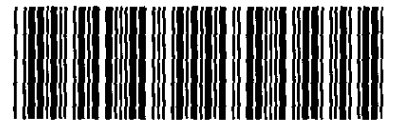


Company registration number: 06495582

## **SD Underwriting Limited**

**Annual Report and Financial Statements**  
**31 December 2016**

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# SD Underwriting Limited

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# **SD Underwriting Limited**

## **Company Information**

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### **Directors**

M E Dickinson  
Nomina Plc

### **Company Secretary**

Hampden Legal Plc

### **Registered Office**

Hampden House  
Great Hampden  
Great Missenden  
Buckinghamshire  
HP16 9RD

### **Auditors**

PKF Littlejohn LLP  
Statutory Auditor  
1 Westferry Circus  
Canary Wharf  
London  
E14 4HD

# **SD Underwriting Limited**

## **Report of the Directors**

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The Directors present their Report together with the audited Financial Statements of the Group and the Company for the year ended 31 December 2016.

### **Principal activities**

The Company acts as a holding company of a number of Lloyd's corporate members. For further details see note 14.

### **Results and dividends**

The results of the Group for the year are set out on pages 7 to 8 of the Financial Statements. No dividends were paid in the year (2015: £nil).

### **Directors**

The Directors who served at any time during the year were as follows:

M E Dickinson  
Nomina Plc  
S Dickinson (deceased 25 July 2016)

### **Directors' Responsibilities Statement**

The Directors are responsible for preparing the Report of the Directors, the Strategic Report and the Financial Statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Group and Company Financial Statements in accordance with United Kingdom Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). 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 Group and Company and of the profit or loss of the Group for that period. In preparing those Financial Statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable 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 Group and Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

# **SD Underwriting Limited**

## **Report of the Directors (continued)**

---

### **Auditor**

- i. PKF Littlejohn LLP has signified its willingness to continue in office as auditor.
- ii. Disclosure of information to the Auditor:

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

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

Approved by the Board of Directors on 26 September 2017 and signed on its behalf by:



Hampden Legal Plc  
Secretary

# SD Underwriting Limited

## Strategic Report

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The Directors present their Strategic Report for the year ended 31 December 2016.

### Business review and future developments

The Financial Statements incorporate the annual accounting results of the syndicates on which the Group participates for the 2014, 2015 and 2016 years of account, as well as any prior run-off years.

The results of the Group for the year are set out in the Profit and Loss Account.

### Key performance indicators

The Directors monitor the performance of the Group by reference to the key performance indicators of the underlying Lloyd's limited liability members.

### Other performance indicators

As a result of the nature of this Group the majority of its activities are carried out by the syndicates in which it participates. The Group is not involved directly in the management of the syndicates' activities, including employment of syndicate staff, as these are the responsibility of the relevant managing agent. Each managing agent will also have responsibility for the environmental activities of each syndicate, although by their nature, insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

### Financial risk management objectives and policies

As a supporter of corporate member of Lloyd's, the majority of the risks to this Group's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed in Note 4, these risks are mostly managed by the managing agent of the syndicate. The Group's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates. The Group is also directly exposed to these risks, but they are not considered material compared to the syndicate risk for the assessment of the assets, liabilities, financial position and profit or loss of the Group.

### Impact of Brexit vote

Following the referendum vote for the United Kingdom to leave the EU, Lloyd's has been working together with market members to prepare for changes that are likely to arise as a result of leaving the EU. Lloyd's have noted that, although only around 11% of the market's gross written premiums arise from the EU excluding the UK, they are making preparations to maintain access to the insurance market in the EU. At this time the details of future trading with the EU in general and the impact on the Lloyd's market cannot be known, although these uncertainties, together with related economic factors including exchange rates and investment values, may have an impact on results for several years. The Directors are monitoring the Lloyd's market's preparations along with general market conditions to identify if it is appropriate to make any changes to the current strategy of the Company.

Approved by the Board of Directors on 26 September 2017 and signed on its behalf by:



Hampden Legal Plc  
Secretary

# SD Underwriting Limited

## Independent Auditor's Report

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### Independent Auditor's Report to the Members of SD Underwriting Limited

We have audited the Financial Statements of SD Underwriting Limited for the year ended 31 December 2016 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Company Balance Sheet, the Consolidated Statement of Changes in Shareholders' Equity, the Company Statement of Changes in Shareholders' Equity, the Consolidated Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the Financial Statements

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

### Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the Group's and Company's affairs as at 31 December 2016 and of the Group's result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

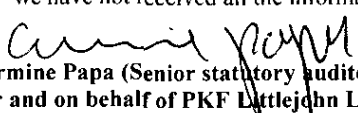
- the information given in the Strategic Report and the Report of the Directors for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable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

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

In light of the knowledge and understanding of the Company and its environment obtained in the course of audit, we have not identified any material misstatements in the Strategic Report and the Report of the Directors.

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

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

  
Carmine Papa (Senior statutory auditor)  
For and on behalf of PKF Littlejohn LLP  
Statutory auditor  
27 September 2017

1 Westferry Circus  
Canary Wharf  
London  
E14 4HD

# SD Underwriting Limited

## Consolidated Profit and Loss Account Technical Account – General Business for the year ended 31 December 2016

	Note	2016 £	2015 £
<b>Premiums written</b>			
Gross premiums written	5,6	5,452,521	4,674,018
Outward reinsurance premiums		(1,158,091)	(918,583)
<b>Net premiums written</b>		<u>4,294,430</u>	<u>3,755,435</u>
<b>Change in the provision for unearned premiums</b>	7		
Gross provision		(199,303)	(94,709)
Reinsurers' share		49,882	41,955
<b>Net change in the provision for unearned premiums</b>		<u>(149,421)</u>	<u>(52,754)</u>
<b>Earned premiums, net of reinsurance</b>		<u>4,145,009</u>	<u>3,702,681</u>
Allocated investment return transferred from the non-technical account		110,614	50,370
Other technical income, net of reinsurance		-	-
<b>Total technical income</b>		<u>4,255,623</u>	<u>3,753,051</u>
<b>Claims paid</b>			
Gross amount	(2,167,550)	(1,963,742)	
Reinsurers' share	289,371	369,488	
<b>Net claims paid</b>	<u>(1,878,179)</u>	<u>(1,594,254)</u>	
<b>Change in the provision for claims</b>			
Gross amount	(598,548)	66,426	
Reinsurers' share	260,686	(111,942)	
<b>Change in the net provision for claims</b>	7 <u>(337,862)</u>	<u>(45,516)</u>	
<b>Claims incurred, net of reinsurance</b>		<u>(2,216,041)</u>	<u>(1,639,770)</u>
Changes in other technical provisions, net of reinsurance		(4,865)	8,610
Net operating expenses	8	(1,789,493)	(1,615,344)
Other technical charges, net of reinsurance		-	-
<b>Balance on the technical account for general business</b>		<u>245,224</u>	<u>506,547</u>

The Notes are an integral part of these Financial Statements.



**SD Underwriting Limited**  
**Consolidated Profit and Loss Account**  
**Non - Technical Account**  
**for the year ended 31 December 2016**

	Note	2016 £	2015 £
<b>Balance on technical account for general business</b>		245,224	506,547
Investment income	9	165,559	137,199
Unrealised gains on investments	9	116,415	47,630
Investment expenses and charges	9	(64,116)	(214,016)
Unrealised losses on investments	9	(94,603)	(60,036)
Allocated investment return transferred to the general business technical account		(110,614)	(50,370)
Other income		678	125,418
Other charges		1,281,612	(81,292)
<b>Profit/(loss) before taxation</b>	10	1,540,155	411,080
Tax on profit/(loss)	11	(100,580)	(87,423)
<b>Profit/(loss) for the financial year</b>		<u>1,439,575</u>	<u>323,657</u>
<b>Profit/(loss) attributable to:</b>			
Equity holders of the parent company	17	1,439,575	323,657
Non-controlling interests		-	-
		<u>1,439,575</u>	<u>323,657</u>

**Consolidated Statement of Comprehensive Income**

		2016 £	2015 £
<b>Profit/(loss) for the financial year</b>		<u>1,439,575</u>	<u>323,657</u>
Other comprehensive income:			
Currency translation differences		101,976	29,818
Tax on other comprehensive income		(19,374)	(5,665)
Other comprehensive income for the year, net of tax		<u>82,602</u>	<u>24,153</u>
<b>Total comprehensive income for the financial year</b>	17	<u>1,522,177</u>	<u>347,810</u>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent company	17	1,522,177	347,810
Non-controlling interests		-	-
		<u>1,522,177</u>	<u>347,810</u>

All amounts relate to continuing operations.

The Notes are an integral part of these Financial Statements.

