STARSTONE

Part of the Enstar Group

StarStone Insurance Limited

Annual Report & Accounts

For the year ended 31 December 2015

Company Number 06447250

STARSTONE

Part of the Enstar Group

STARSTONE INSURANCE LIMITED

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STARSTONE

Part of the Enstar Group

STARSTONE INSURANCE LIMITED

OFFICERS AND PROFESSIONAL ADVISORS
For the year ended 31 December 2015

Directors

Nigel Barton (Chairman)

Tim Fillingham (Chief Executive Officer)

Barnabas Hurst-Bannister – resigned 14 January 2015

Richard Harris – resigned 9 November 2015

David Message

Ian Poynton – appointed 16 January 2015

Demian Smith

Mark Smith – appointed 19 January 2016

Patrick Tiernan

John Wardrop – appointed 15 January 2015

Theo Wilkes

Company Secretary

Siobhan Hextall

Clare Traxler

Company Number

06447250

Registered Office

5th Floor

88 Leadenhall Street

London EC3A 3BP

Auditor

KPMG LLP

15 Canada Square

Canary Wharf

London E14 5GL

STRATEGIC REPORT
For the year ended 31 December 2015

Principal activity

StarStone Insurance Limited ('the Company') is authorised by the Prudential Regulation Authority ("PRA") to conduct general insurance business. The principal activity of the Company is the transaction of specialty insurance business in the London Insurance Market, writing a global portfolio principally in the Construction, Energy (Offshore and Onshore), Power & Utilities, Marine and Excess Casualty and Professional Liability classes.

Results and performance management

The result of the Company for the period, as set out on pages 13 and 14, shows a profit on ordinary activities before tax of USD 8.9m (2014: USD 7.2m).

The Companies Act requires companies to provide both financial information and also to comment on key performance indicators ("KPIs"). The Company operates within a performance management framework that encompasses business planning and ongoing monitoring, as appropriate to an insurance company operating in the London Market.

KPIs are used primarily to compare actual performance to the business plan and include:

Financial KPIs:

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Gross Written Premium	147.1	151.5
Shareholders' Funds	177.3	168.4
Net Investment Income/(Expense)	2.0	3.7

Non-financial KPIs:

The identification and assessment of risks that the Company is exposed to and the assessment of the operation of the controls established to mitigate these risks is documented and managed via a Risk Management System that is reviewed and updated at least quarterly.

Risk management reporting is provided to the Board on a quarterly basis or as required should there be a breach of any of the established thresholds for monitoring risk exposure against established risk appetites.

The Company has established a policy and framework for the production of a forward looking assessment of its own risks (known as the Own Risk and Solvency Assessment or ORSA process). A full ORSA process is performed annually and the resulting document provided to the Directors for approval. In addition, an ad-hoc ORSA process is performed in the event of a defined trigger point occurring – in this instance the ORSA processes are performed to assess the impact of the event on the risk profile and capital and solvency position. The ORSA processes performed will be proportionate to the significance of the trigger event and may result in an ad hoc ORSA report.

Key developments in the year

On 27 November 2015, the Company changed its name from Torus Insurance (UK) Limited to StarStone Insurance Limited to reflect a wider StarStone Group rebranding exercise.

During 2015 particular focus was given to growing the Construction line of business, and gross written premium in this line increased from USD 21.6m in 2014 to USD 57.9m in 2015.

In February 2015 the Company engaged Goldman Sachs Asset Management International to act as the Investment Manager on its investment portfolio, in accordance with approved investment management guidelines.

On 26 February 2015, and with an effective date of 1 January 2015, the Company entered into a quota share agreement to reinsure 100% of the unexpired insurance risk relating to Lloyd's Syndicate 2243 (a syndicate that has been reinsured to close into Lloyd's Syndicate 2008, which itself is managed by StarStone Underwriting Limited, a fellow subsidiary company). The premium paid equated to the net unearned premium net of all deferred acquisition costs carried on the balance sheet as at 1 January 2015. Simultaneously, the existing intragroup reinsurance arrangements with the Company's parent, StarStone Insurance Bermuda Limited ('SIBL'), were endorsed to provide 100% reinsurance for the Company in respect of this unexpired risk. Therefore no additional net insurance risk has been accepted by the Company in respect of these arrangements.

On 17 June 2015 the Company completed a reduction in its Ordinary Share capital from 150,000,000 Ordinary shares of USD 1.00 each to 100,000,000 Ordinary shares of USD 1.00 each. This reduction was effected by way of a special resolution passed by its shareholders and supported by a solvency statement provided by the Company's Directors, in accordance with procedures permitted under the Companies Act 2006 sections 642-644. Ordinary Share capital was reduced by USD 50m, and this amount was transferred to the Company's retained earnings reserve. This is illustrated in the Statement of Changes in Equity on page 17.

During the year, the existing intragroup reinsurance arrangements with the Company's parent, SIBL, were maintained at the same levels, with 100% of technical transactions relating to Discontinued lines of business and 65% of technical transactions relating to Continuing lines of business being ceded.

Strategy and future outlook

The Company will continue to offer a diverse range of specialty business lines through its offices in London and Continental Europe and will continue to give particular emphasis to growth in its Offshore Energy, Construction and Management and Professional Liability underwriting. The Company has developed a robust business plan that it anticipates will enable it to remain flexible and negotiate the challenges presented by the insurance underwriting cycle, with a strong focus on capturing profitable business within its core lines of business.

Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. Policies are subject to Board approval and ongoing review by management, risk management and internal audit. Compliance with regulation, legal and ethical standards is a high priority for the Company and the compliance team and the finance department take on an important oversight role in this regard. The Company's Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively. The main risks the Company is exposed to are:

The risk that policy terms, premiums, reinsurance protection, and claim handling procedures will not be sufficient to cover ultimate loss and expense costs and achieve the rate of return expected by shareholders. Key components and associated controls include:-

- Catastrophe/Clash Risk - risk arising from a loss event or occurrence involving one or more insured and/or lines of business. Key controls include defined risk appetite and tolerance levels, models used to calculate exposure levels and catastrophe control reports overseen by the Underwriting Committee.
- Underwriting Selection Risk - risk of underwriting loss due to poor underwriting selection or errors in terms and conditions on individual accounts. Key controls include defined risk appetite and tolerance levels, formal written and signed underwriting authorities, rules and guidelines, maximum gross and net line sizes and business plans, peer review and Underwriting Committee oversight.
- Underwriting Pricing Risk - risk of underwriting loss due to poor pricing decisions on individual accounts. Key controls include underwriting pricing guidelines, technical pricing tools, peer review process and Underwriting Committee oversight.
- Reserving Risk - risk of potential for deterioration in prior accident year reserves. Key controls include case reserve guidelines, quarterly 'actual versus expected' reviews, peer review process and Reserving Committee oversight.
- Outward Reinsurance Risk - risks associated with unexpected loss arising from inadequate or inappropriate reinsurance and an outsize concentration of risk with any one counterparty. Key controls include guidelines and procedures for purchasing treaty and facultative reinsurance, approved reinsurance security, quarterly reports, and Reinsurance and Broker Security Committee oversight.
- Market Cycle Risk - risk arising from adverse financial loss due to cyclical trends in the industry. Key controls include rate monitoring tools, marketing function, broker and client relationship management, market intelligence reports, and Underwriting Committee oversight.

The Company establishes provisions for unpaid claims, defence costs and related expenses to cover its ultimate liability in respect of both reported claims and incurred but not reported (IBNR) claims. There can be no absolute guarantee that the ultimate losses will not differ materially from the provisions the Company has established. It is particularly difficult to estimate IBNR claims, particularly those arising from large catastrophes.

Reserve estimates are primarily based on recommendations from an annual study performed by StarStone's external actuarial consultants, Ernst & Young LLP. The external study is subject to review and robust challenge by StarStone's actuarial reserving function, the Reserving Committee and is ultimately approved by the Company's Board. In the interim quarters between the annual external reviews, a detailed 'actual versus expected' analysis is performed by the reserving actuarial function to ensure that the established reserves are still appropriate and this is reviewed by the Reserving Committee.

Principal risks and uncertainties (continued)

Financial Risk

The Company is exposed to a range of financial risks through its financial assets, financial liabilities (investment contracts), reinsurance assets and policyholder liabilities. In particular, the key financial risk is that proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important components of this financial risk are market risk (including interest rate risk and currency risk), credit risk and liquidity risk. These risks arise from interest rate and currency products, all of which are exposed to general and specific market movements.

The Company's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on StarStone's financial performance. The Company produces regular reports that are summarised for the Company's board. The key financial risks the Company is exposed to are:

- Market risk is the risk that future changes in market prices may make a financial instrument less valuable. The primary risk is the interest rate risk and its impact on values as the majority of the investments of the Company are bonds, asset and mortgage backed securities and deposits.

