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HARDY

Hardy (Underwriting Agencies) Limited: Syndicate 382
2016 Annual Report and Financial Statements

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Contents

Directors and administration

Managing agent

Hardy (Underwriting Agencies) Limited

Non-executive directors

J M Anderson
A M D'Hulster
T F Motamed
G J Starling
T J Szerlong
H I Thomas
R Thomson (appointed 1 December 2016)

Executive directors

P J Gage
C A Kearney
D J Stevens
D J Brosnan

Managing agent's registered office

20 Fenchurch Street
London EC3M 3BY

Managing agent's registered number

1264271

Active underwriter

P J Gage

Bankers

Citibank N.A.
Barclays Bank plc

Investment managers

Goldman Sachs Asset Management International

Registered auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Reporting actuaries

KPMG Audit plc

Strategic report

Introduction

The directors of Hardy (Underwriting Agencies) Limited (“HUA”) present their Strategic report for the year ended 31 December 2016. This report has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors’ Report) Regulations 2013.

HUA is the managing agent for Syndicate 382 (“the Syndicate”) whose principal activity is underwriting general insurance and reinsurance business at Lloyd’s of London (“Lloyd’s”).

HUA is wholly owned by Hardy Underwriting Group plc (“HUG”), which is in turn wholly owned by Hardy Underwriting Bermuda Limited (“HUB”). Hardy Underwriting Limited (“HUL”), another wholly owned subsidiary of HUG is a corporate member of Lloyd’s and is the sole provider of underwriting capacity to Syndicate 382.

HUB is wholly owned by The Continental Corporation (“TCC”), who are wholly owned CNA Financial Corporation ("CNAF"), which, in turn, is controlled by Loews Corporation (“Loews”). References to "CNA" in this report are to CNAF and its group undertakings.

CNA is the 8th largest U.S. commercial property and casualty insurance company. It has approximately 6,700 employees and its insurance products include commercial property and casualty coverages, including surety. CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Overview of results

The Syndicate reported a loss for 2016 of £6.8 million (2015: loss £9.9 million) with a calendar year combined ratio of 111.2% (2015: 106.4%).

The Syndicate reported an increase in gross premiums written for the year to £285.7 million compared to £267.9 million for 2015. The increase was recorded primarily in the Syndicate’s newer lines of business, including Healthcare and certain Specialty lines. Additional investments have been made in the Syndicate’s Singapore underwriting platform. Decreases in gross premiums written were recorded in other traditional lines of business driven by market conditions or as a result of strategic reductions.

Net premiums written in 2016 of £248.1 million represented an increase over the prior year of £218.9 million partly as a result of business growth and partly due to specific actions taken to reduce the Syndicate’s overall expenditure on reinsurance.

On a calendar year basis the loss ratio of 71.9% represents an 8.9% increase over the prior year ratio of 63.0%. A significant driver of this increase was the occurrence of a number of large current accident year losses, the most notable of which emanated from the Syndicate’s Specialty Lines business. Appropriate actions are being taken to reduce the Syndicate’s exposure to such risks in the future. The Syndicate incurred lower than expected levels of losses emanating from natural catastrophes. The Syndicate also recorded a low level of favourable development of prior accident year loss reserves.

The Syndicate shares its operating and management structure with another group company, CNA Insurance Company Limited (“CICL”). Both companies operate under a combined operating platform with management and administrative services being provided by a service company, CNA Services (UK) Limited (“CNA Services”), an indirect subsidiary of CNAF. The Syndicate pays CNA Services, which employs all UK staff, a management fee for the provision of management and administration. The Syndicate expects cost savings to be realised over the coming years as a result of the synergies and efficiencies generated from the combined operating platform.

Strategic report - continued

Overview of results - continued

Syndicate operating expenses are made up of commissions paid to brokers and general administrative expenses. In addition, HUA charged the Syndicate a fixed fee of 0.075% of allocated capacity. Throughout 2016, all administrative expenses incurred in the UK were recharged from CNA Services, with expenses incurred in the Syndicate's Singapore branch borne directly. Expenses are allocated to the Syndicate from CNA Services based on a detailed allocation model which is regularly reviewed and updated.

The expense ratio for the year of 39.3% represented a decrease compared to the prior year ratio of 43.4%. This decrease was driven primarily by a focussed and disciplined approach to expense management.

The Syndicate continues to maintain a disciplined approach to expense management. Targeted and evaluated investments in new staff to support growth strategies have been made in 2016, where the Syndicate believes appropriate levels of return will be made. In addition, the Syndicate has made improvements to the technology that supports the underwriting and support functions, demonstrating the Syndicate's commitment to further developing its operating infrastructure.