# SD Underwriting Limited

## Consolidated Balance Sheet as at 31 December 2016

		31 December 2016			31 December 2015		
	Note	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
<b>Assets</b>							
<b>Intangible assets</b>	12	-	31,581	31,581	-	44,290	44,290
<b>Investments</b>							
Financial investments	13	6,480,577	53,919	6,534,496	5,563,187	46,691	5,609,878
Deposits with ceding undertakings		430	-	430	362	-	362
		6,481,007	53,919	6,534,926	5,563,549	46,691	5,610,240
Provision for unearned premiums	7	422,802	-	422,802	311,332	-	311,332
Claims outstanding	7	1,557,496	-	1,557,496	1,121,857	-	1,121,857
Other technical provisions		3,690	-	3,690	8,610	-	8,610
		1,983,988	-	1,983,988	1,441,799	-	1,441,799
<b>Debtors</b>							
Arising out of direct insurance operations							
- Policyholders		67	-	67	33	-	33
- Intermediaries		1,186,408	-	1,186,408	958,007	-	958,007
Arising out of reinsurance operations		1,997,350	-	1,997,350	1,736,462	-	1,736,462
Other debtors	15	630,716	1,235,905	1,866,621	546,006	554,565	1,100,571
		3,814,541	1,235,905	5,050,446	3,240,508	554,565	3,795,073
<b>Other assets</b>							
Cash at bank and in hand		352,046	266,336	618,382	282,405	298,320	580,725
Other		360,775	-	360,775	267,203	-	267,203
		712,801	266,336	979,137	549,608	298,320	847,928
<b>Prepayments and accrued income</b>							
Accrued interest		13,682	-	13,682	9,720	-	9,720
Deferred acquisition costs	7	658,150	-	658,150	544,562	-	544,562
Other prepayments and accrued income		19,939	-	19,939	18,790	-	18,790
		691,771	-	691,771	573,072	-	573,072
<b>Total assets</b>		13,684,108	1,587,741	15,271,849	11,368,536	943,866	12,312,402

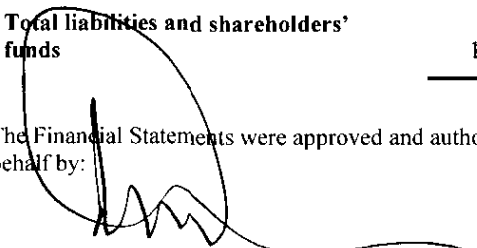
The Notes are an integral part of these Financial Statements.

# SD Underwriting Limited

## Consolidated Balance Sheet as at 31 December 2016

		31 December 2016			31 December 2015		
	Note	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
<b>Liabilities and shareholders' funds</b>							
<b>Capital and reserves</b>							
Called up share capital	16	-	100	100	-	100	100
Share premium account		-	587	587	-	587	587
Profit and loss account	17	855,858	1,010,946	1,866,804	992,893	(648,266)	344,627
Shareholders' funds – attributable to equity holders of the parent company		855,858	1,011,633	1,867,491	992,893	(647,579)	345,314
Non-controlling interest		-	-	-	-	-	-
<b>Total shareholder's funds</b>		855,858	1,011,633	1,867,491	992,893	(647,579)	345,314
<b>Technical provisions</b>							
Provision for unearned premiums	7	2,689,843	-	2,689,843	2,171,510	-	2,171,510
Claims outstanding – gross	7	8,193,480	-	8,193,480	6,653,717	-	6,653,717
Other technical provisions		-	-	-	-	-	-
		10,883,323	-	10,883,323	8,825,227	-	8,825,227
<b>Provisions for other risks and charges</b>							
Deferred taxation	18	-	190,049	190,049	-	88,148	88,148
Other		-	(3,540)	(3,540)	-	-	-
		-	186,509	186,509	-	88,148	88,148
<b>Deposits received from reinsurers</b>		887	-	887	661	-	661
<b>Creditors</b>							
Arising out of direct insurance operations		120,147	-	120,147	125,364	-	125,364
Arising out of reinsurance operations		954,103	-	954,103	812,567	-	812,567
Other creditors including taxation and social security	19	870,054	258,652	1,128,706	630,571	1,334,878	1,965,449
		1,944,304	258,652	2,202,956	1,568,502	1,334,878	2,903,380
<b>Accruals and deferred income</b>		(264)	130,947	130,683	(18,747)	168,419	149,672
<b>Total liabilities</b>		12,828,250	576,108	13,404,358	10,375,643	1,591,445	11,967,088
<b>Total liabilities and shareholders' funds</b>		13,684,108	1,587,741	15,271,849	11,368,536	943,866	12,312,402

The Financial Statements were approved and authorised for issue by the Board of Directors on 26 September 2017 and signed on its behalf by:

  
Mark Tottman, for and on behalf of Nomina Plc  
Director

Company registration number: 06495582

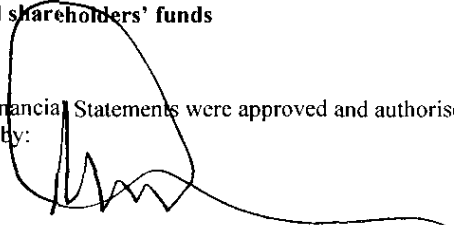
The Notes are an integral part of these Financial Statements.

# SD Underwriting Limited

## Company Balance Sheet as at 31 December 2016

	Note	2016 £	2015 £
<b>Assets</b>			
<b>Fixed assets</b>			
<b>Investments</b>			
Investment in subsidiary undertakings	14	-	-
		-	-
<b>Current assets</b>			
Amounts owed by subsidiary undertakings		62,487	72,677
Amounts owed by shareholders		-	-
Other debtors	15	107	107
Cash at bank		163,585	13,945
		226,179	86,729
<b>Creditors: amounts falling due within one year</b>			
Amounts owed to subsidiary undertakings		(227,796)	(64,262)
Amounts owed to shareholders		(220,808)	(220,293)
Other creditors and accruals	19	(2,218)	(5,760)
		(450,822)	(290,315)
<b>Net current assets / (liabilities)</b>		(224,643)	(203,586)
<b>Total assets less current liabilities</b>		(224,643)	(203,586)
<b>Creditors: amounts falling due after one year</b>			
Deferred taxation	18	-	-
Other creditors	19	-	-
		-	-
<b>Net assets / (liabilities)</b>		(224,643)	(203,586)
<b>Shareholders' funds</b>			
<b>Capital and reserves</b>			
Called up share capital	16	100	100
<b>Profit and loss account</b>			
At 1 January		(203,686)	(153,680)
Profit/(loss) for the year attributable to the owners		(21,057)	(50,006)
Other changes in profit and loss account		-	-
At 31 December		(224,743)	(203,686)
<b>Total shareholders' funds</b>		(224,643)	(203,586)

The Financial Statements were approved and authorised for issue by the Board of Directors on 26 September 2017 and signed on its behalf by:

  
Mark Tottman, for and on behalf of Nomina Plc  
Director

Company registration number: 06495582

The Notes are an integral part of these Financial Statements.

# SD Underwriting Limited

## Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2016

Note	Called up share capital £	Share premium account £	Profit and loss account £	Total £	Non- controlling interests £	Total share- holders' funds £
At 1 January 2015	100	38,275	1,232,799	1,271,174	-	1,271,174
<b>Total comprehensive income for the year:</b>						
Disposal of subsidiary undertakings accounted for using merger accounting	-	(37,688)	(1,235,982)	(1,273,670)	-	(1,273,670)
Profit/(loss) for the financial year	-	-	323,657	323,657	-	323,657
Other comprehensive income for the year	-	-	24,153	24,153	-	24,153
Total comprehensive income for the year	-	(37,688)	(888,172)	(925,860)	-	(925,860)
<b>Transactions with owners:</b>						
Dividends paid 17,21	-	-	-	-	-	-
Proceeds from the issue of shares 16	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-
<b>At 31 December 2015</b>	<b>100</b>	<b>587</b>	<b>344,627</b>	<b>345,314</b>	<b>-</b>	<b>345,314</b>
At 1 January 2016	100	587	344,627	345,314	-	345,314
<b>Total comprehensive income for the year:</b>						
Profit/(loss) for the financial year	-	-	1,439,575	1,439,575	-	1,439,575
Other comprehensive income for the year	-	-	82,602	82,602	-	82,602
Total comprehensive income for the year	-	-	1,522,177	1,522,177	-	1,522,177
<b>Transactions with owners:</b>						
Dividends paid 17,21	-	-	-	-	-	-
Proceeds from the issue of shares 16	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	-	-
<b>At 31 December 2016</b>	<b>100</b>	<b>587</b>	<b>1,866,804</b>	<b>1,867,491</b>	<b>-</b>	<b>1,867,491</b>

The Notes are an integral part of these Financial Statements.