- 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:

  - reinsurers' share of insurance liabilities;
  - amounts due from reinsurers in respect of claims already paid;
  - amounts due from insurance contract holders;
  - amounts due from insurance intermediaries; and
  - amounts due from corporate bond issuers and issuers of collateralised mortgage obligations.

  The Company manages the levels of investment credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparty, and to geographical and industry segments. Such guidelines are subject to regular review and oversight by the Investment Committee and the Reinsurance & Broker Security Committee.

  Reinsurance is used to manage insurance risk. This does not, however, discharge the Company's liability as primary insurer. If a reinsurer fails to pay a claim, the Company remains liable for the payment to the policyholder.

  The creditworthiness of reinsurers is considered on a regular basis by reviewing their financial strength. In addition, management assesses the creditworthiness of all reinsurers by reviewing credit grades provided by rating agencies and other publicly available financial information. If reinsurer ratings fall below the requirements set by the Reinsurance and Broker Security Committee, a reinsurer will no longer be used.

Principal risks and uncertainties (continued)

Financial Risk (continued)

- Liquidity risk is the risk that the Company may be unable to meet payment of obligations when due at a reasonable cost. The primary liquidity risk is the obligation to pay claims to policyholders as they fall due. The projected value of these liabilities is modelled, on a regular basis, using actuarial techniques. The Board sets the appetite for the minimum proportion of maturing funds available to meet such calls that should be in place to cover anticipated liabilities and unexpected levels of demand. Performance against this appetite is monitored quarterly by the Investment Committee.

- Investment risk is the risk that the investments the Company makes perform below expectations. The Company manages its investments taking into account market risk, currency risk, liquidity risk and credit risk and performance against established risk appetite is monitored quarterly by the Investment Committee.

The Company's approach is that investment activities are complementary to the primary underwriting activities of the business and should not, therefore, divert or utilise financial resources otherwise available for insurance operations.

The maintenance of sufficient capital and liquidity to support the business is at the heart of the Company's Asset-Liability Management, Capital Management, Investment Risk and Liquidity Risk policies, together with the aim for long-run enhancement of investment returns through the efficient diversification of investments across a range of high quality fixed income sectors managed by experienced investment professionals.

Subject to liquidity requirements, the Company invests the remainder of funds in fixed income securities managed by professional portfolio managers.

The manager operates within a defined set of investment guidelines, which comprise details of the investment asset classes from which the manager may select securities and any exposure limits applied to asset classes and counterparties within that universe of asset classes.

The Company measures the performance of the manager against an appropriate benchmark for the asset class under management.

Operational Risk

This reflects the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. The Company maintains a control environment which is subject to risk assessment to determine control effectiveness and a programme of internal audits. Emerging Operational Risk is monitored by the Finance & Operations Committee.

Strategic Risk

This reflects the risk of loss associated with inadequate or flawed business planning or strategy setting, including product mix, mergers or acquisitions and market positioning; and unexpected changes within the market or regulatory environment in which StarStone operates. Strategic planning by line of business drives the Company's specific financial plan.

Principal risks and uncertainties (continued)

Group Risk

Risks from other group entities which may impact on the operation of the Company's risk in regard to parental influence are managed through the Company's Board and Audit Committee and its representation at Group committees. The Company's regulatory requirements are maintained by local compliance functions and its capital requirements are subject to trust fund controls.

Eurozone exposure

Risks in regard to Eurozone have been assessed and reported to the Company's Audit Committee and Board. The assessment has considered investment portfolio devaluation, reinsurer default, professional lines exposure, coverholder default, and currency reinstatement exposures from both a contractual and systems perspective. At this time these exposures are not shown to be material, although the assessment includes mitigation factors such as contract clauses and the currency transaction capability of the policy administration system. The risk management function continues to monitor exposure, including a quarterly run of the European Sovereign Debt Crisis scenario on the Company's investment portfolio and collation of reinsurer downgrade data for review at the Reinsurance and Broker Security Committee.

Regulatory Risk - Solvency II

On 31 March 2015 Solvency II was formally transposed into the PRA rulebook, subject to the European Insurance and Occupational Pension Authority (EIOPA) issuing the final Technical Specifications in line with the published milestones. In order to manage the risks of both failing to comply with these requirements by 1 January 2016 and failing to embed an effective Solvency II risk management framework as business as usual, the Company has a Solvency II Programme, with dedicated programme management and embedded technical expertise, overseen by a Steering Group to ensure it meets its obligations to implement all of the ongoing requirements from 1 January 2016.

The Company is not part of the IMAP process, the Board having deemed the Standard Formula as being appropriate to the limited complexity and risk profile of the Company business model. The Company benefits from operating within the wider Enstar, StarStone and Lloyd's Solvency II compliant environment, where a Solvency II compliant operating model has been developed and implemented.

By order of the Board

C Traxler

Clare Traxler
Company Secretary

29 February 2016

DIRECTORS' REPORT
For the year ended 31 December 2015

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

Share capital

The share capital of the company as at 31 December 2015 consists of 100m Ordinary shares of USD 1.00 each (2014: USD 150m) and 50m Preference shares of USD 1.00 each (2014: USD 50m).

Dividends

The Directors have not declared nor proposed any dividends.

Directors

The names of the Directors in place during the period and the current Directors are listed on page 1.

Indemnity insurance

A policy of indemnity insurance cover to the benefit of the directors of the Company has been in force during the year ended 31 December 2015 and at the date of this report.

Going concern

The Directors consider that it remains appropriate to prepare the financial statements on a going concern basis. The rationale for this decision is provided in the Basis of Preparation note on page 18.

Branches outside the United Kingdom

The Company has underwriting branches in Rotterdam, Paris and Milan.

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 auditor is 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 him aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditors

The board has decided to put KPMG LLP forward to be re-appointed as auditors and the resolution concerning their appointment will be put forward for approval at the forthcoming board meeting.

By order of the Board

C Traxler

Clare Traxler
Company Secretary

29 February 2016

Statement of Directors' Responsibilities in respect of the Directors' report, Strategic report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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 estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

By order of the Board

C Traxler

Clare Traxler
Company Secretary

29 February 2016

Independent auditor's report to the Members of StarStone Insurance Limited

We have audited the financial statements of StarStone Insurance Limited for the year ended 31 December 2015 set out on pages 13 to 50. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, having regard to the statutory requirement for insurance companies to maintain equalization provisions. The nature of equalization provisions, including the amounts set aside at 31 December 2015, the effect of the movement in those provisions during the year on shareholders' funds, as well as the impact on the general business technical account and profit before tax, are disclosed in note 20.

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 10, 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

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to take advantage of the small companies exemption from the requirement to prepare a strategic report.

Ben Priestley (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

29 February 2016

STARSTONE

Part of the Enstar Group

STARSTONE INSURANCE LIMITED

INCOME STATEMENT
For the year ended 31 December 2015

Company Number
06447250

Technical account – general business

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
		USDm	USDm
Earned premiums, net of reinsurance			
Gross premiums written	7	147.1	151.5
Outward reinsurance premiums		(121.3)	(158.4)
Net premiums written		25.8	(6.9)
Change in the gross provision for unearned premiums	18	(6.6)	47.7
Change in the gross provision for unearned premiums, reinsurers' share	18	5.5	(36.0)
Earned premiums, net of reinsurance		24.7	4.8
Allocated investment return transferred from the non-technical account	13	2.0	3.7
Total technical income		26.7	8.5
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		96.2	207.5
Reinsurers' share		(81.1)	(183.4)
		15.1	24.1
Change in the provision for claims	19		
Gross amount		(16.9)	(67.8)
Reinsurers' share		10.1	35.9
		(6.8)	(31.9)
Claims incurred, net of reinsurance		8.3	(7.8)
Net operating expenses	8	13.5	13.1
Change in equalisation provision	20	0.3	0.9
Total technical charges		22.1	6.2
Balance on the technical account – general business		4.6	2.3

The accounting policies and accompanying notes on pages 18 to 50 form part of these financial statements.

STARSTONE
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STARSTONE INSURANCE LIMITED

INCOME STATEMENT
For the year ended 31 December 2015

Company Number
06447250

Non-technical account

	Notes	Year ended 31 December 2015	Year ended 31 December 2014
		USDm	USDm
Balance on the technical account		4.6	2.3
Investment income	13	2.9	4.3
Unrealised losses on investments	13	(0.7)	(0.5)
Investment expenses and charges	13	(0.2)	(0.1)
Allocated investment return transferred to the general business technical account	13	(2.0)	(3.7)
Net foreign exchange gain		4.2	4.9
Total operating profit		**8.9**	**7.2**
Profit on ordinary activities before tax		8.9	7.2
Tax on profit on ordinary activities	14	-	-
Profit for the financial year		**8.9**	**7.2**

Statement of Comprehensive Income

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Profit for the financial year	8.9	7.2
Other comprehensive income	-	-
Tax on comprehensive income	-	-
Other comprehensive income net of tax	-	-
Total comprehensive income for the year	**8.9**	**7.2**

The accounting policies and accompanying notes on pages 18 to 50 form part of these financial statements.