Investment returns contributed £2.2 million (2015: £1.5 million) to the result in 2016. The Syndicate invests in shorter duration, high quality fixed income government and corporate securities. The Syndicate's investment managers operate within an agreed investment strategy determined by the Board of directors.

The Syndicate transacts insurance business in five main currencies (Pound sterling, Euro, US dollars, Canadian dollars and Japanese yen). The Syndicate manages the currency mix of its assets to match liabilities and mitigate the economic effects of exchange rate volatility. During the year the Syndicate recording gains on foreign exchange of £16.8 million (2015: £1.8 million), the main driver of which was the weakening of sterling against the US dollar.

Key performance indicators

The Syndicate uses a range of key performance indicators ("KPIs") to measure the performance of the Syndicate to determine how well it is performing against its objectives and overall strategy. These indicators are regularly reviewed by the Syndicate's management team and measured against plan and prior year data.

The following KPIs are considered most relevant to measuring the Syndicate's performance in 2016.

	2016 **£m**	2015 £m
Gross premiums written	**285.7**	267.9
Net written premiums	**248.1**	218.9
Profit/(loss) for the financial year	**(6.8)**	(9.9)
Loss ratio	**71.9%**	63.0%
Expense ratio	**39.3%**	43.4%
Combined ratio	**111.2%**	106.4%

Strategic report - continued

Financial position

Overview of financial position and capital requirements

For the 2014, 2015, 2016 and 2017 years of account, HUL provides 100% of the total underwriting capacity for all years of £330.0 million.

Capital to support the underwriting capacity for the Syndicate, known as Funds at Lloyd's ("FAL") is determined using HUA's Solvency II internal model, which operates under requirements prescribed by Lloyd's. The capital required by HUL to support the Syndicate's underwriting capacity is 63.9% of Syndicate capacity (2015: 62.1%).

The following table sets out the composition of the assets supporting the Syndicate capital requirement for the 2016 year of account participation via HUL's FAL.

	2016 £'000	2015 £'000
Proposed level of underwriting	**330,000**	330,000
Capital requirement	**210,870**	204,930
Satisfied by:		
Investments	**168,843**	156,312
Assets deposited on behalf of HUL by CICL	**60,531**	48,400
Solvency surplus/(deficit) adjustment	**(11,548)**	2,555
Total Funds at Lloyd's provided	**217,826**	207,267

A component of the FAL requirement is provided by CICL. This has been approved by the Prudential Regulation Authority ("PRA") and by Lloyd's.

Investments

To the extent possible, cash flows in excess of operational requirements were re-invested in the Syndicate's investment portfolio. The Syndicate has in place processes to monitor operating cash flows which ensure that investment returns are maximised whilst maintaining adequate cash resources to meet operating expense and claim requirements.

The Syndicate's investment guidelines are regularly reviewed and, as part of this process, the duration of the investment portfolio is managed to closely match the duration of the Syndicate's underlying liabilities. The Syndicate continues to invest primarily in high grade corporate and government bonds in accordance with its stated investment strategy.

Strategic report - continued

Business operations

The Syndicate operates primarily in the London market through its operations at Lloyd's. In addition, the Syndicate underwrites through the Lloyd's platform from operations in Singapore and China.

Underwriting staff and most support functions are located in the Syndicate's head office in London. Additional support services are provided from an office in Norwich. The Syndicate also operates a branch in Singapore and employs underwriting staff in China.

The Syndicate's strategy is to underwrite business with a focus on gross underwriting profit and to purchase reinsurance only where necessary to facilitate a meaningful line size or to protect against potential accumulations of exposure. Reinsurance is purchased on both a pro-rata and excess of loss basis with minimal use of facultative reinsurance. The Syndicate maintains a list of approved reinsurers and these typically have a rating of A or above. Any deviation from this list requires formal assessment, approval and appropriate measures to mitigate exposure.

The Syndicate will continue to transact general insurance and reinsurance business in its current classes and will develop new lines of business as appropriate to further diversify its portfolio.

Future developments

The Syndicate's core objectives are to be the provider of choice for its customers through the development of innovative products, to build sustainable long-term profitability, and to produce robust levels of organic growth in gross premiums written year on year.

To achieve these objectives the Syndicate is diversifying its product range and expanding its geographic reach. This includes the launch of new lines within the Lloyd's platform as well as a renewed focus on growth of the Syndicate's Singapore and Lloyd's China channels.