# SD Underwriting Limited

## Company Statement of Changes in Shareholders' Equity for the year ended 31 December 2016

	Note	Called up share capital £	Share premium account £	Profit and loss account £	Total shareholders' funds £
At 1 January 2015		100	-	(153,680)	(153,580)
<b>Total comprehensive income for the year:</b>					
Profit/(loss) for the financial year		-	-	(50,006)	(50,006)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	(50,006)	(50,006)
<b>Transactions with owners:</b>					
Dividends paid	17,21	-	-	-	-
Proceeds from issue of shares	16	-	-	-	-
Total transactions with owners		-	-	-	-
<b>At 31 December 2015</b>		<b>100</b>	<b>-</b>	<b>(203,686)</b>	<b>(203,586)</b>
At 1 January 2016		100	-	(203,686)	(203,586)
<b>Total comprehensive income for the year:</b>					
Profit/(loss) for the financial year		-	-	(21,056)	(21,056)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	-	(21,056)	(21,056)
<b>Transactions with owners:</b>					
Dividends paid	17,21	-	-	-	-
Proceeds from issue of shares	16	-	-	-	-
Total transactions with owners		-	-	-	-
<b>At 31 December 2016</b>		<b>100</b>	<b>-</b>	<b>(224,742)</b>	<b>(224,642)</b>

The Notes are an integral part of these Financial Statements.

# SD Underwriting Limited

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

	2016 £	2015 £
<b>Cash flows from operating activities</b>		
Profit/(loss) before tax	1,540,155	411,080
Deduction of (profit)/loss attributed to syndicate transactions	(446,966)	(611,958)
Distribution/(collection) of closed year result from/(to) syndicates	685,977	667,450
Profit/(loss) excluding syndicate transactions	1,779,166	466,572
Adjustments for:		
(Increase)/decrease in debtors	(1,207,774)	(677,710)
Increase/(decrease) in creditors	(600,250)	(221,066)
(Profit)/loss on disposal of intangible assets	(525)	2,582
Amortisation of syndicate capacity	16,909	18,831
Amortisation of goodwill/(release of negative goodwill)	-	-
Investment income	(6,559)	(4,171)
Realised/unrealised (gains)/losses on investments	(6,082)	143,764
Income tax paid	(8,605)	(8,780)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(33,720)</b>	<b>(279,978)</b>
<b>Cash flows from investing activities</b>		
Investment income	6,559	4,171
Purchase of syndicate capacity	(4,378)	(43,215)
Proceeds from sale of syndicate capacity	701	43,188
Purchase of investments	(1,146)	-
Proceeds from sale of investments	-	-
Acquisition of subsidiaries, net of cash acquired	-	-
<b>Net cash inflow/(outflow) from investing activities</b>	<b>1,736</b>	<b>4,144</b>
<b>Cash flows from financing activities</b>		
Equity dividends paid	-	-
Issue of shares	-	-
<b>Net cash inflow/(outflow) from financing activities</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(31,984)</b>	<b>(275,834)</b>
Cash and cash equivalents at beginning of year	298,320	574,154
Effect of exchange rate changes on cash and cash equivalents	-	-
<b>Cash and cash equivalents at end of year</b>	<b>266,336</b>	<b>298,320</b>
<b>Cash and cash equivalents comprise:</b>		
Cash at bank and in hand	266,336	298,320
Other financial investments	-	-
<b>Cash and cash equivalents</b>	<b>266,336</b>	<b>298,320</b>

The Group has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Consolidated Statement of Cash Flows is prepared reflecting only the movement in corporate funds, which includes transfers to and from the syndicates at Lloyd's. The Notes are an integral part of these Financial Statements.

# **SD Underwriting Limited**

## **Notes to the Financial Statements for the year ended 31 December 2016**

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### **1. General information**

The Company is a private company limited by shares that was incorporated in England and Wales and whose registered office is Hampden House, Great Hampden, Great Missenden, Buckinghamshire, HP16 9RD. The Group participates in insurance business as an underwriting member of various syndicates at Lloyd's.

### **2. Accounting policies**

#### **Basis of preparation**

These Financial Statements have been prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and FRS 103 "Insurance Contracts", the Companies Act 2006 and Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations, relating to insurance.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006, not to present the Company Profit and Loss Account as part of these Financial Statements. The individual profit or loss of the Company for the year is shown on the face of the Company Balance Sheet and in the Company Statement of Changes in Shareholders' Equity on pages 11 and 13.

#### **Transition to FRS 102 and FRS 103**

The Financial Statements for the year ended 31 December 2015 were the first Financial Statements that complied with FRS 102 and FRS 103. The date of transition was 1 January 2014 and the comparative figures in the 2015 Financial Statements were restated accordingly. The transition has resulted in a small number of changes in accounting policies to those used previously

#### **FRS 102: Reduced disclosure exemptions for the Company**

The Company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as far as the Company standalone disclosures are concerned, as permitted by FRS 102:

- i. The requirements of Section 7 Statement of Cash Flows and Section 3 Financial Statement Presentation paragraph 3.17(d) as far as the Company Statement of Cash Flows is concerned, as the Consolidated Statement of Cash Flows includes the Company's cash flows;
- ii. The requirements of Section 33 Related Party Disclosures, paragraph 33.7 for disclosing key management personnel compensation in total, for the Company;
- iii. The requirements of Section 33 Related Party Disclosures, paragraph 33.1A, for disclosing related party transactions entered into between two or more members of the Group, provided that any subsidiary which is party to the transaction is wholly owned by such a member.

#### **Going concern**

The Group participates as an underwriting member of Lloyd's. Its underwriting is supported by Funds at Lloyd's, either made available by the Company directly or by its members. The Directors are of the opinion that the Group and the Company have adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Accordingly, the going concern concept has been adopted in the preparation of these Financial Statements.

#### **Basis of consolidation, goodwill and investments in subsidiaries**

The Group Financial Statements consolidate the Financial Statements of the Company and its subsidiary undertakings made up to 31 December 2016. They also consolidate the Group's share of the results and post-acquisition reserves of joint ventures and associated undertakings, under the gross equity accounting and equity accounting methods, respectively.

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding or partnership participation of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In the Parent Company's Financial Statements, investments in subsidiaries are stated at cost and are reviewed for impairment annually or when events or changes in circumstances indicate the carrying value to be impaired.

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.



# **SD Underwriting Limited**

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

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### **2. Accounting policies (continued)**

#### **Basis of consolidation, goodwill and investments in subsidiaries (continued)**

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and recorded as goodwill. Following initial recognition, goodwill is amortised over a period of five years. Goodwill is assessed for impairment annually and any impairment is charged to the Profit and Loss Account in the year the impairment is identified. Reversals of impairments are recognised when the reasons for impairment no longer apply. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is negative goodwill and this is recognised in the Consolidated Balance Sheet. Following initial recognition, negative goodwill is released to the Consolidated Non-Technical Account over a period of five years.

Uniform Accounting Policies are used for all Group companies. Profits or losses on intra-Group transactions are eliminated on consolidation.

#### **Basis of accounting**

The Financial Statements are prepared under the historical cost basis of accounting modified to include the revaluation through profit and loss of certain financial instruments held at fair value through profit or loss.

The Financial Statements are prepared using the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period, reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the syndicates on which the Group participates.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the syndicates' managing agents. Accordingly, these assets and liabilities have been shown separately in the Balance Sheet as "Syndicate participation". Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the syndicates' insurance creditors.

The information included in these Financial Statements in respect of the syndicates has been supplied by managing agents based upon the various accounting policies they have adopted. The following describes the policies they have adopted:

#### **General business**

##### **i. Premiums**

Premiums written comprise the total premiums receivable in respect of business inception during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Group participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

##### **ii. Unearned premiums**

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the Balance Sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant managing agent.

##### **iii. Deferred acquisition costs**

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

##### **iv. Reinsurance premiums**

Managing agents enter into reinsurance contracts on behalf of syndicates, in the normal course of business, in order to limit the potential losses arising from certain exposures. Reinsurance premium costs are allocated by the managing agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

# **SD Underwriting Limited**

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

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### **2. Accounting policies (continued)**

#### **v. Claims incurred and reinsurers' share**

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

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in-house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. 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 the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to each syndicate's reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Each syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions made by each syndicate's managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

The level of uncertainty with regard to the estimations within these provisions generally decreases with time as the exposure period recedes. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the Financial Statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

#### **vi. Unexpired risks provision**

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the Balance Sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant managing agent.

#### **vii. Closed years of account**

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs.

Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

# **SD Underwriting Limited**

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

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### **2. Accounting policies (continued)**

#### **vii. Closed years of account (continued)**

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Group has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

#### **viii. Run-off years of account**

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result, any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

#### **ix. Net operating expenses (including acquisition costs)**

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Group participates.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date.