STARSTONE

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STARSTONE INSURANCE LIMITED

BALANCE SHEET
For the year ended 31 December 2015

Company Number
06447250

Assets

	Notes	31 December 2015	31 December 2014
		USDm	USDm
Investments			
Debt securities and other fixed-income securities	**15**	174.8	152.7
		174.8	152.7
Reinsurers' share of technical provisions			
Provision for unearned premiums	**18**	103.0	97.6
Claims outstanding	**19**	298.7	316.0
		401.7	413.6
Debtors			
Debtors arising out of direct insurance operations -intermediaries		77.3	70.6
Debtors arising out of reinsurance operations		18.9	16.7
Other debtors	**16**	1.1	20.5
		97.3	107.8
Other assets			
Cash at bank and in hand		16.9	44.5
		16.9	44.5
Prepayments and accrued income			
Accrued interest		1.1	0.8
Deferred acquisition costs	**17**	23.8	24.0
		24.9	24.8
Total assets		**715.6**	**743.4**

The accounting policies and accompanying notes on pages 18 to 50 form part of these financial statements.

BALANCE SHEET
For the year ended 31 December 2015

Company Number
06447250

Liabilities

	Notes	31 December 2015	31 December 2014
		USDm	USDm
Technical provisions			
Provision for unearned premiums	**18**	128.6	124.6
Claims outstanding	**19**	334.5	368.1
Equalisation provision	**20**	8.5	8.2
		471.6	500.9
Creditors			
Creditors arising out of direct insurance operations		1.3	3.3
Creditors arising out of reinsurance operations		29.5	31.4
Other creditors including taxation and social security	**21**	4.6	4.9
		35.4	39.6
Accruals and deferred income	**22**	31.3	34.5
Total liabilities		538.3	575.0
Capital and reserves			
Called up share capital	**24**	100.0	150.0
Preference shares	**24**	50.0	50.0
Capital contribution		55.3	55.3
Retained earnings		(28.0)	(86.9)
Total shareholders' funds		177.3	168.4
Total shareholders' funds and liabilities		**715.6**	**743.4**

The accounting policies and accompanying notes on pages 18 to 50 form part of these financial statements.

These financial statements were approved by the Board of Directors on 29 February 2016 and signed on their behalf by

TS

Theo Wilkes
Director

29 February 2016

STARSTONE
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STARSTONE INSURANCE LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2015

Company Number
06447250

	Called-up Share Capital	Capital Contribution	Retained Earnings	TOTAL
	USDm	USDm	USDm	USDm
At 31 December 2013 as previously stated	200.0	55.3	(94.1)	161.2
Changes on transition to FRS 102 & 103 (Note 1)	-	-	-	-
At 1 January 2014 as restated	**200.0**	**55.3**	**(94.1)**	161.2
Profit for the financial year as previously reported	-	-	5.2	**5.2**
Changes on transition to FRS102 & 103 (Note 1)	-	-	2.0	**2.0**
At 31 December 2014 as restated	**200.0**	**55.3**	**(86.9)**	**168.4**
Profit for the financial year	-	-	8.9	**8.9**
Capital reduction	(50.0)	-	50.0	-
At 31 December 2015	**150.0**	**55.3**	**(28.0)**	**177.3**

The accounting policies and accompanying notes on pages 18 to 50 form part of these financial statements.

1. Basis of preparation

StarStone Insurance Limited ("the Company"), formerly "Torus Insurance (UK) Limited" is a company limited by shares and incorporated and domiciled in the UK. The financial statements are presented for the year ended 31 December 2015.

The financial statements have been prepared in accordance with the provisions of Section 396 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements have been prepared under the historical cost convention, modified to include certain items at fair value, and in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) as issued by the Financial Reporting Council.

In the transition to FRS 102 from the previous UK GAAP as modified by the revaluation of investments, the only adjustments to measurement and recognition that the Company has made relate to the retranslation of any provisions for unearned premium reserves and deferred acquisition costs that are denominated in currencies other than USD from historic rate to the closing rate ruling at each balance sheet date. In accordance with the transitional requirements of FRS 102, the Company has reflected the retranslation as follows:

- 31 December 2013 net assets – Retained Earnings restated to reflect closing exchange rates. As there was no material difference between historic rates and closing rate at this date, no adjustment to retained earnings was required.
- Year ended 31 December 2014 – Income Statement and associated notes restated to reflect closing rates.
- Year ended 31 December 2015 – Income Statement and associated notes prepared using FRS 102 basis.

In accordance with FRS 103, the Company has applied existing accounting policies for insurance contracts.

The presentation and functional currency of these financial statements is US dollars. All amounts in the financial statements have been rounded to the nearest USD million, to one decimal place.

The Company's immediate parent undertaking, StarStone Insurance Bermuda Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of StarStone Insurance Bermuda Limited are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and are available to the public. In these financial statements, the Company is considered to be a qualifying entity (for the purposes of FRS 102) and has applied the exemptions available under FRS 102 in respect of the Cash Flow Statement and related notes and reconciliation of the number of shares outstanding. The Directors have received written confirmation from the Directors of StarStone Insurance Bermuda Limited that the approach of utilising this exemption is acceptable to them.

Going concern

Having reviewed the capital resources and cash available to the Company along with budget and capital forecasts for future periods, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2. Use of judgements and estimates

In preparing these financial statements, the Directors of the Company have made judgements, estimates and assumptions that affect the application of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for unpaid losses comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Company.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Company's in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience, the development of claims over time in view of the likely ultimate claims to be experience and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

The principal risks and uncertainties of the business have been addressed within the Strategic Report on pages 2 to 7. Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

3. Summary of significant accounting policies

The significant accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Insurance operations

Written Premiums – Premiums, both direct and assumed are recognised as written upon inception of the policy. Any subsequent adjustments to written premiums are recognised in the period in which they are determined. Even where the Company has written policies which are greater than one year in duration and the premium is payable in annual instalments, the total premium under the policy is recognised as written premium at the policy inception date and earned as noted below. Where there is a long term agreement in place and policies are subject to annual re-signing, these policies will be recognised as written premium when the policy is re-signed.

3. Summary of significant accounting policies (continued)

Earned Premiums – Premiums are earned as revenue over the period of the contract in proportion to the level of protection provided. Generally this is on a pro-rata basis over the term of the policies to which they relate or according to a determined set of earnings patterns. Where the amount of insurance protection varies according to a predetermined schedule, the premium is earned over the period of cover in line with the underwriter's assessment of the level of protection provided.

Due to early financial reporting requirements of the Company's ultimate holding company, there are no net earned premiums, acquisition costs and related losses recorded for premiums written in the month of December 2015.

Reinsurance – Ceded reinsurance premiums are recognised in the same accounting period as the related insurance. Reinsurance premiums ceded are expensed over the period under which the coverage is provided. For contracts written on a 'losses occurring during basis', the reinsurance premiums are earned on a pro-rata basis over the term of the contract. For contracts written on a 'risk attaching basis', the reinsurance premiums are earned based on the terms of the underlying contracts.

Reinsurance reinstatement premiums – Where a mandatory reinstatement premium is payable under the contract terms after a loss event has occurred, the reinstatement premiums are recorded as written and fully earned at the date of the loss.

Risk transfer – With respect to ceded business, reinsurance accounting is only applied on reinsurance contracts where the risk transfer requirements have been met including the following key conditions:

(a) The reinsurer assumes significant insurance risk under the reinsured portions of the underlying insurance contracts; and
(b) It is reasonably possible that the reinsurer may realise a significant loss from the transaction.

Acquisition Costs – Acquisition costs comprise those costs that are incurred, directly and indirectly, in the acquisition of new and renewed insurance contracts. These consist of commissions, premium taxes, underwriting costs and other costs, which vary with and are primarily related to, the acquisition of premiums.

Deferred acquisition costs – Acquisition costs are deferred and amortised over the same period and on the same basis as that under which the related premiums are earned. For this purpose, a proportion of the salaries and travel costs of underwriters, pricing actuaries and engineers are allocated to acquisition costs and deferred in line with the overall proportion of the deferral of acquisition costs.

Unexpired risk provision – Provision is made for any deficiencies arising when unearned premiums, net of associated acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risk provision. The expected claims are calculated based on information available at the balance sheet date. Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises.

