - | - | - | 88 | 1,031 |
| | 8,603 | 6,372 | 7,337 | 2,888 | 814 | 26,014 |

| 31 December 2015 | AAA | AA | A | BBB | Not rated | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Collective investment schemes | 7,636 | 1,285 | 6,960 | 2,652 | 865 | 19,398 |
| Deposits with credit institutions | - | - | 94 | 330 | - | 424 |
| Reinsurers share of claims outstanding | - | 3,619 | 4,712 | 250 | - | 8,581 |
| Debtors arising out of reinsurance operations | - | 9 | - | - | - | 9 |
| Cash at bank | 770 | - | - | - | 138 | 908 |
| | 8,406 | 4,913 | 11,766 | 3,232 | 1,003 | 29,320 |

**(2) Liquidity risk**

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

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

- A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the Risk and Audit Committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.
- Contingency funding plans are set to meet emergency funding in the event of a large demand on cash.

Maturity profiles

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

## Notes to the Financial Statements (continued)

**14 Risk Management (continued)**

**(3) Liquidity risk (continued)**

| 31 December 2016 | Up to a year £'000 | 1-2 years £'000 | 2-5 years £'000 | 5-10 years £'000 | Over 10 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Outstanding claims liabilities | 4,721 | 3,053 | 3,721 | 1,635 | 1,768 | 14,898 |
| Deposits received from reinsurers | 72 | - | - | - | - | 72 |
| Creditors | 517 | - | - | - | - | 517 |
| | 5,310 | 3,053 | 3,721 | 1,635 | 1,768 | 15,487 |

| 31 December 2015 | Up to a year £'000 | 1-2 years £'000 | 2-5 years £'000 | 5-10 years £'000 | Over 10 years £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Outstanding claims liabilities | 6,808 | 2,615 | 2,520 | 2,410 | 3,513 | 17,866 |
| Deposits received from reinsurers | 214 | 76 | 500 | 1,239 | - | 2,029 |
| Creditors | 579 | - | - | - | - | 579 |
| | 7,601 | 2,691 | 3,020 | 3,649 | 3,513 | 20,474 |

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

(a) currency risk;
(b) interest rate risk; and
(c) equity price risk.

To mitigate the exposure to market risk, for assets backing outstanding claims provisions, market risk is managed by matching the duration and profile of assets to the technical provisions they are backing. This helps manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions.

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

The company is exposed to currency risk in respect of certain liabilities under policies of insurance. The company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

## Notes to the Financial Statements (continued)

**14 Risk Management (continued)**

**(3) Market risk (continued)**

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

| | 2016 AUD £'000 | 2016 USD £'000 | 2016 Euro £'000 | 2015 AUD £'000 | 2015 USD £'000 | 2015 Euro £'000 |
|---|---|---|---|---|---|---|
| Financial investments | 194 | 1,234 | 596 | 860 | 1,192 | 870 |
| Cash at bank | 760 | 156 | 134 | 246 | 180 | 252 |
| | 954 | 1,390 | 730 | 1,106 | 1,372 | 1,122 |
| Creditors | 2,776 | 604 | 533 | 4,268 | 2,417 | 1,318 |

**(a) Interest rate risk**
Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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

The analysis below is performed for reasonably possible movement in interest rates with all other variables held constant, showing the impact on profit before tax and equity of the effects of changes in interest rates on the investment return.

| Changes in variables | Impact on profit before tax £'000 | Impact on equity £'000 |
|---|---|---|
| 31 December 2016 | | |
| - 50 basis points | (77) | (61) |
| 31 December 2015 | | |
| - 50 basis points | (112) | (89) |

The method used for deriving sensitivity information and significant variables did not change from the previous period

**15 Notes to the consolidated statement of cash flows**

Reconciliation of operating profit to net cash inflow from operating activities

| | **2016 £'000** | 2015 £'000 |
|---|---|---|
| Profit on ordinary activities | **(1,240)** | 2,402 |
| Investment income and gains | **(337)** | (1,291) |
| Investment expenses and charges | **72** | 87 |
| Amortisation of goodwill | **3,419** | 83 |
| Decrease in general insurance technical provisions (net) | **(909)** | (4,612) |
| (Increase)/decrease in debtors | **16** | 2,236 |
| Increase/((decrease) in creditors | **(2,092)** | (1,782) |
| (Increase)/decrease in prepayments and accrued income | **(32)** | 505 |
| Corporation tax | **(411)** | (478) |
| **Net cash outflow from operating activities** | **(1,514)** | (2,850) |

# Notes to the Financial Statements (continued)

**16 Provision for deferred consideration**

Further consideration is payable for the acquisition of The Underwriter Insurance Company Limited and is calculated at £1 for each £1 of surplus on the scheme of arrangement operated by The Underwriter Insurance Company Limited up to a surplus of £18.5m. In excess of £18.5m the consideration reduces to 95 pence for each £1 of surplus. This consideration is payable when funds are released from the scheme of arrangement. Following the year end The Underwriter Insurance Company Limited was sold for a consideration of £10,000 with forgiveness of the deferred consideration.

**17 Contingent Liability**

On 20 July 2006, The Underwriter Insurance Company Limited (TUIC) was sold to Ship (2006) Limited. TUIC surrendered its tax losses by group relief up to £71 million to Ship (2006) Limited for an incentive payment of £0.14 in the £. In exchange for facilitating the transaction, the former parent, The Underwriter Group Limited will receive £0.104 in the £ of any proceeds.
HMRC disallowed the group relief and TUIC appealed the decision. HMRC and TUIC agreed that the appeal by TUIC could follow a similar case. The judgement in that appeal was in favour of the appellant and HMRC agreed not to appeal the judgement. The proceeds from the sale of group relief had been held in escrow. The escrow monies were released by the escrow agent on the instructions of all the consortium members except for one company that had been liquidated. The escrow agent released the funds in respect of the liquidated company on the receipt of a deed of indemnity from TUIC. Consequently a contingent liability exists that TUIC will have to refund £353,301 to the escrow agent.

**18 Related party transactions**

TUIC is related to Vibe Services Management Limited ("VSML") which supplies administrative services to TUIC, by virtue of several directors being members of both boards, in addition the companies also have shared offices. The value of transactions with VSML amounted to £408k (2015: £400k) for recharged expenses and service charges. At the end of the year the amount due to VSML from The Underwriter Insurance Company Limited was £132k (2015: £101k).

**19 Capital commitments**

There were no capital commitments at the end of the year (2015: £Nil).

**20 Post Balance Sheet event**

On 31 March 2017, TUIC was sold to its former owner, The Underwriter Group Limited, for £10,000.