#### **x. Distribution of profits and collection of losses**

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

#### **xi. Financial assets and financial liabilities**

##### **Classification:**

The accounting classification of financial assets and liabilities determines their basis of measurement and how changes in those values are presented in the Profit and Loss Account and Other Comprehensive Income. These classifications are made at initial recognition and subsequent classification is only permitted in restricted circumstances.

The syndicates' investments comprise of debt and equity investments, derivatives, cash and cash equivalents and loans and receivables. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the syndicate after deducting all of its liabilities.

##### **Recognition:**

Financial assets and liabilities are recognised when the syndicate becomes party to the contractual provisions of the instrument. In respect of the purchases and sales of financial assets, they are recognised on the trade date.

##### **Initial measurement:**

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

##### **Subsequent measurement:**

Non-current debt instruments are subsequently measured at amortised cost using the effective interest method.

Debt instruments that are classified as payable or receivable within one financial year and which meet the above conditions are measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

Other debt instruments are measured at fair value through profit or loss

# SD Underwriting Limited

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

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### 2. Accounting policies (continued)

#### xi. Financial assets and financial liabilities (continued)

De-recognition of financial assets and liabilities:

Financial assets are derecognised when and only when a) the contractual rights to the cash flow from the financial asset expire or are settled, b) the syndicates transfer to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the syndicates, despite having retained some significant risks and rewards of ownership, have transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

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

Fair value measurement:

The best evidence of fair value is a quoted price for an identical asset or liability in an active market that the entity can access at the measurement date.

When quoted prices are unavailable, observable inputs developed using market data for the asset or liability, either directly or indirectly, are used to determine the fair value.

If the market for the asset is not active and there are no observable inputs, then the syndicate estimates the fair value by using unobservable inputs, i.e. where market data is unavailable.

Impairment of financial instruments measured at amortised cost or cost:

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, i.e. using the effective interest method.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in profit and loss immediately.

Offsetting:

Debtors/creditors arising from insurance/reinsurance operations shown in the Balance Sheet include the totals of all the syndicates' outstanding debit and credit transactions as processed by the Lloyd's central facility. No account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate.

#### xii. Investment return

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

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the fair value at that date.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business.

# **SD Underwriting Limited**

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

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### **2. Accounting policies (continued)**

#### **xii. Basis of currency translation**

The presentation and functional currency of the Group is Pound Sterling, which is the currency of the primary economic environment in which it operates. Supported syndicates may have different functional currencies.

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities, which according to FRS 103 are deemed to include unearned premiums and deferred acquisition costs, are translated into Pound Sterling at the rates of exchange at the Balance Sheet date.

Any non-monetary items are translated into the functional currency using the rate of exchange prevailing at the time of the transaction.

Differences arising on translation to the functional currency of the syndicates where the functional currency was not Pound Sterling are reported in the Statement of Other Comprehensive Income. All other exchange differences are reported within the Profit and Loss Account, Non-Technical Account (or the Technical Account in respect of Life syndicates).

#### **Reinsurance at corporate level**

Where considered applicable by the Directors, the Group may purchase additional reinsurance to that purchased through the syndicates. Any such reinsurance premiums and related reinsurance recoveries are treated in the same manner as described for syndicates in Note 2 (iv) and (v) above.

#### **Taxation**

The Group is taxed on its results including its share of underwriting results declared by the syndicates. These are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these Financial Statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

HM Revenue & Customs agrees the taxable results of the syndicates at a syndicate level on the basis of computations submitted by the managing agent. At the date of the approval of these Financial Statements the syndicate taxable results of years of account closed at this and at previous year ends may not have been fully agreed with HM Revenue & Customs. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of HM Revenue & Customs agreement of syndicate results, will be reflected in the Financial Statements of subsequent periods.

#### **Deferred taxation**

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date at rates expected to apply when they crystallise, based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

#### **Intangible assets**

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' underwriting years are included within intangible assets and amortised over a five year period beginning in the year following the purchase of the syndicate participation.

The intangible assets are reviewed for impairment where there are indicators for impairment, and any impairment is charged to the Profit and Loss Account for the period.

# **SD Underwriting Limited**

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

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### **2. Accounting policies (continued)**

#### **Cash and cash equivalents and Statement of Cash Flows**

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

The Group has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Consolidated Statement of Cash Flows is prepared reflecting only the movement in corporate funds, which includes transfers to and from syndicates at Lloyd's.

#### **Share capital**

Ordinary share capital is classified as equity. The difference between fair value of the consideration received and the nominal value of the share capital being issued, is taken to the share premium account. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of taxes, from the proceeds.

#### **Dividend distributions to shareholders**

Dividend distributions to the Company's shareholders are recognised in the Financial Statements in the period in which the dividends are approved by the shareholders. These amounts are recognised in the Statement of Changes in Shareholders' Equity.

### **3. Key accounting judgements and estimation uncertainties**

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

The measurement of the provision for claims outstanding is the most significant judgement involving estimation uncertainty regarding amounts recognised in these Financial Statements in relation to underwriting by the syndicates and this is disclosed further in Note 4.

The management and control of each syndicate is carried out by the managing agent of that syndicate, and the Group looks to the managing agent to implement appropriate policies, procedures and internal controls to manage each syndicate.

The key accounting judgements and sources of estimation uncertainty set out below therefore relate to those made in respect of the Group only, and do not include estimates and judgements made in respect of the syndicates.

#### **Purchased syndicate capacity:**

Estimating value in use:

Where an indication of impairment of capacity values exists, the Directors will carry out an impairment review to determine the recoverable amount, which is the higher of fair value less cost to sell and value in use. The value in use calculation requires an estimate of the future cash flows expected to arise from the capacity and a suitable discount rate in order to calculate present value.

Determining the useful life of purchased syndicate capacity:

The assessed useful life of syndicate capacity is five years. This is on the basis that this is the life over which the original value of the capacity acquired is used up.

#### **Assessing indicators of impairment:**

In assessing whether there have been any indicators of impairment assets, the Directors consider both external and internal sources of information such as market conditions, counterparty credit ratings and experience of recoverability. There have been no indicators of impairments identified during the current financial year.

#### **Recoverability of receivables:**

The Group establishes a provision for receivables that are estimated not to be recoverable. When assessing recoverability, factors such as the aging of the receivables, past experience of recoverability, and the credit profile of individual or groups of customers are all considered.

# SD Underwriting Limited

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

### 4. Risk management

This section summarises the financial and insurance risks the Group is exposed to either directly at its own corporate level or indirectly via its participation in the Lloyd's syndicates.

#### Risk background

The syndicate's activities expose it to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the managing agent prepares a Lloyd's Capital Return ("LCR") for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR, and, typically, the majority of the total assessed value of the risks concerned is attributable to insurance risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's provides additional controls over the syndicate's management of risks.

The Group manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its managing agent. In addition, quarterly reports and annual accounts together with any other information made available by the managing agent are monitored and if necessary enquired into. If the Group considers that the risks being run by the syndicate are excessive it will seek confirmation from the managing agent that adequate management of the risk is in place and, if considered appropriate will withdraw support from the next underwriting year. The Group relies on advice provided by the members' agent which acts for it, who are specialists in assessing the performance and risk profiles of syndicates.

#### Impact of Brexit vote:

The Brexit vote will have an impact on various risk factors, including currency risks. The Lloyd's market is in the process of developing a strategy for dealing with Brexit and the Company will monitor these developments and identify whether it needs to modify its participation in the Lloyd's market.

The analysis below provides details of the financial risks the Group is exposed to from syndicate insurance activities and at a corporate company level, as required by FRS 103. Note 7 provides further analysis of sensitivities to reserving and underwriting risks.

### Syndicate risks

#### i. Liquidity risk

The syndicates are exposed to daily calls on their available cash resources, principally from claims arising from its insurance business. Liquidity risk arises where cash may not be available to pay obligation when due, or to ensure compliance with the syndicate's obligations under the various trust deeds to which it is party.

The syndicates aim to manage their liquidity position so that they can fund claims arising from significant catastrophic events, as modelled in their Lloyd's realistic disaster scenarios ("RDS").