3. Summary of significant accounting policies (continued)

Unpaid losses – A liability for unpaid losses is established where the insured event has occurred on or before the balance sheet date. The reserve for the unpaid losses is recommended by Ernst & Young LLP ('EY') and reviewed by the Company. EY's recommendation is based on the estimated ultimate cost of settling claims and includes provisions for both reported claims (case reserves) and estimates relating to incurred but not reported claims ("IBNR").

Due to the early financial reporting requirements of the Company's ultimate holding company, there are no reported claims and related reinsurance recoveries recorded for the month of December 2015. Net claims incurred is based upon estimates of the ultimate cost of settling claims through to 31 December 2015 and include IBNR reserves.

Therefore there is no impact on net claims incurred as a result of this change. Claims paid not accrued of USD 9.4m (2014: USD 6.9m) are included as an asset in the Balance Sheet within Debtors arising out of direct insurance operations - intermediaries.

IBNR is generally subject to a greater degree of uncertainty than reported claims. Classes of business where the IBNR proportion of the total reserve is high will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves.

Classes of business 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. In the initial years, the estimation of the claims will be based on pricing assumptions and comparison to industry benchmarks. Once adequate data is available, the estimation is 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 Company processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- any 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 the Company has regard to the claim circumstance as reported, any information available from loss adjusters and any available information on the cost of settling claims with similar characteristics.

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 distorting effect of the development and incidence of these large claims.

3. Summary of significant accounting policies (continued)

Unpaid losses

Where possible multiple techniques are utilised to estimate their recommended level of provisions. This assists the Company in gaining greater understanding of the trends inherent in the data being projected. The projections given by 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 net of any estimated amounts of salvage and subrogation recoveries, but gross of any reinsurance recoveries. No benefit has been taken for discounting the reserves

Loss adjustment expenses – A liability is established for all costs expected to be incurred in connection with the settlement of unpaid claims. These include the direct cost relating to the investigation of the claims and other costs which cannot be associated with specific claims but are related to claims paid or in the process of settlement such as internal costs of the claims functions.

Reinsurance recoverable on unpaid losses – Reinsurance recoverables are balances due from reinsurance companies for paid and unpaid losses and loss expenses that are expected to be recoverable from reinsurers under the terms of the reinsurance agreements.

Reinsurance recoverable will be stated net of a reserve for uncollectable reinsurance. This reserve will be calculated based on management's estimate of any amounts that the Company would be unable to recover from the reinsurer due to insolvency or known liquidity issues, contractual dispute or any other reason which in management's judgement is likely to warrant a reserve against a particular reinsurer.

In the determination of the reserve for uncollectable reinsurance, the Company will consider the recoverable balance by reinsurer net of any collateral held. The definition of collateral for this purpose is generally limited to assets held in trust, letters of credit and liabilities held by the Company with the same legal entity for which the Company believes there is a legal right of offset.

Financial Assets & Liabilities

In applying FRS 102, the Company has chosen to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those value are presented in the statement of profit and loss and other comprehensive income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

3. Summary of significant accounting policies (continued)

Financial Assets & Liabilities

Classification (continued)

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Company's Investment Strategy.

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control of substantially all risks and rewards of the assets. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expired.

Measurement

A financial asset or financial liability is measure initially at fair value plus, for a financial asset or financial liability not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue.

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Loans and receivables and non-derivative financial liabilities are measured at amortised cost using the effective interest method.

Identification and measurement of impairment

At each reporting date the Company assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

3. Summary of significant accounting policies (continued)

Identification and measurement of impairment

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Company about any significant financial difficult of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Company currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investment return

Investment income comprises interest income, dividends receivable and realised investment gains. Investment return comprises investment income and movements in unrealised gains and losses on financial instruments at fair value through profit or loss, less investment management expenses, interest payable, realised losses and impairment losses.

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Interest income on financial assets measured at amortised cost is recognised using the effective interest method. For the purpose of separately presenting investment income and unrealised gains and losses for financial assets at fair value through profit or loss, interest income is recognised as it accrues on the next coupon payment.

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measure at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

3. Summary of significant accounting policies (continued)

Investment return (continued)

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognise unrealised gains and losses in respect of investment disposed of in the current period.

Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

Equalisation provision

An equalisation provision has been established in accordance with the requirements of INSPRU 1.4 of the PRA Prudential Sourcebook for Insurers to mitigate exceptionally high loss ratios for classes of business displaying a high degree of claims volatility. The amounts provided are not liabilities because they are in addition to the provisions required to meet the anticipated ultimate cost of settlement of outstanding claims at the balance sheet date. Notwithstanding this, they are required by Schedule 3 of the Large and Medium sized companies and Groups (Accounts and Reports) Regulations 2008 to be included within technical provisions.

Preference shares

The Company has issued Preference shares which are cumulative and mandatorily redeemable at the option of the issuer (see Note 24).

Foreign currencies

The functional and the reporting currency of the Company is the United States dollar.

Monetary assets and liabilities that are denominated in currencies other than the functional currency are revalued at the period end rates of exchange. The gains and losses arising from the revaluation are included in the profit and loss account. In accordance with FRS 103, the unearned premium reserve and deferred acquisition costs are treated as monetary assets and liabilities.

Revenues and expenses that are denominated in foreign currencies are translated at the average rates of exchange for the period they transacted.

Realised gains and losses from non-functional currencies that arise from the settlement of transactions at rates of exchange that differ from those prevailing when the transaction was originally recorded are recorded in the profit and loss account.

3. Summary of significant accounting policies (continued)

Operating leases

The rental cost associated with operating leases is charged to the profit and loss account on a straight line basis over the life of the lease.

Taxation

The charge for taxation is based on the profits or losses for the year and takes into account deferred taxation. Provision is made for deferred tax liabilities, using the liability method, on all material timing differences, including revaluation gains and losses on investments recognised in the profit and loss account. Deferred tax is calculated at the rates at which it is expected that the tax will arise. Deferred tax is recognised in the profit and loss account for the period to the extent to which it is expected to be recoverable or is attributable to a gain or loss that is recognised directly in the statement of total recognised gains and losses. Deferred tax balances are not discounted.

4. Capital management

The Company complies with all regulatory and rating agency solvency requirements. The Company adopts conventional actuarial and other methods to assess the risks to its solvency on a forward looking basis. The Company's capital management strategy is to deploy capital efficiently and to maintain adequate loss reserves to protect against future adverse developments and other risks. The capital structure of the Company consists of equity attributable to the equity holders of the parent, comprising issued capital, and retained earnings as disclosed in the Statement of Changes in Equity. Reinsurance is also used as part of risk mitigation and capital management.

The Company was in compliance with capital requirements imposed by regulators throughout the financial year.

The capital requirement of the Company is determined by its exposure to risk and the solvency criteria established by management and statutory regulations. The table below sets out the statutory minimum capital requirement and the Company's available capital (prior to Solvency II full implementation which is effective 1 January 2016).

	Unaudited 2015	2014
	USDm	USDm
Statutory minimum capital requirement	18.6	26.9
Total available capital resources	172.2	139.6
Excess	153.6	112.7

5. Financial risk management

The focus of financial risk management is ensuring that the proceeds from the Company's financial assets and the timing of the resulting cash flows are sufficient to fund the obligations arising from its insurance liabilities. The Company monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks.

i. Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The key areas of exposure to credit risk for the Company are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries.

The objective of the Company in managing its credit risk is to ensure risk is managed in line with the Company's risk appetite. The Company has established policies and procedures in order to manage exposure to credit risk and methods to quantify exposure.

There were no material changes in the Company's credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

Credit risk management

The Company's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's. The Company has a policy of investing in mainly investment grade assets (i.e. those rated BBB and above).

The Company limits the amount of cash that can be deposited with a single counterparty and maintains an authorised list of acceptable cash counterparties.

Exposure to credit risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Company does not hold any collateral as security or purchase any credit enhancements.

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash and other debtors and accrued interest.