The Syndicate continues to make further improvements to its operating infrastructure with the aim of enhancing financial systems capabilities. In particular, the Syndicate is developing enhanced financial management information capabilities to enable the provision of more timely, accurate and detailed information to management to aid in the strategic decision making process.

The Syndicate is closely monitoring the political and economic developments related to the vote by the United Kingdom to leave the European Union ("EU") ("Brexit"). Hardy, through Lloyd's of London, uses Freedom of Services to write insurance business across the EU. Lloyd's of London have a project underway to ensure that Syndicates will retain the ability to write European business post Brexit if Freedom of Services is not retained. The Board is closely monitoring the Lloyd's of London project.

Strategic report - continued

Corporate governance

Ultimate responsibility for the Syndicate's affairs rests with the Board of directors. The Board is responsible for approving the Syndicate's business plan and its strategies with regard to risk management. The Board provides leadership based on a framework of controls and risk management disciplines and sets the Syndicate's risk appetite. The Board also seeks to ensure compliance with all relevant internal and external regulations governing Syndicate's activities. The Board meets quarterly.

The Board operates with three principal committees: an Audit Committee, a Risk Committee and an Underwriting Committee. Each committee has clear terms of reference for the matters for which it is responsible and is chaired by an independent non-executive director. Each committee reports to the Board. This forms the basic structure for the corporate governance framework which is reviewed and approved by the Board at least annually to ensure continued effectiveness.

The key objectives of the Audit Committee are to assist the Board to oversee: the integrity of the Syndicate's financial statements; the adequacy and effectiveness of the internal control environment; the qualifications and independence of the Syndicate's external auditors; and the performance of internal audit staff.

The key objectives of the Risk Committee are: to raise the level of risk awareness and accountability; to integrate an effective risk management process into the organisational structure, decision making process and the Syndicate's culture; and to provide a mechanism for oversight of all risk management issues. It also monitors the Syndicate's risk-based capital and compliance with Solvency II. The Risk Committee assesses compliance with the Syndicate's risk management strategy, risk policies and risk appetite, while ensuring that the risk register is both up to date and adequate. The Risk Committee oversees all processes that underpin the Syndicate's Own Risk and Solvency Assessment ("ORSA"). It monitors all key risks, including emerging risks, and related mitigation and controls.

The key objectives of the Underwriting Committee are: to ensure appropriate governance and control over underwriting, claims and reinsurance operations; direction over the use of rating models and pricing tools; oversight and control of delegated underwriting and coverholder arrangements; monitoring underwriting and claims audit and review processes; to review and challenge underwriting business plans and current performance; to oversee reinsurance strategy; to oversee and monitor risk appetites and limits.

Various other sub-groups cover specific areas of responsibility. The sub-groups, which meet regularly throughout the year and report to either the Audit, Risk or Underwriting committees, include:

- Reinsurance Group
- Internal Controls and Attestation Group
- Investment Group
- Legal, Regulatory and Compliance Group
- Reserving Group
- Solvency II Steering Group
- Delegated Underwriting and Product Oversight Group
- Exposure Management Group
- Internal Model Group

The Syndicate is authorised and regulated by the PRA and by Lloyd's and is regulated by the Financial Conduct Authority ("FCA"). The Syndicate works closely with these regulatory bodies to ensure it is compliant with all legal and regulatory requirements.

The Syndicate is committed to ensuring that its strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment of, its policyholders. The Syndicate continues to reassess all aspects of its commitment to its customers to ensure that all these values are maintained.

Strategic report - continued

Principal risks and uncertainties

The HUA Board has overall responsibility and accountability for risk management. The Syndicate's appetite for accepting and managing risk is defined by the Board. The Board has delegated to the Risk Committee the responsibility for identifying and assessing all material risks and reviewing the Syndicate's actual risk exposure against stated risk appetite on a regular basis.

The Chief Risk Officer has responsibility for ensuring an effective risk management process is in place and is assisted by the Risk Management function. The Syndicate has developed a risk and control framework which is built on an Enterprise Risk Management ("ERM") model with each business unit responsible and accountable for all aspects of risk management within that area.

The risk management framework includes the processes for identifying risks (including those emerging), an assessment of those risks, and the setting of tolerances for risks, as well as the modelling, monitoring and mitigating of risks. The scope of risks considered includes all internal and external risks that affect the Syndicate whether quantifiable or not.

Set out below are the principal risks and uncertainties to which the Syndicate is exposed. Further information on how the Syndicate manages risk is disclosed in Note 3 to these financial statements.