Although there are usually no stated maturities for claims outstanding, syndicates have provided their expected maturity of future claims settlements as follows:

2016	No stated maturity £	0-1 year £	1-3 years £	3-5 years £	> 5 years £	Total £
Claims outstanding	(5,022)	2,670,705	3,085,578	1,199,958	1,242,261	8,193,480
2015	No stated maturity £	0-1 year £	1-3 years £	3-6 years £	> 5 years £	Total £
Claims outstanding	48,477	2,081,115	2,357,664	1,070,639	1,095,822	6,653,717

# SD Underwriting Limited

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

### 4. Risk management (continued)

#### Syndicate risks (continued)

##### ii. Credit risk

Credit ratings to syndicate assets emerging directly from insurance activities which are neither past due nor impaired, are as follows:

2016	AAA £	AA £	A £	BBB or lower £	Not rated £	Total £
Financial investments	1,168,329	1,942,925	1,772,815	875,329	721,176	6,480,574
Deposits with ceding undertakings	-	-	-	-	430	430
Reinsurers share of claims outstanding	(67,818)	447,580	995,450	20,718	51,373	1,447,303
Reinsurance debtors	10,449	28,616	32,689	3,488	4,147	79,389
Cash at bank and in hand	39	110,193	197,353	44,404	57	352,046
	1,110,999	2,529,314	2,998,307	943,939	777,183	8,359,742

2015	AAA £	AA £	A £	BBB or lower £	Not rated £	Total £
Financial investments	1,313,465	1,637,375	1,537,249	620,429	454,669	5,563,187
Deposits with ceding undertakings	-	-	-	-	362	362
Reinsurers share of claims outstanding	34,442	409,928	633,201	8,247	32,409	1,118,227
Reinsurance debtors	131,269	1,002,024	41,010	1,888	1,013	1,177,204
Cash at bank and in hand	133,600	12,764	104,158	31,804	79	282,405
	1,612,776	3,062,091	2,315,618	662,368	488,532	8,141,385

Syndicate assets emerging directly from insurance activities, with reference to their due date or impaired are as follows:

2016	Neither past due nor impaired £	Past due but not impaired			Impaired £	Total £
		Less than 6 months	Between 6 months and 1 year	Greater than 1 year		
Financial investments	6,480,574	-	-	-	3	6,480,577
Deposits with ceding undertakings	430	-	-	-	-	430
Reinsurers share of claims outstanding	1,447,303	110,193	-	-	-	1,557,496
Reinsurance debtors	79,389	16,421	1,394	1,515	2,457	101,176
Cash at bank and in hand	352,046	-	-	-	-	352,046
Insurance and other debtors	4,337,487	87,060	27,589	40,602	(659)	4,492,079
	12,697,229	213,674	28,983	42,117	1,801	12,983,804

2015	Neither past due nor impaired £	Past due but not impaired			Impaired £	Total £
		Less than 6 months	Between 6 months and 1 year	Greater than 1 year		
Financial investments	5,563,187	-	-	-	-	5,563,187
Deposits with ceding undertakings	362	-	-	-	-	362
Reinsurers share of claims outstanding	1,118,227	4,680	6	4	(1,060)	1,121,857
Reinsurance debtors	1,177,204	92,195	8,619	1,266	2,139	1,281,423
Cash at bank and in hand	282,405	-	-	-	-	282,405
Insurance and other debtors	1,435,441	51,512	12,286	15,383	(662)	1,513,960
	9,576,826	148,387	20,911	16,653	417	9,763,194



# SD Underwriting Limited

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

### 4. Risk management (continued)

#### Syndicate risks (continued)

##### iii. Interest rate and equity price risk

Interest rate risk and equity price risk are the risks that the fair value of future cash flows of financial instruments will fluctuate because of changes in market interest rates and market prices, respectively.

##### iv. Currency risk

The syndicates' main exposure to foreign currency risk arises from insurance business originating overseas, primarily denominated in US dollars. Transactions denominated in US dollars form a significant part of the syndicates' operations. This risk is, in part, mitigated by the syndicates maintaining financial assets denominated in US dollars against its major exposures in that currency.

The table below provides details of syndicate assets and liabilities by currency:

2016	GBP £ converted	USD £ converted	EUR £ converted	CAD £ converted	Other £ converted	Total £ converted
Total assets	1,639,824	9,536,594	691,574	1,138,405	677,711	13,684,108
Total liabilities	(2,478,291)	(8,448,636)	(669,397)	(760,261)	(471,665)	(12,828,250)
Surplus/(deficiency) of assets	(838,467)	1,087,958	22,177	378,144	206,046	855,858
2015	GBP £ converted	USD £ converted	EUR £ converted	CAD £ converted	Other £ converted	Total £ Converted
Total assets	2,069,669	7,696,060	602,153	664,897	335,757	11,368,536
Total liabilities	(2,501,630)	(6,720,995)	(532,616)	(419,385)	(201,017)	(10,375,643)
Surplus/(deficiency) of assets	(431,961)	975,065	70,281	(83,628)	463,136	992,893

The impact of a 5% change in exchange rates between GBP and other currencies would be £84,716 on shareholders' funds (2015: £71,243).

#### Group risks

##### i. Investment, Credit and Liquidity risks

The significant risks faced by the Group are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, credit risk, interest rate risk and currency risk. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the Group to meet the claim. In order to minimise investment, credit and liquidity risk the Group's funds are invested in readily realisable short term deposits. The Group does not use derivative instruments to manage risk and, as such, no hedge accounting is applied.

##### ii. Currency risks

The syndicates can distribute their results in Pound Sterling, US dollars or a combination of the two. The Group is exposed to movements in the US dollar between the Balance Sheet date and the distribution of the underwriting profits and losses, which is usually in the May following the closure of a year of account.

In addition, the Group is also subject to currency fluctuations in respect of any financial investments and Funds at Lloyd's shown in the Corporate column of the Consolidated Balance Sheet and as set out in Notes 13 and 15 respectively.

# SD Underwriting Limited

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

### 4. Risk management (continued)

#### Group risks (continued)

#### iii. Regulatory risks

The Group is subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable, the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Group is able to support.

#### iv. Operational risks

As there are relatively few transactions actually undertaken by the Group there are only limited systems and operational requirements of the Group and therefore operational risks are not considered to be significant. Close involvement of all Directors in the Group's key decision making and the fact that the majority of the Group's operations are conducted by syndicates, provides control over any remaining operational risks.

### 5. Class of business

2016	Gross written premiums £	Gross premiums earned £	Gross claims incurred £	Net operating expenses £	Reinsurance balance £	Total £
<b>Direct insurance</b>						
Accident and health	185,163	185,308	(91,713)	(87,773)	(3,736)	2,086
Motor – third party liability	25,840	26,983	(16,096)	(9,549)	(595)	743
Motor – other classes	300,040	285,769	(278,024)	(95,195)	63,153	(24,297)
Marine, aviation and transport	431,855	454,275	(246,800)	(184,834)	(11,130)	11,511
Fire and other damage to property	1,326,914	1,294,400	(565,332)	(441,247)	(204,681)	83,140
Third party liability	1,185,868	1,091,752	(640,648)	(395,237)	(38,101)	17,766
Credit and suretyship	68,194	65,486	(32,869)	(19,834)	(7,526)	5,257
Legal expenses	7,794	7,574	(4,854)	(4,029)	10	(1,299)
Assistance	-	-	-	-	-	-
Miscellaneous	45,687	47,881	(18,697)	(19,646)	(3,513)	6,025
<b>Total direct</b>	<b>3,577,355</b>	<b>3,459,428</b>	<b>(1,895,033)</b>	<b>(1,257,344)</b>	<b>(206,119)</b>	<b>100,932</b>
Reinsurance inwards	1,875,166	1,793,790	(871,065)	(532,149)	(352,033)	38,543
<b>Total</b>	<b>5,452,521</b>	<b>5,253,218</b>	<b>(2,766,098)</b>	<b>(1,789,493)</b>	<b>(588,152)</b>	<b>139,475</b>
<b>2015</b>	<b>Gross written premiums £</b>	<b>Gross premiums earned £</b>	<b>Gross claims incurred £</b>	<b>Net operating expenses £</b>	<b>Reinsurance balance £</b>	<b>Total £</b>
<b>Direct insurance</b>						
Accident and health	167,792	162,479	(74,290)	(75,433)	(8,458)	4,298
Motor – third party liability	25,176	21,415	(15,280)	(8,042)	1,625	(282)
Motor – other classes	262,693	242,617	(176,454)	(75,725)	(2,120)	(11,682)
Marine, aviation and transport	453,849	472,707	(179,003)	(187,507)	(47,153)	59,044
Fire and other damage to property	1,144,825	1,118,371	(373,438)	(404,161)	(198,153)	142,619
Third party liability	925,291	856,930	(506,677)	(306,926)	(27,603)	15,724
Credit and suretyship	55,880	57,056	(31,337)	(15,154)	(7,321)	3,244
Legal expenses	8,668	10,933	(4,047)	(5,695)	(161)	1,030
Assistance	-	-	-	-	-	-
Miscellaneous	56,615	50,968	(21,599)	(20,757)	(5,593)	3,019
<b>Total direct</b>	<b>3,100,789</b>	<b>2,993,476</b>	<b>(1,382,125)</b>	<b>(1,099,400)</b>	<b>(294,937)</b>	<b>217,014</b>
Reinsurance inwards	1,573,229	1,585,833	(515,191)	(515,944)	(324,145)	230,553
<b>Total</b>	<b>4,674,018</b>	<b>4,579,309</b>	<b>(1,897,316)</b>	<b>(1,615,344)</b>	<b>(619,082)</b>	<b>447,567</b>