5. Financial risk management (continued)

Exposure to credit risk (continued)

Year 2015	**AAA**	**AA**	**A**	**BBB**	**Not rated**	**Total**
	USDm	USDm	USDm	USDm	USDm	USDm
Financial investments:						
- Debt securities and other fixed income securities	8.3	81.3	66.0	16.7	2.5	174.8
Reinsurer's share of technical provisions	-	60.8	39.9	1.8	299.2	401.7
Debtors arising out of direct insurance operations	-	-	-	-	77.3	77.3
Debtors arising out of reinsurance operations	-	-	-	-	20.0	20.0
Cash	-	-	16.9	-	-	16.9
Prepayments and accrued income	-	-	-	-	24.9	24.9
Total	**8.3**	**142.1**	**122.8**	**18.5**	**423.9**	**715.6**

Year 2014	**AAA**	**AA**	**A**	**BBB**	**Not rated**	**Total**
	USDm	USDm	USDm	USDm	USDm	USDm
Financial investments:						
- Debt securities and other fixed income securities	33.7	68.0	38.3	2.7	10.0	152.7
Reinsurer's share of technical provisions	-	62.7	41.1	1.9	307.9	413.6
Debtors arising out of direct insurance operations	-	-	-	-	70.6	70.6
Debtors arising out of reinsurance operations	-	-	-	-	37.2	37.2
Cash	-	-	44.5	-	-	44.5
Prepayments and accrued income	-	-	-	-	24.8	24.8
Total	**33.7**	**130.7**	**123.9**	**4.6**	**450.5**	**743.4**

5. Financial risk management (continued)

Exposure to credit risk (continued)

The Company has debtors arising from direct insurance and reinsurance operations and may make a provision for non-recovery after undertaking an assessment of the counterparty's financial position and likelihood of recoverability. Details of the Company's debtors arising from direct insurance and reinsurance operations both before and after provision for non-recoverability is shown below.

	2015	2014
	USDm	USDm
Debtors arising out of direct and reinsurance operations:		
Before provision for non-recoverability	112.6	102.2
After provision for non-recoverability	97.7	87.3

ii. Liquidity risk

Liquidity risk is the risk that the Company cannot dispose of its investments and other assets in order to meet its obligations associated with insurance contracts and financial liabilities as they fall due. The Company has adopted an appropriate liquidity risk appetite and monitoring process for the management of the Company's liquidity requirements. The Company manages liquidity risk by maintaining banking facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities such that it will always have sufficient liquidity to meet its liabilities when they fall due. In practice, most of the Company's assets are marketable securities which could be converted in to cash when required.

There were no material changes in the Company's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

The maturity analysis presented in the table below shows the remaining contractual maturities for the Company's insurance contracts and financial instruments. For insurance contracts, the contractual maturity is the estimated by the actuarial assessment of future cash flows.

5. Financial risk management (continued)

ii. Liquidity risk (continued)

Exposure to Liquidity Risk

Year 2015	**Carrying Amount**	**Total cash flows**	**< 1 year**	**1 – 2 years**	**2 – 5 years**	**5 years +**
	USDm	USDm	USDm	USDm	USDm	USDm
Financial investments:						
- Debt securities and other fixed income securities	174.8	191.2	23.6	38.1	114.0	15.5
Reinsurer's share of technical provisions	401.7	401.7	220.9	120.5	40.2	20.1
Debtors – direct business	77.3	77.3	61.8	15.5	-	-
Debtors – reinsurance and other	20.0	20.0	20.0	-	-	-
Other assets	16.9	16.9	16.9	-	-	-
Prepayments and accrued income	24.9	24.9	24.9	-	-	-
Total assets	**715.6**	**732.0**	**368.1**	**174.1**	**154.2**	**35.6**
Technical provisions	471.6	471.6	258.1	142.3	47.4	23.8
Creditors	35.4	35.4	35.4	-	-	-
Accrued and deferred income	31.3	31.3	31.3	-	-	-
Total liabilities	**538.3**	**538.3**	**324.8**	**142.3**	**47.4**	**23.8**
Net Assets	**177.3**	**193.7**	**43.3**	**31.8**	**106.8**	**11.8**

5. Financial risk management (continued)

Exposure to Liquidity Risk

Year 2014	**Carrying Amount**	**Total cash flows**	**< 1 year**	**1 – 2 years**	**2 – 5 years**	**5 years +**
	USDm	USDm	USDm	USDm	USDm	USDm
Financial investments:						
- Debt securities and other fixed income securities	152.7	167.0	20.6	33.3	99.6	13.5
Reinsurer's share of technical provisions	413.6	413.6	227.3	124.2	41.4	20.7
Debtors – direct business	70.6	70.6	56.5	14.1	-	-
Debtors – reinsurance and other	37.2	37.2	37.2	-	-	-
Other assets	44.5	44.5	44.5	-	-	-
Prepayments and accrued income	24.8	24.8	24.8	-	-	-
Total assets	**743.4**	**757.8**	**410.9**	**171.6**	**141.0**	**34.3**
Technical provisions	500.9	500.9	274.2	151.1	50.4	25.2
Creditors	39.6	39.6	39.6	-	-	-
Accrued and deferred income	34.5	34.5	34.5	-	-	-
Total liabilities	**575.0**	**575.0**	**348.3**	**151.1**	**50.4**	**25.2**
Net Assets	**168.4**	**182.8**	**62.6**	**20.5**	**90.6**	**9.1**

iii. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk and other price risk.

The objective of the Company in managing its market risk is to ensure risk is managed in line with the Company's risk profile and risk appetite.

The Company manages market risk using a Value at Risk ('VaR') approach that reflects interdependencies between market risk types across the entire investment portfolio. The basis of VaR calculation is the Blackrock risk modelling platform and the Company interprets the Bank of England guidance to consider 'normal' VaR and 'stressed' VaR ('sVaR') market conditions to provide a total VaR for market risk.

The Company's policies and procedures for managing market risk have been developed within the Solvency II regulatory framework which requires sensitivities to risk to be measured.

5. Financial risk management (continued)

iv. Interest rate risk

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

The Company is exposed to interest rate risk primarily from financial investments, cash and deposits. The risk of changes in the fair value of these assets is managed by investing in a diversified portfolio of securities.

The Company does not invest in derivative instruments.

v. Currency risk

The Company writes business primarily in US dollars, Sterling and Euros and is therefore exposed to currency risk arising from fluctuations in the exchange rates of US dollars against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled in order to match the currency risk.

The table below summarises the carrying value of the assets and liabilities at the reporting date:

Year 2015	**US Dollar**	**Sterling**	**Euro**	**Other**	**Total**
	USDm	USDm	USDm	USDm	USDm
Financial investments:					
- Debt securities and other fixed income securities	137.1	37.7	-	-	174.8
Reinsurer's share of technical provisions	390.8	5.6	5.3	-	401.7
Debtors – Direct business	41.2	14.1	17.3	4.7	77.3
Debtors – Reinsurance and other	19.5	0.4	0.0	0.1	20.0
Cash	10.8	3.5	1.4	1.2	16.9
Prepayments and accrued income	18.8	3.0	0.9	2.2	24.9
Total assets	**618.2**	**64.3**	**24.9**	**8.2**	**715.6**
- Technical provisions	346.7	83.3	28.5	13.1	471.6
- Creditors	33.5	0.5	1.3	0.1	35.4
- Accrued and deferred income	31.6	(0.2)	(0.0)	-	31.3
Total liabilities	**411.8**	**83.6**	**29.7**	**13.2**	**538.3**
Net Assets	**206.4**	**(19.3)**	**(4.8)**	**(5.0)**	**177.3**

5. Financial risk management (continued)

v. Currency risk (continued)

Year 2014	US Dollar	Sterling	Euro	Other	Total
	USDm	USDm	USDm	USDm	USDm
Financial investments:					
- Debt securities and other fixed income securities	152.7	-	-	-	152.7
Reinsurer's share of technical provisions	413.6	-	-	-	413.6
Debtors – Direct business	52.8	3.1	8.6	6.1	70.6
Debtors – Reinsurance and other	37.2	-	-	-	37.2
Cash	16.6	5.8	11.2	10.9	44.5
Prepayments and accrued income	17.5	1.7	1.5	4.1	24.8
Total assets	**690.4**	**10.5**	**21.4**	**21.1**	**743.4**
- Technical provisions	350.3	69.9	48.1	32.6	500.9
- Creditors	39.6	0.0	0.0	-	39.6
- Accrued and deferred income	34.2	0.3	0.0	0.0	34.5
Total liabilities	**424.1**	**70.3**	**48.1**	**32.6**	**575.0**
Net Assets	**266.3**	**(59.8)**	**(26.7)**	**(11.5)**	**168.4**

vi. Other price risk (Equity and Spread Risk)

The Company is exposed to price risk arising from fluctuations in the value of financial instruments as a result of changes in the market prices and the risks inherent in all investments. The Company has no significant concentration of price risk. The risk is managed by the Company by maintaining an appropriate mix of investment instruments.