Strategic risk

Strategic risk is the potential impact on earnings or capital from an incorrect strategy being set, improper business decisions, failure to execute plans or strategic ambitions, lack of responsiveness to industry changes and ill-disciplined growth in a soft market. Any event which would have an adverse impact to the Syndicate reputation would also rank as a strategic risk. Annual business plans are agreed by senior management and tracked against actual performance throughout the year.

Insurance risk

Insurance risk is the risk associated directly with the Syndicate's underwriting activities. This would include the risk associated with inaccurate or inadequate pricing of insurance policies, inappropriate or poorly controlled underwriting guidelines and authority limits, inadequate or inaccurate loss reserving, and unexpectedly high frequency or severity of claims experience.

To mitigate these risks the Syndicate has in place controls and governance processes designed to closely monitor its underwriting activities. These include, but are not limited to, the operation of the Underwriting Committee, Reserving Group and Exposure Management Group, the issuance of underwriting authority limits and guidelines, the extensive use of technical pricing models, and regular underwriting audits.

Financial risk – Credit, Market and Liquidity

Financial risk includes the risk associated with investment activities, credit, liquidity and foreign currency exchange. This includes bond default risk (the risk that an issuer of a bond may be unable to make timely principal and interest payments) and reinsurer default risk (the risk that the Syndicate's reinsurers would be unable or unwilling to pay their share of reinsurer liabilities). Either may result in significant financial loss to the Syndicate.

Investment risk includes the impact of market volatility on asset values associated with interest rate volatility. The Syndicate manages investment risk through its Investment Group. The Group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the Group is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events. Risks include those from IT related activities (including cyber), legal and regulatory, financial reporting and financial crime as well as those from operations, outsourcing and change.

The Syndicate has in place appropriate business processes (including business continuity plans) and relevant internal controls to substantially mitigate operational risk.

Strategic report - continued

Emerging risks

The Syndicate has processes in place to monitor and manage new and emerging risks associated both directly with its insurance activities and with the wider business and economic environment. The Syndicate also monitors potential emerging risks resulting from changes in the regulatory environment. Where appropriate, the Syndicate proactively undertakes risk management activities to mitigate emerging risks.

Going concern

The Syndicate has strong risk management disciplines across its operations. In particular, the potential impacts of external conditions are continually assessed and mitigating actions are taken where appropriate. The Syndicate operates with a broad range of brokers, customers and other business contacts in different product lines and geographic areas. As a consequence, the HUA directors believe that the Syndicate is well placed to manage its business risks successfully.

After making all relevant enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in Note 1 to the financial statements.

Approval

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

D J Brosnan
Director

20 Fenchurch Street,
London EC3M 3BY

13 March 2017

Report of the directors of the managing agent

The directors of HUA, the managing agent of Syndicate 382, present their report and financial statements for the year ended 31 December 2016.

Directors

The directors who have held office in HUA since 1 January 2016 are as follows:

Executive directors

P J Gage
C A Kearney
D J Stevens
D J Brosnan

Non-executive directors

J M Anderson
A M D'Hulster
T F Motamed
G J Starling
T J Szerlong
H I Thomas
R Thomson (appointed 1 December 2016)

Statement of managing agent's responsibilities

HUA is responsible for preparing the Syndicate annual financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require HUA to prepare Syndicate annual financial statements as at 31 December each year to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit and loss for that year. In preparing the Syndicate annual financial statements, HUA is required to:

- select suitable accounting policies, which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the annual financial statements on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

The directors are responsible for keeping adequate accounting records which: disclose with reasonable accuracy at any time the financial position of the Syndicate; and enable it to ensure that the Syndicate annual financial statements comply with the 2008 Regulations. They are also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results

In 2016 the Syndicate reported a loss of £6.8 million (2015: loss of £9.9 million).

Report of the directors of the managing agent - continued

Auditor

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

1. so far as the director is aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and
2. the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor of the Syndicate.

Information included in strategic report

In accordance with section 414C(11) of the Companies Act, the Syndicate has chosen to set out the following information in the strategic report which would otherwise be required to be contained in the directors' report:

- information on the financial risk management objectives and policies;
- indication of the exposures to relevant key risks; and
- indication of likely future developments in the business of the Syndicate.

Approval

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

D J Brosnan
Director

20 Fenchurch Street,
London EC3M 3BY

13 March 2017

Independent Auditor's report to the member of Syndicate 382

We have audited the syndicate annual financial statements for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Member Balances, the Cash Flow Statement, and the related notes 1 to 17. 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/FRS 103 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate'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 syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of managing agent and auditor

As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual 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 annual financial statements sufficient to give reasonable assurance that the annual 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 syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual 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 Syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matters prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008

In our opinion the information given in the Managing Agent's Report and the Strategic Report for the financial year in which the annual financial statements are prepared is consistent with the annual financial statements.