# SD Underwriting Limited

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

6. Geographical analysis	2016 £	2015 £
<b>Gross premium written in:</b>		
United Kingdom	3,575,288	2,423,040
Other EU Member States	72	39,477
Rest of the World	1,995	638,272
Total direct gross premium written	3,577,355	3,100,789

## 7. Technical provisions

Movement in claims outstanding	Gross £	Reinsurance £	2016 Net £	Gross £	Reinsurance £	2015 Net £
At 1 January	6,653,717	1,121,857	5,531,860	6,743,898	1,277,917	5,465,981
Acquired on acquisition	-	-	-	-	-	-
Movement of reserves	598,548	260,686	337,862	(66,426)	(111,942)	45,516
Other movements	941,215	174,953	766,262	(23,755)	(44,118)	20,363
At 31 December	8,193,480	1,557,496	6,635,984	6,653,717	1,121,857	5,531,860

Movement in unearned premiums	Gross £	Reinsurance £	2016 Net £	Gross £	Reinsurance £	2015 Net £
At 1 January	2,171,510	311,332	1,860,178	2,024,147	199,810	1,824,337
Acquired on acquisition	-	-	-	-	-	-
Movement of reserves	199,303	49,882	149,421	94,709	41,955	52,754
Other movements	319,030	61,588	257,442	52,654	69,567	(16,913)
At 31 December	2,689,843	422,802	2,267,041	2,171,510	311,332	1,860,178

Movement in deferred acquisition costs	2016 Net £	2015 Net £
At 1 January	544,562	508,581
Acquired on acquisition	-	-
Movement in deferred acquisition costs (Note 8)	33,949	32,846
Other movements	79,639	3,135
At 31 December	658,150	544,562

Included within other movements are foreign exchange movements and the effect of the 2014 and prior years' technical provisions being reinsured to close into the 2015 year of account (2016: 2013 and prior years' technical provisions being reinsured to close into the 2014 year of account), to the extent where the Group's syndicate participation portfolio has changed between those two years of account.

# SD Underwriting Limited

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

### 7. Technical provisions (continued)

#### Assumptions, changes in assumptions and sensitivity

As described in Note 4 the majority of the risks to the Group's future cash flows arise from its participation in the results of Lloyd's syndicates and are mostly managed by the managing agents of the syndicates. The Group's role in managing these risks, in conjunction with the Group's members' agent, is limited to a selection of syndicate participations and monitoring the performance of the syndicates and their managing agents.

The amounts carried by the Group arising from insurance contracts are calculated by the managing agents of the syndicates and derived from accounting information provided by the managing agents and reported upon by the syndicate auditors.

The key assumptions underlying the amounts carried by the Group arising from insurance contracts are:

- the net premiums written calculated by the managing agent are an accurate assessment of the premiums payable as a result of the risks contractually committed to up to the Balance Sheet date;
- the net unearned premiums calculated by the managing agent are an accurate assessment of the net premiums written that reflect the exposure to risks arising after the Balance Sheet date, including appropriate allowance for anticipated losses in excess of the unearned premium;
- the claims reserves calculated by the managing agents are an accurate assessment of the ultimate liabilities in respect of claims relating to events up to the Balance Sheet date;
- the potential ultimate result of run-off year results has been accurately estimated by the managing agents; and
- the values of investments and other assets and liabilities are correctly stated at their realisable values at the Balance Sheet date.

There have been no changes to these assumptions in 2016.

The amounts carried by the Group arising from insurance contracts are sensitive to various factors as follows:

- a 5% increase/decrease in net earned premium (with all other underwriting elements assumed to change pro-rata with premium) will increase/decrease the Group's pre-tax profit/loss by £207,250 (2015: £185,134);
- a 5% increase/decrease in the managing agents' calculation of gross claims reserves will decrease/increase the Group's pre-tax profit/loss by £409,674 (2015: £332,686);
- a 5% increase/decrease in the managing agents' calculation of net claims reserves will decrease/increase the Group's pre-tax profit/loss by £331,799 (2015: £276,593).

The 5% movement has been selected to give an indication of the possible variations in the assumptions used.

The historical gross and net claims development is as follows:

#### Claims development - Gross

	After 12 months £	After 24 months £	After 36 months £	Profit/(loss) on RITC received £
Underwriting pure year				
2012	1,822,919	2,688,079	2,636,206	309,031
2013	1,374,768	2,382,961	2,342,448	271,075
2014	1,498,378	2,574,149	2,629,661	
2015	1,490,861	2,796,909		
2016	1,798,274			

#### Claims development - Net

	After 12 months £	After 24 months £	After 36 months £	Profit/(loss) on RITC received £
Underwriting pure year				
2012	1,486,524	2,269,229	2,247,348	294,784
2013	1,168,913	2,067,527	2,012,378	284,335
2014	1,272,354	2,236,718	2,278,438	
2015	1,277,915	2,392,510		
2016	1,433,576			

# SD Underwriting Limited

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

8. Net operating expenses	2016 £	2015 £
Acquisition costs	1,248,519	1,138,024
Change in deferred acquisition costs (Note 7)	(33,949)	(32,846)
Administrative expenses	574,923	510,522
Loss/(profit) on exchange	-	(356)
	<u>1,789,493</u>	<u>1,615,344</u>

9. Investment return	2016 £	2015 £
Investment income	102,330	93,150
Dividend income	5,824	3,985
Interest on cash at bank	5,564	3,575
Other interest and similar income	10,837	7,535
Realised gains on investments	41,004	28,954
<b>Investment income</b>	<u>165,559</u>	<u>137,199</u>
Investment management expenses	(10,057)	(8,618)
Realised losses on investments	(54,059)	(205,398)
<b>Investment expenses and charges</b>	<u>(64,116)</u>	<u>(214,016)</u>
Unrealised gains and losses, net	21,812	(12,406)
<b>Total investment return</b>	<u>123,255</u>	<u>(89,223)</u>

### Analysed as follows:

	Investments at fair value through profit or loss £	Investments available for sale £	2016 Total £	Investments at fair value through profit or loss £	Investments available for sale £	2015 Total £
Realised gains and losses	(13,055)	-	(13,055)	(176,429)	(15)	(176,444)
Unrealised gains and losses	21,812	-	21,812	(12,370)	(36)	(12,406)
Other relevant income	-	-	-	-	-	-
	<u>8,757</u>	<u>-</u>	<u>8,757</u>	<u>(188,799)</u>	<u>(51)</u>	<u>(188,850)</u>
Interest and similar income, net of expenses			114,498			99,627
<b>Total investment return</b>			<u>123,255</u>			<u>(89,223)</u>

# SD Underwriting Limited

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

10. Profit/(loss) before taxation	2016 £	2015 £
This is stated after charging/(crediting):		
Key management personnel remuneration	-	-
Auditor's remuneration – Company audit	-	4,800
Auditor's remuneration – Other group entity audit	648	648
Amortisation of syndicate capacity	16,909	18,831
Amortisation of goodwill/(release of negative goodwill)	-	-
Interest on bank loan and overdrafts	-	-
Interest on other loans	-	-
The Company has no employees		

11. Taxation	2016 £	2015 £
<b>Analysis of charge in year</b>		
Current tax:		
UK corporation tax on profit/(loss) of the year	17,194	42,195
Adjustment in respect of previous years	(7,746)	(4,474)
Foreign tax	8,606	8,781
Total current tax	18,054	46,502
Deferred tax:		
Origination and reversal of timing differences	82,526	42,991
Change in tax rate	-	(2,070)
Total deferred tax	82,526	40,921
Tax on profit/(loss)	100,580	87,423

### Factors affecting tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 20.00% (2015: 20.00%). The differences are explained below:

Profit/(loss) before tax	1,540,155	411,080
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 20.00% (2015: 20.00%)	308,031	82,216
Effects of:		
Adjustment in respect of previous years	(7,746)	(4,474)
Group relief claimed	-	-
Income not taxable	(757)	9,473
Permanent differences	(262,970)	4,292
Foreign tax	8,606	8,781
Rate change adjustments	55,416	(12,865)
Tax on charge/(credit) for the year	100,580	87,423

The results of the Group's participation on the 2014, 2015 and 2016 years of account and the calendar year movement on 2013 and prior run-offs will not be assessed to tax until the year ended 31 December 2017, 2018 and 2019 respectively being the year after the calendar year result of each run-off year or the normal date of closure of each year of account.