Sensitivity analysis to market risks for financial instruments

An analysis of the Company's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

5. Financial risk management (continued)

Sensitivity analysis to market risks for financial instruments (continued)

	2015 Profit or (Loss) for the year	2014 Profit or (Loss) for the year
	USDm	USDm
Interest rate risk		
0.5% increase in (US$) interest rates	(2.6)	(2.2)
0.5% decrease in (US$) interest rates	2.6	2.2
Currency risk		
5% increase in GBP/US dollar exchange rates	(1.0)	(3.1)
5% decrease in GBP/US dollar exchange rates	1.0	3.1
5% increase in Euro/US dollar exchange rates	(0.2)	(1.4)
5% decrease in Euro/US dollar exchange rates	0.2	1.4
Market price risk		
5% increase in fair value	8.9	7.6
5% decrease in fair value	(8.9)	(7.6)

The impact of the reasonably possible changes in the risk variables on Shareholders' Equity would be the same, since the Company recognises all changes in recognised assets and liabilities in the profit or loss.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Company's investments are actively managed. Additionally, the sensitivity analysis is based on the Company's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, action would be taken which would alter the Company's position.

Fair value

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Company applies valuation techniques to measure such instruments.

The table below shows financial assets carried at fair value through profit or loss grouped into the level of fair value hierarchy into which each fair value measurement is categorised.

5. Financial risk management (continued)

Fair value (continued)

Level A: Quoted prices for an identical asset in an active market (usually at bid price).

Level B: When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place.

Level C: If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique.

	Level A 2015	Level B 2015	Level C 2015	Total 2015
	USDm	USDm	USDm	USDm
Measured at fair value through profit or loss				
Debt securities and other fixed income securities	61.1	113.7	-	174.8
Financial Assets as at 31 December 2015	61.1	113.7	-	174.8

	Level A 2014	Level B 2014	Level C 2014	Total 2014
	USDm	USDm	USDm	USDm
Measured at fair value through profit or loss				
Debt securities and other fixed income securities	37.2	115.5	-	152.7
Financial Assets as at 31 December 2014	37.2	115.5	-	152.7

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

5. Financial risk management (continued)

Fixed maturity investments

Fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment custodians, investment accounting service providers and investment managers, each of which utilise internationally recognised independent pricing services. The unadjusted price provided by the investment custodians, investment accounting service providers or the investment managers is recorded and the price is validated through a process that includes, but is not limited to: (i) comparison of prices against alternative pricing sources; (ii) quantitative analysis (eg comparing the quarterly return for each managed portfolio to its target benchmark); (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing; and (iv) comparing the price to the Company's knowledge of the current investment market.

The independent pricing services used by the investment custodians, investment accounting service providers and investment managers obtain actual transaction prices for securities that have quoted prices in active markets. For determining the fair value of securities that are not actively traded, in general, pricing services use "matrix pricing" in which the independent pricing service uses observable market inputs including, but not limited to, reported trades, benchmark yields, broker-dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value.

In addition, pricing services use valuation models, using observable data, such as an Option Adjusted Spread model, to develop prepayment and interest rate scenarios. The Option Adjusted Spread model is commonly used to estimate fair value for securities such as mortgage-backed and asset-backed securities.

6. Insurance risk management

i. <u>Management of insurance risk</u>

Risk management framework

The assumption of risk is inherent in the Company's business plan and establishing an appropriate risk appetite and executing business strategies in accordance therewith is key to measuring performance. Effective risk oversight is an important priority for the Company's Directors and strong emphasis is placed on ensuring the operation of a robust risk management framework to identify, measure, manage, report and monitor risks that affect the achievement of strategic, operational and financial objectives.

The overall objective of the Enterprise Risk Management ("ERM") framework is to support effective risk governance, support the achievement of business objectives and provide overall benefits to the Company by adding value to the control environment. In turn, a strong ERM framework contributes to an effective business strategy, efficiency in operations and processes, increases the potential for strong financial performance, reliable financial reporting, regulatory compliance, a good reputation with key stakeholders, business continuity planning, and capital planning.

StarStone uses its risk management capabilities in a strategic context to support the following three activities related to its operations:

6. Insurance risk management (continued)

Risk management framework (continued)

1. Identify, assess and measure risks to understand value creating versus value destroying risks and the associated risk levels for the purpose of capital allocation and business planning;
2. Establish a risk appetite with associated underlying risk tolerances for key risks undertaken for the purpose of maintaining and controlling risk levels so as to better align these with the Company's business strategy;
3. Monitor and report risk levels and returns relative to those risk levels as a key means to evaluate the Company's performance and business strategy.

Risk governance and risk management organisation

The Directors are ultimately responsible for establishing and maintaining a sound risk management framework. This framework includes the establishment of significant policies and procedures and assigning ownership and responsibility over the effectiveness of these controls to operational management (deemed to be the first line of defence), the establishment of various risk control and compliance oversight functions (the second line of defence) and an effective independent audit function (the third line of defence).

The Audit Committee of the Company oversees the operation of the ERM and receives regular risk management reports to support risk governance. At an operational level, the Risk and Capital Committee closely reviews and monitors risk management across the StarStone Group and provides reports to each entity Board.

The Company follows best practice through the establishment of an appropriately designed management committee structure with primary responsibility for managing (both monitoring and mitigating) the material risks to which the Company is exposed. The membership of the respective management committees and the risks for which they are responsible are detailed within the respective Committee Terms of Reference. The management committees report to the Group Executive Committee which in turn reports to the Board of Directors of the Company.

Insurance risk, Including catastrophe risk

The Company strives to mitigate underwriting risk through the operation of effective controls and strategies, including appropriate underwriting risk selection, diversification of underwriting portfolios by class and geography, purchasing of reinsurance, establishing a business plan, underwriting peer review, adherence to authority limits, the use of underwriting guidelines that provide detailed underwriting criteria and a framework for pricing, along with the use of specialised underwriting teams supported by actuarial, catastrophe modelling, claims, risk management, legal, finance, and other technical personnel.

The Company uses internally developed pricing models to evaluate individual underwriting decisions within the context of business plans and risk appetites.

6. Insurance risk management (continued)

Insurance risk, Including catastrophe risk (continued)

In some business lines the Company is exposed to multiple insured losses arising out of a single peril, such as a natural catastrophe event (for example, a hurricane, windstorm, tornado, flood or earthquake) or a man-made event (for example, war, terrorism, airplane crashes and other transportation-related accidents, or building fires). The Company models and manages its individual and aggregate exposures to these events and other material correlated exposures in accordance with its risk appetite. The modelling process utilises a major commercial vendor model to measure certain of these exposures. The incidence, timing and severity of catastrophes and other event types are inherently unpredictable and it is difficult to estimate the amount of loss any given occurrence will generate. Accordingly, there is material uncertainty around the Company's ability to measure exposures, which can cause actual exposures and losses to deviate from initial estimates.

To monitor catastrophe risk, the Company reviews exceedance probability curves together with aggregated realistic disaster scenarios. The Company considers occurrence exceedance probability and aggregate exceedance probability which reflect losses resulting from single or multiple events, from individual perils and in the aggregate. Underwriting exposure is also managed through monitoring realistic disaster scenarios for man-made events and certain natural catastrophe risks, and applying absolute maximum limits by line of business.

ii. Concentration of insurance risk

The Company's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its gross written premiums by class of business

Year ended 31 December 2015	**Energy**	**Construction**	**Marine**	**Fire and Other Damage to Property**	**Third Party Liability**	**Total**
	USDm	USDm	USDm	USDm	USDm	USDm
US & Canada	6.2	23.2	16.4	(0.1)	1.8	47.5
UK	6.0	18.8	0.9	-	0.1	25.8
Europe	14.8	7.5	1.3	-	15.3	38.9
Australia / Asia	4.1	6.3	0.3	-	-	10.7
Rest of the World	8.7	14.6	0.7	-	0.2	24.2
Total	39.8	70.4	19.6	(0.1)	17.4	147.1

6. Insurance risk management (continued)

ii. Concentration of insurance risk (continued)

Year ended 31 December 2014	Energy	Construction	Marine	Fire and Other Damage to Property	Third Party Liability	Total
	USDm	USDm	USDm	USDm	USDm	USDm
US & Canada	29.2	8.2	13.1	0.1	0.5	51.1
UK	10.8	1.0	3.0	-	0.6	15.4
Europe	20.1	1.4	0.9	2.1	18.3	42.8
Australia / Asia	9.2	2.7	0.7	-	-	12.6
Rest of the World	19.6	8.2	1.0	-	0.8	29.6
Total	88.9	21.5	18.7	2.2	20.2	151.5

iii. Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be reasonably possible at the reporting date.

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity.

	2015		2014	
	5 per cent increase USDm	5 per cent decrease USDm	5 per cent increase USDm	5 per cent decrease USDm
Energy	(15.5)	15.5	(14.9)	14.9
Construction	(3.6)	3.6	(3.1)	3.1
Marine	(2.1)	2.1	(2.1)	2.1
Fire and Other Damage to Property	(4.7)	4.7	(4.7)	4.7
Third Party Liability	(9.8)	9.8	(9.6)	9.6
	(35.7)	35.7	(34.4)	34.4

6. Insurance risk management (continued)

iv. Claims development table

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2015 in all cases.