# SD Underwriting Limited

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

### 12. Intangible assets

	2016			2015		
	Goodwill £	Syndicate Capacity £	Total £	Goodwill £	Syndicate Capacity £	Total £
<b>Cost</b>						
At 1 January	-	101,499	101,499	-	178,164	178,164
Additions	-	4,378	4,378	-	43,215	43,215
Disposals	-	(443)	(443)	-	(119,880)	(119,880)
Acquired with acquisition	-	-	-	-	-	-
At 31 December	-	105,434	105,434	-	101,499	101,499
<b>Amortisation</b>						
At 1 January	-	57,209	57,209	-	112,488	112,488
Provided during the year	-	16,909	16,909	-	18,831	18,831
Disposals	-	(265)	(265)	-	(74,110)	(74,110)
Acquired with acquisition	-	-	-	-	-	-
At 31 December	-	73,853	73,853	-	57,209	57,209
<b>Net book value</b>						
At 31 December 2016 / 2015	-	31,581	31,581	-	44,290	44,290
At 31 December 2015 / 2014	-	44,290	44,290	-	65,676	65,676

### 13. Financial investments

The Group early adopted as of 1 January 2016 the amendments of FRS 102 made in March 2016 and effective for accounting periods beginning on or after 1 January 2017.

The Group categorises its fair value measurement using the following three fair value hierarchy levels based on the reliability of inputs used in determining fair values as follows:

Level 1: The unadjusted quoted price in an active market for identical assets that an entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable (i.e. developed using market data) for the asset, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset.

Financial investments Syndicate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
<b>2016</b>						
Shares and other variable yield securities and units in unit trusts	270,329	757,590	147	1,028,066	-	1,028,066
Debt securities and other fixed income securities	1,757,907	3,450,825	-	5,208,732	-	5,208,732
Participation in investment pools	35,906	45,638	58,636	140,180	-	140,180
Loans and deposits with credit institutions	62,436	25,192	2,426	90,054	-	90,054
Derivatives	8,503	4,996	-	13,499	-	13,499
Other investments	-	-	46	46	-	46
Financial assets classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>2,135,081</b>	<b>4,284,241</b>	<b>61,255</b>	<b>6,480,577</b>	<b>-</b>	<b>6,480,577</b>
<b>Cost</b>				<b>1,986,571</b>	<b>-</b>	<b>1,986,571</b>

# SD Underwriting Limited

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

### 13. Financial investments (continued)

Financial investments Syndicate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
<b>2015</b>						
Shares and other variable yield securities and units in unit trusts	245,709	539,783	69,374	854,866	-	854,866
Debt securities and other fixed income securities	1,769,178	1,751,467	722,865	4,243,510	-	4,243,510
Participation in investment pools	14,291	26,376	54,726	95,393	-	95,393
Loans and deposits with credit institutions	263,926	60,297	42,960	367,183	-	367,183
Derivatives	317	-	1,834	2,151	-	2,151
Other investments	-	-	84	84	-	84
Financial assets classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>2,293,421</b>	<b>2,377,923</b>	<b>891,843</b>	<b>5,563,187</b>	<b>-</b>	<b>5,563,187</b>
						<b>Total £</b>
<b>Cost</b>				<b>5,548,565</b>	<b>-</b>	<b>5,548,565</b>
Financial investments Group Corporate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
<b>2016</b>						
Shares and other variable yield securities and units in unit trusts	-	53,919	-	53,919	-	53,919
Debt securities and other fixed income securities	-	-	-	-	-	-
<b>Fair value</b>	<b>-</b>	<b>53,919</b>	<b>-</b>	<b>53,919</b>	<b>-</b>	<b>53,919</b>
						<b>Total £</b>
<b>Cost</b>				<b>4,396</b>	<b>-</b>	<b>4,396</b>
Financial investments Group Corporate	Financial investments held at fair value through profit or loss				Held at amortised cost £	Total £
	Level 1 £	Level 2 £	Level 3 £	Total £		
<b>2015</b>						
Shares and other variable yield securities and units in unit trusts	21,370	25,321	-	46,691	-	46,691
Debt securities and other fixed income securities	-	-	-	-	-	-
<b>Fair value</b>	<b>21,370</b>	<b>25,321</b>	<b>-</b>	<b>46,691</b>	<b>-</b>	<b>46,691</b>
						<b>Total £</b>
<b>Cost</b>				<b>20,503</b>	<b>-</b>	<b>20,503</b>

Included within the Group Corporate figures above are financial investments denominated in non-Sterling currency. The impact of a 5% change in exchange rates between GBP and other currencies would be £nil on shareholders' funds (2015: £nil).



# SD Underwriting Limited

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

### 14. Investments in subsidiary undertakings - Company

The Company's fixed asset investments represents unlisted investments in subsidiary undertakings stated at cost adjusted for any impairment. The subsidiary undertakings, all of which are included in the consolidation, are as follows:

Entity	Nature of business	2016		2015	
		Ownership share	Cost £	Ownership share	Cost £
Evedon Underwriting Limited	Lloyd's corporate member	100%	-	100%	-
J F C Palmer Limited	Lloyd's corporate member	100%	-	100%	-
Nameco (No. 96) Limited	Lloyd's corporate member	100%	-	100%	-
Nameco (No. 126) Limited	Lloyd's corporate member	100%	-	100%	-
Nameco (No. 207) Limited	Lloyd's corporate member	100%	-	100%	-
Nameco (No. 210) Limited	Lloyd's corporate member	100%	-	100%	-
Nameco (No. 203) Limited	Lloyd's corporate member	100%	-	100%	-
Nameco (No. 204) Limited	Lloyd's corporate member	100%	-	100%	-
Nameco (No. 230) Limited	Lloyd's corporate member	100%	-	100%	-
			<u>-</u>		<u>-</u>

All Group undertakings are registered in England and Wales.

During 2015, all investments in subsidiary undertakings were either sold or their cost fully impaired as detailed below:

#### Disposal of subsidiary undertakings

Entity	Percentage ownership disposed	Date of disposal	Proceeds £	Cost of investment £	Profit / (loss) on disposal £
Caroe Underwriting Limited	100%	2 February 2015	1	5,459	(5,458)
Dunbar Underwriting Limited	100%	2 February 2015	1	8,529	(8,528)
Nameco (No. 35) Limited	100%	2 February 2015	1	3,820	(3,819)
Nameco (No. 104) Limited	100%	2 February 2015	1	22,243	(22,242)
Nameco (No. 244) Limited	100%	2 February 2015	1	2,283	(2,282)
Nameco (No. 338) Limited	100%	2 February 2015	1	44,487	(44,486)
Nameco (No. 363) Limited	100%	2 February 2015	1	71,086	(71,085)
			<u>7</u>	<u>157,907</u>	<u>(157,900)</u>

#### Impairment of investment in subsidiary undertakings

Entity	Cost of investment £	Impairment £	Cost adjusted for impairment £
Evedon Underwriting Limited	(1,581)	1,581	-
J F C Palmer Limited	2,186	(2,186)	-
Nameco (No. 96) Limited	(3,040)	3,040	-
Nameco (No. 126) Limited	(1,340)	1,340	-
Nameco (No. 207) Limited	(101)	101	-
Nameco (No. 210) Limited	1,960	(1,960)	-
Nameco (No. 203) Limited	1	(1)	-
Nameco (No. 204) Limited	1	(1)	-
Nameco (No. 230) Limited	1,000	(1,000)	-
	<u>(914)</u>	<u>914</u>	<u>-</u>

# SD Underwriting Limited

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

### 15. Other debtors

	2016			2015		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
<b>Group</b>						
Amounts due from shareholders	-	225,594	225,594	-	6,862	6,862
Funds at Lloyd's	-	1,009,799	1,009,799	-	547,591	547,591
Deferred tax asset (Note 18)	-	-	-	-	-	-
Other	630,716	512	631,228	546,006	112	546,118
	<u>630,716</u>	<u>1,235,905</u>	<u>1,866,621</u>	<u>546,006</u>	<u>554,565</u>	<u>1,100,571</u>

Funds at Lloyd's ("FAL") represents assets deposited with the Corporation of Lloyd's (Lloyd's) to support the Group's underwriting activities as described in the Accounting Policies. The Group retains the rights to the economic benefit of these assets. The Group has entered into a Lloyd's Deposit Trust Deed which gives Lloyd's the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission, and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Group's liabilities in respect of its underwriting.

Where FAL is comprised of financial investments, to meet Lloyd's requirements these investments will usually be the equivalent of Level 1 as defined in Note 13. FAL are held mainly either in Sterling or US dollar denominations and therefore are potentially exposed to the currency risk of fluctuation between the Sterling and US dollar exchange rate. The maximum exposure to a 5% movement in the Sterling and USD exchange rate will be £50,490 (2015: £27,380).

	2016 Total £	2015 Total £
<b>Company</b>		
Deferred tax asset (Note 18)	-	-
Other debtors	107	107
	<u>107</u>	<u>107</u>

### 16. Share capital

#### Allotted, called-up and fully paid

	2016		2015	
	Issued	Value £	Issued	Value £
Ordinary £1 shares	100	100	100	100

### 17. Profit and loss account

	2016			2015		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
<b>Group</b>						
Retained profit/(loss) brought forward	992,893	(648,266)	344,627	1,018,566	214,233	1,232,799
Disposal of subsidiaries accounted for using merger accounting	-	-	-	-	(1,235,982)	(1,235,982)
Reallocate distribution	(685,977)	685,977	-	(667,450)	667,450	-
Profit/(loss) and other comprehensive income for the financial year	548,942	973,235	1,522,177	641,777	(293,967)	347,810
Dividends	-	-	-	-	-	-
Retained profit/(loss) carried forward	<u>855,858</u>	<u>1,010,946</u>	<u>1,866,804</u>	<u>992,893</u>	<u>(648,266)</u>	<u>344,627</u>

# SD Underwriting Limited

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

### 17. Profit and loss account (continued)

The result for each underwriting year of account is generated over a three year period. These Financial Statements, which cover the period from 1 January 2016 to 31 December 2016, show movements in the first twelve months of the 2016 year of account, the second twelve months of the 2015 year of account and the final twelve months of the 2014 year of account.

Future cash flows will arise when profits/(losses) are distributed/(collected) by Lloyd's after each year of account has closed. Subject to certain conditions, Lloyd's can allow the partial early release of some profits or in the event of an expect loss require advance funding prior to the year of account closing.

The cumulative profit and loss account on all open underwriting years of account is shown in the Balance Sheet under 'Syndicate participation' as detailed in the table below:

	2016	2015
	£	£
<i>Underwriting year of account (cumulative):</i>		
2013 after 36 months	-	680,023
2014 after 36 months / 24 months	821,644	346,864
2015 after 24 months / 12 months	276,176	(33,994)
2016 after 12 months	(241,962)	-
	<hr/>	<hr/>
	855,858	992,893

### 18. Deferred taxation assets/(liabilities)

	2016	2015
	£	£
<b>Group</b>		
Opening balance	(88,148)	(41,562)
Acquired on acquisition	-	-
Profit and loss account (charge)/credit	(82,527)	(40,921)
Other comprehensive income (charge)/credit	(19,374)	(5,665)
	<hr/>	<hr/>
Closing balance	(190,049)	(88,148)
	<hr/>	<hr/>
	2016	2015
	£	£
<b>Company</b>		
Opening balance	-	-
Profit and loss account (charge)/credit	-	-
	<hr/>	<hr/>
Closing balance	-	-

The deferred tax balance consists of timing differences relating to the taxation of underwriting results. Deferred tax assets are shown within Other debtors (Note 15).

# SD Underwriting Limited

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

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

	2016			2015		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
<b>Group</b>						
Amounts due to subsidiary undertakings	-	-	-	-	-	-
Corporation tax	-	17,544	17,544	-	42,196	42,196
Amounts due to shareholders	-	240,124	240,124	-	-	-
Bank loan	-	-	-	-	-	-
Other creditors	870,054	984	871,038	630,571	1,292,682	1,923,253
	<u>870,054</u>	<u>258,652</u>	<u>1,128,706</u>	<u>630,571</u>	<u>1,334,878</u>	<u>1,965,449</u>

	2016 Total £	2015 Total £
<b>Company</b>		
<b>Falling due within one year</b>		
Other creditors	(3,542)	-
Accruals	<u>5,760</u>	<u>5,760</u>
	<u>2,218</u>	<u>5,760</u>
<b>Falling due after one year</b>		
Bank loan	-	-
Other creditors	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

# SD Underwriting Limited

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

### 20. Financial liabilities

The Group early adopted as of 1 January 2016 the amendments of FRS 102 made in March 2016 and effective for accounting periods beginning on or after 1 January 2017.

The Group categorises its fair value measurement using the following three fair value hierarchy levels based on the reliability of inputs used in determining fair values as follows:

Level 1: The unadjusted quoted price in an active market for identical liabilities that an entity can access at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable (i.e. developed using market data) for the liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the liability.

Financial liabilities Syndicate	Financial liabilities held at fair value through profit or loss				Held at amortised cost	Total
	Level 1	Level 2	Level 3	Total		
	£	£	£	£	£	£
<b>2016</b>						
Borrowings	-	-	-	-	-	-
Derivative liabilities	6,470	960	-	7,430	-	7,430
Financial liabilities classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>6,470</b>	<b>960</b>	<b>-</b>	<b>7,430</b>	<b>-</b>	<b>7,430</b>

Financial liabilities Syndicate	Financial liabilities held at fair value through profit or loss				Held at amortised cost	Total
	Level 1	Level 2	Level 3	Total		
	£	£	£	£	£	£
<b>2015</b>						
Borrowings	-	-	-	-	-	-
Derivative liabilities	654	-	2,655	3,309	-	3,309
Financial liabilities classified as held for sale	-	-	-	-	-	-
<b>Fair value</b>	<b>654</b>	<b>-</b>	<b>2,655</b>	<b>3,309</b>	<b>-</b>	<b>3,309</b>

All other financial liabilities of the syndicate participation, including creditors arising out of direct insurance operations, creditors arising out of reinsurance operations and other creditors, are measured at amortised cost.

#### Financial liabilities – Group and Company Corporate

All corporate financial liabilities are measured at amortised cost.

### 21. Dividends

	2016 £	2015 £
Equity dividends declared and paid	-	-

# SD Underwriting Limited

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

### 22. Related party transactions

Nomina plc, a Director of the Company, provides administration services to the Group. Nomina plc charged fees totalling £29,600 (2015: £29,600) for providing these services.

### 23. Ultimate controlling party

Until 25 July 2016 the Company was controlled by S Dickinson. From 25 July 2016 the Company is controlled by Mary Elizabeth Dickinson, Michael Edward Dickinson, James Stephen Dickinson and Mills and Reeve Trust Corporation Limited.

### 24. Syndicate participation

The principal syndicates or members' agent pooling arrangements ("MAPA") in which the Company participates as an underwriting member are as follows:

Syndicate or MAPA number	Managing agent	2017 Allocated Capacity £	2016 Allocated capacity £	2015 Allocated capacity £	2014 Allocated capacity £
33	Hiscox Syndicates Limited	202,084	175,725	175,725	175,725
218	ERS Syndicate Management Limited	72,501	54,391	52,881	66,102
386	QBE Underwriting Limited	42,373		47,122	55,206
510	Tokio Marine Kiln Syndicates Limited	288,471	269,599	269,599	269,599
557	Tokio Marine Kiln Syndicates Limited	23,912	23,912	23,912	23,912
609	Atrium Underwriters Limited	97,440	97,440	97,440	97,440
623	Beazley Furlonge Limited	338,268	286,184	255,522	274,162
727	S A Meacock & Company Limited	115,027	115,027	115,027	115,027
958	Canopus Managing Agents Limited	-	-	109,586	103,663
1176	Chaucer Syndicates Limited	14,833	13,844	12,525	12,525
1729	Asta Managing Agency Limited	137,627	123,865	103,220	103,220
1910	Asta Managing Agency Limited	-	136,855	-	-
2010	Cathedral Underwriting Limited	151,169	151,169	151,169	172,765
2014	Pembroke Managing Agency Limited	223,230	200,000	288,408	216,219
2791	Managing Agency Partners Limited	289,222	289,222	289,222	327,699
4444	Canopus Managing Agents Limited	115,508	115,508	-	-
6105	Ark Syndicate Management Limited	-	-	96,168	96,168
6111	Catlin Underwriting Agencies Limited	-	274,057	246,922	250,791
6117	Asta Managing Agency Limited	452,894	205,215	151,359	229,268
7200	Members' Agents Pooling Arrangement	235,835	222,806	217,798	225,918
7201	Members' Agents Pooling Arrangement	1,774,261	1,617,672	1,570,236	1,643,920
7202	Members' Agents Pooling Arrangement	440,400	405,851	392,556	413,150
7203	Members' Agents Pooling Arrangement	84,200	75,657	72,353	76,040
7211	Members' Agents Pooling Arrangement	49,463	45,109	44,061	46,086
7212	Members' Agents Pooling Arrangement	321,334	291,682	281,691	292,890
7217	Members' Agents Pooling Arrangement	139,279	132,315	125,354	111,430
7227	Members' Agents Pooling Arrangement	13,253	13,253	7,069	-