Gross – Underwriting Year	**2011**	**2012**	**2013**	**2014**	**2015**	**TOTAL**
	USDm	USDm	USDm	USDm	USDm	USDm
Estimate of ultimate net claims at end of current underwriting year	99.2	44.9	50.8	21.1	21.5	
One year later	159.7	122.2	97.4	88.8	-	
Two years later	178.3	121.9	102.3	-	-	
Three years later	216.3	145.4	-	-	-	
Four years later	210.3	-	-	-	-	
Less gross claims paid	140.5	73.9	36.4	9.8	0.3	
Gross claims reserve	69.8	71.5	65.9	79.0	21.3	307.5
Gross claims reserve 2010 and prior						27.0
Gross claims reserves						**334.5**

Net – Underwriting Year	**2011**	**2012**	**2013**	**2014**	**2015**	**TOTAL**
	USDm	USDm	USDm	USDm	USDm	USDm
Estimate of ultimate net claims at end of current underwriting year	20.5	12.8	9.8	4.3	4.4	
One year later	32.9	34.5	19.3	13.2	-	
Two years later	34.4	36.1	17.3	-	-	
Three years later	42.4	31.9	-	-	-	
Four years later	39.2	-	-	-	-	
Less net claims paid	36.0	22.8	14.4	3.7	0.1	
Net claims reserve	3.2	9.1	3.0	9.5	4.3	29.1
Net claims reserve 2010 and prior						6.7
Net claims reserves						**35.8**

7. Class of business

The Company monitors premium income by both class of business and geographical area, and underwriting results by class of business. This analysis is presented below.

2015	**Gross premiums written**	**Gross premiums earned**	**Gross claims incurred**	**Net operating expenses**	**Reinsurance balance**	**Total**
	USDm	**USDm**	**USDm**	**USDm**	**USDm**	**USDm**
Direct insurance						
Energy, Construction and Marine	117.2	113.9	(47.6)	(9.5)	(50.7)	6.1
Fire and other damage to property	0.1	0.2	(1.1)	0.0	0.9	0.0
Third party liability	17.3	20.9	(20.2)	(4.0)	0.2	(3.1)
Total	**134.6**	**135.0**	**(68.9)**	**(13.5)**	**(49.6)**	**3.0**
Reinsurance acceptances						
Energy, Construction and Marine	12.5	5.5	(11.0)	-	5.5	-
Fire and other damage to property	-	-	(0.6)	(0.0)	(0.6)	(0.0)
Third party liability	-	-	-	-	-	-
Total	12.5	5.5	(10.4)	(0.0)	4.9	(0.0)
TOTAL	**147.1**	**140.5**	**(79.3)**	**(13.5)**	**(44.7)**	**3.0**
Equalisation provision						(0.3)
Investment Return						2.0
Net foreign exchange gain						4.2
						8.9

2014	**Gross premiums written**	**Gross premiums earned**	**Gross claims incurred**	**Net operating expenses**	**Reinsurance balance**	**Total**
	USDm	**USDm**	**USDm**	**USDm**	**USDm**	**USDm**
Direct insurance						
Energy, Construction and Marine	129.2	157.1	(92.7)	(11.3)	(58.5)	(5.4)
Fire and other damage to property	0.7	2.4	3.4	(0.1)	(5.8)	(0.1)
Third party liability	21.6	39.7	(50.4)	(1.7)	17.4	5.0
Total	**151.5**	**199.2**	**(139.7)**	**(13.1)**	**(46.9)**	**(0.5)**
Reinsurance acceptances						
Energy, Construction and Marine	-	-	-	-	-	-
Fire and other damage to property	-	-	-	-	-	-
Third party liability	-	-	-	-	-	-
Total	-	-	-	-	-	-
TOTAL	**151.5**	**199.2**	**(139.7)**	**(13.1)**	**(46.9)**	**(0.5)**
Equalisation provision						(0.9)
Investment Return						3.7
Net foreign exchange gain						4.9
						7.2

8. Net operating expenses

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Commission and acquisition costs	23.2	37.6
Change in deferred acquisition costs	0.2	9.3
Reinsurers' share of expenses	(32.3)	(60.8)
Administrative expenses	22.4	27.0
	13.5	**13.1**

The majority of administrative expenses are incurred by the UK services company, StarStone Insurance Service Limited ("SISL") and are recharged to StarStone group companies in line with group policy. Torus Business Solutions Private Limited ("TBSPL"), a company incorporated in India, is an affiliate entity which provides back office support services to the group. It recharges expenses to the Company in line with group policy.

9. Operating profit

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Operating profit is stated after charging:		
Staff salaries and Social Security (see Note 11)	-	-
Auditor's remuneration	0.2	0.2

The 2015 audit fee cost accrued for the Company is USD 179,850 (2014: USD 267,770). Note 8 quantifies administrative expenses, most of which are expenses incurred by SISL and recharged to the Company.

10. Operating lease rentals

Annual commitments under non-cancellable operating leases are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	1.1	-
Over five years	-	1.1
	1.1	**1.1**

Whilst the Company retains the legal obligation under these leases, in practice the majority of costs are met by the UK services company, SISL, and are recharged to StarStone group companies in line with group policy.

11. Staff costs

The company employed no staff throughout 2015 and 2014.

12. Directors' emoluments

The Company does not employ any of the Directors. As stated above in note 8, SISL is the service company for the European operations of the StarStone group and recharges the expenses incurred in relation to costs it incurs on behalf of the Company. The figures shown below represent the amounts recharged by SISL to the Company during the year in respect of Directors of the Company.

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Directors' emoluments	1.1	3.1
Contributions to pension	-	0.1

Highest paid Directors' emoluments for the Company are as follows:

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Directors' emoluments	0.2	0.8
Contributions to pension	-	-

13. Investment return

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Investment Income		
Investment Income	2.2	3.1
Realised gains on investments	0.7	1.2
	2.9	4.3
Unrealised losses on investments	(0.7)	(0.5)
Investment management expenses	(0.2)	(0.1)
Net investment return transferred to the technical account	**2.0**	**3.7**

14. Income tax

(a) The tax (credit) / charge is based on the profit for the year and represents:

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Current tax charge		
UK corporation tax on profit for the year	-	-
Adjustments in respect of prior periods	-	-
	-	-
Foreign / overseas tax	-	-
Total current tax	-	-
Deferred taxation: origination and reversal of timing differences	-	-
Deferred taxation: changes in accounting policy	-	0.4
Brought forward tax losses utilised	-	(0.4)
Tax on results on ordinary activities	-	-

(b) Factors affecting the tax charge for the year

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Profit on ordinary activities before taxation	8.9	7.2
Profit on ordinary activities before taxation multiplied by the standard rate of corporation taxation of 20.25% (2014: 21.5%)	(1.8)	(1.5)
Factors affecting the charge for the period:		
Adjustment in respect of prior periods	-	(0.4)
Utilised tax losses	1.8	1.9
Tax charge for the period	-	-

The rate of corporation tax was reduced from 21% to 20% effective 1 April 2015 and as a result a composite rate of 20.25% has been used in respect of the year ended 31 December 2015. A composite rate of corporation tax of 21.5% was used in respect of the year ended 31 December 2014 following the reduction in the corporation tax rate from 23% to 21% on 1 April 2014.

14. Income tax (continued)

(c) Factors that may affect future tax charges

Following summer Budget 2015 announcements, the government announced legislation setting the Corporation Tax rate at 19% for the years starting 1 April 2017, 2018 and 2019 and at 18% for the year starting 1 April 2020. These reductions in the corporation tax rate have now been enacted.

The Company has not recognised a deferred tax asset of USD 7.2m as at 31 December 2015 (2014: USD 9.4m) in respect of tax losses. This asset has not been recognised as there is insufficient evidence of suitable tax profit arising in the immediate future which the asset can be utilised against. The tax losses remain available to the Company and a deferred tax asset in respect of these may be recognised in the future if it is more likely than not that the Company will generate sufficient taxable profits against which it can utilise the benefits of the asset.

15. Debt securities and other fixed income securities

	Carrying Value		Cost	
	2015	**2014**	**2015**	**2014**
	USDm	USDm	USDm	USDm
Government and supranational securities	61.1	37.2	61.6	37.0
Asset back securities	1.0	13.2	1.0	13.2
Mortgage back instruments	34.6	51.3	34.9	51.1
Corporate Bonds	78.1	51.0	79.6	50.8
Total	**174.8**	**152.7**	**177.1**	**152.1**

All investments are listed on a recognisable stock exchange.

All financial instruments are measured at fair value through profit and loss.

The Company has USD 77.5m (2014: USD 76.4m) of assets in a separate account to collateralise both the remaining internal reinsurance arrangements between StarStone Specialty Insurance Company ("SSIC") and the Company, as well as the direct reinsurance of other US domiciled assureds. SSIC is a related company under common control by SIBL the immediate parent of the Company.

The Company has USD 18.0 (2014: USD 17.8m) of assets held in a segregated account. These segregated assets are a requirement of the National Association of Insurance Commissioners ("NAIC") regulations in order to write business on an excess and surplus lines basis with clients domiciled in certain states in the United States of America.

16. Other debtors

	31 December 2015	31 December 2014
	USDm	USDm
VAT Recoverable	0.2	-
Amounts owed by related companies	0.9	20.5
Total other debtors	**1.1**	**20.5**

17. Deferred acquisition Costs

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Balance at the beginning of the period	24.0	33.8
Acquisition costs deferred	23.7	23.5
Amortisation	(23.5)	(32.8)
Foreign currency revaluation	(0.4)	(0.5)
Balance at the end of the period	**23.8**	**24.0**

18. Provision for unearned premiums

2015	Gross	Reinsurer's share	Net
	USDm	USDm	USDm
Balance at the beginning of the period	124.6	97.6	27.0
Movement in the year	6.6	5.5	1.1
Foreign currency revaluation	(2.6)	-	(2.6)
Balance at the end of the period	**128.6**	**103.0**	**25.6**

2014	Gross	Reinsurer's share	Net
	USDm	USDm	USDm
Balance at the beginning of the period	175.0	129.9	45.1
Movement in the year	(47.7)	(36.0)	(11.7)
Reclassification of intragroup balance	-	3.7	(3.7)
Foreign currency revaluation	(2.7)	-	(2.7)
Balance at the end of the period	**124.6**	**97.6**	**27.0**

19. Claims provisions

2015	Gross	Reinsurer's share	Net
	USDm	USDm	USDm
Balance at the beginning of the period	368.1	316.0	52.1
Reclassification of fronted recoveries	(6.9)	(6.9)	-
Movement in the year	(16.9)	(10.1)	(6.8)
Foreign currency revaluation	(9.8)	(0.3)	(9.5)
Balance at the end of the period	**334.5**	**298.7**	**35.8**

2014	Gross	Reinsurer's share	Net
	USDm	USDm	USDm
Balance at the beginning of the period	445.3	351.9	93.4
Movement in the year	(67.8)	(69.6)	1.8
Foreign currency revaluation	(9.4)	-	(9.4)
Intragroup reinsurance endorsement	-	33.7	(33.7)
Balance at the end of the period	**368.1**	**316.0**	**52.1**

No allowance is made for discounting of the technical provisions.

20. Equalisation provision

	31 December 2015	31 December 2014
	USDm	USDm
Balance at the beginning of the period	8.2	7.3
Movement in the year	0.3	0.9
Balance at the end of the period	**8.5**	**8.2**

As set out in the Company's accounting policy on page 25, an equalisation provision has been established in the financial statements. The effect of this provision is to reduce shareholders' funds by USD 8.5m (2014: USD 8.2m). The increase in provision during the year had the effect of reducing the balance on the technical account for general business by USD 0.3m (2014: USD 0.9m), decreasing the profit before taxation on ordinary activities from USD 9.2m to USD 8.9m.

21. Other creditors including taxation and social security

	31 December 2015	31 December 2014
	USDm	USDm
Amounts owed to group undertakings	2.6	2.5
Net insurance premium taxes payable	1.8	2.4
Unsettled tax liabilities	0.2	-
Total other creditors	**4.6**	**4.9**

22. Accruals and deferred income

	31 December 2015	31 December 2014
	USDm	USDm
Reinsurers' share of deferred acquisition costs	30.1	33.6
Accruals	1.2	0.9
Total accruals and deferred income	**31.3**	**34.5**

23. Financial instruments

The carrying values of the Company's financial assets and liabilities are summarised by category below:

	Year ended 31 December 2015	Year ended 31 December 2014
	USDm	USDm
Financial assets that are debt instruments at fair market value through profit and loss		
Debt securities and other fixed income securities	174.8	152.7
Financial assets that are measured at cost		
Cash at bank and in hand	16.9	16.9
Other debtors	1.1	20.5
Financial assets that are measured at amortised cost		
Debtors arising out of direct insurance operations – intermediaries	77.3	70.6
Debtors arising out of reinsurance operations	20.4	16.7
Other debtors	1.1	20.5
Financial liabilities that are measured at amortised cost		
Creditors arising out of direct insurance operations	1.3	3.3
Creditors arising out of reinsurance operations	29.5	31.4
Other creditors including taxation and social security	4.6	4.9

24. Share capital

	31 December 2015	31 December 2014
	USDm	USDm
Allotted, issued and paid		
100,000,000 (2014: 150,000,000) Ordinary shares of USD 1.00 each	100.0	150.0
50,000,000 Preference shares of USD 1.00 each	50.0	50.0
	150.0	**200.0**

The USD preference shares were issued to a fellow group company, StarStone Finance Limited. The preference shares may be redeemed, at the issuer's option at any time after the fifth anniversary of the date of issue and will be redeemed at par. The shares are non-voting and have a preferential right to return of capital on a winding up. The declaration and payment of any dividend on the shares is at the absolute discretion of the Directors of the Company. As a result all of the issued preference shares have been classified under equity.

On 17 June 2015 the Company completed a reduction in its Ordinary Share capital from 150,000,000 Ordinary shares of USD 1.00 each to 100,000,000 Ordinary shares of USD 1.00 each. This reduction was effected by way of a special resolution passed by its shareholders and supported by a solvency statement provided by the Company's Directors, in accordance with procedures permitted under the Companies Act 2006 sections 642-644. Ordinary Share capital was reduced by USD 50m, and this amount was transferred to the Company's retained earnings reserve.

25. Related party transactions

Barnabas Hurst-Bannister is a non-executive director of Price Forbes & Partners Ltd ("Price Forbes"). During the period to his resignation in January 2015 the Company wrote USD 0.1m of premiums placed by Price Forbes and paid commissions of 20% on this business. The contracts were entered into on an arm's length basis. He is also a non-executive director of a number of Xchanging subsidiary companies which provide insurance processing services to the Company. All provisions of services are entered into on an arm's length basis.

The Company had no material balances with Enstar group companies as at 31 December 2015 and there had been no material transactions between the Company and Enstar group companies during the year.

Transactions and end year balance with Enstar and StarStone group undertakings are shown below:

25. Related party transactions (continued)

	Year ending 31 Dec 2015 Income / Expense	Balance at 31 Dec 2015 Asset / (Liability)	Year ending 31 Dec 2014 Income / (Expense)	Balance at 31 Dec 2014 Asset / (Liability)
	USDm	USDm	USDm	USDm
Expenses charged by group undertakings				
Cranmore (UK) Limited	(0.2)	-	-	-
StarStone Insurance Services Limited	(18.1)	(1.3)	(24.8)	(0.2)
StarStone Insurance Bermuda Limited	(0.1)	(0.0)	(0.0)	19.2
StarStone Insurance Holdings Limited	(0.1)	-	-	(0.9)
StarStone Insurance Europe Limited AG	(1.6)	(0.9)	(0.6)	(0.4)
StarStone US Services Inc	(0.4)	(0.1)	0.8	0.9
Torus Business Solutions Private Limited	(1.0)	(0.2)	(1.4)	(0.4)
Intra-group reinsurance – assumed from Syndicate 2008				
Written premium	12.4	7.2	-	-
Written acquisition costs	(4.0)	-	-	-
Paid claims	(1.2)	-	-	-
OSLR	(2.3)	(2.3)	-	-
IBNR	(7.4)	(7.4)	-	-
Intra-group reinsurance – ceded to StarStone Insurance Bermuda Limited				
Ceded written premium	(64.9)	8.6	(68.3)	12.2
Ceded written acquisition costs	10.0	-	23.5	-
Ceded commission	10.1	-	11.4	-
Ceded paid claims	53.4	-	125.5	-
Ceded OSLR	(4.8)	105.0	(1.6)	109.8
Ceded IBNR	(21.8)	86.6	(33.9)	108.5

26. Ultimate parent company

The Directors regard StarStone Insurance Bermuda Limited, a company incorporated in Bermuda, as the immediate parent company. Enstar Group Limited is the ultimate parent company and the ultimate controlling party. A copy of the consolidated financial statements of Enstar Group Limited can be obtained from The Secretary, Enstar Group Limited, Windsor Place, 22 Queen Street, Hamilton HM11, Bermuda.