Independent Auditor's report to the member of Syndicate 382 - continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you if, in our opinion:

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Colin Rawlings FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

13 March 2017

Profit and loss account - Technical account - General business

	Notes	2016 £'000	2015 £'000
Gross premiums written	4	**285,665**	267,938
Outward reinsurance premiums		**(37,585)**	(49,079)
Premiums written, net of reinsurance		**248,080**	218,859
Change in provision for unearned premiums			
– gross amount		**(15,371)**	(6,597)
– reinsurers' share		**(1,494)**	(5,174)
Earned premiums, net of reinsurance		**231,215**	207,088
Claims paid			
– gross amount		**157,829**	138,789
– reinsurers' share		**(28,599)**	(37,494)
Net claims paid		**129,230**	101,295
Change in the provision for claims:			
– gross amount		**48,700**	7,079
– reinsurers' share		**(11,712)**	22,095
Claims incurred, net of reinsurance		**166,218**	130,469
Net operating expenses	6	**90,874**	89,803
Balance on the technical account for general business		**(25,877)**	(13,184)

The Notes 1 to 17 form an integral part of these financial statements.

Profit and loss account - Non-technical account

	Notes	2016 £'000	2015 £'000
Balance on the technical account for general business		**(25,877)**	(13,184)
Income from investments		**3,580**	2,483
Gains on the realisation of investments		**228**	87
Losses on the realisation of investments		**(791)**	(433)
Unrealised gains on investments		**171**	276
Unrealised losses on investments		**(865)**	(944)
Investment expenses and charges		**(117)**	(21)
Foreign exchange differences		**16,823**	1,826
Other expenses		**(17)**	-
Other income		**100**	-
Loss for the financial year		**(6,765)**	(9,910)

All the amounts above are in respect of continuing operations.

There are no recognised gains and losses in the year other than those dealt with in the technical and non-technical accounts and therefore a statement of total recognised gains or losses has not been prepared.

The Notes 1 to 17 form an integral part of these financial statements.

Statement of changes in member balances

	Notes	2016 £'000	2015 £'000
Balance at start of year		**(14,628)**	8,927
Total comprehensive income for the year			
Loss for the financial year		**(6,765)**	(9,910)
		(21,393)	(983)
Transactions with member, recorded directly in member balances:			
- Receipt of closed year losses/(distribution of closed year profits)		**3,775**	(13,686)
- Other movements		**(9)**	41
Balance at end of year		**(17,627)**	(14,628)

The Notes 1 to 17 form an integral part of these financial statements.

Balance sheet

Assets	Notes	2016 £'000	2015 £'000
Investments - other financial investments	9	**233,234**	163,462
Reinsurers' share of provision for unearned premiums	13	**24,678**	23,792
Reinsurers' share of claims outstanding	13	**82,423**	59,922
Reinsurers' share of technical provisions		**107,101**	83,714
Debtors arising out of direct insurance operations	10	**107,032**	95,093
Debtors arising out of reinsurance operations		**6,492**	7,365
Other debtors	11	**381**	2,902
Debtors – amounts falling due within one year		**113,905**	105,360
Debtors arising out of direct insurance operations	10	**135**	544
Debtors arising out of reinsurance operations		**69**	-
Debtors – amounts falling due after one year		**204**	544
Cash at bank and in hand		**26,874**	23,949
Overseas deposits	12	**25,463**	17,845
Other assets		**52,337**	41,794
Accrued interest		**1,161**	737
Deferred acquisition costs		**38,723**	32,487
Prepayments and other accrued income		**667**	1,197
Prepayments and accrued income		**40,551**	34,421
Total assets		**547,332**	429,295

The Notes 1 to 17 form an integral part of these financial statements.

Balance sheet - continued

Liabilities	Notes	2016 £'000	2015 £'000
Members balances		**(17,627)**	(14,628)
Provision for unearned premiums	13	**173,871**	146,722
Claims outstanding	13	**343,077**	249,680
Technical provisions		**516,948**	396,402
Creditors arising out of direct insurance operations		**942**	374
Creditors arising out of reinsurance operations		**39,788**	41,256
Other creditors	14	**1,231**	555
Creditors – amounts falling due within one year		**41,961**	42,185
Creditors arising out of reinsurance operations		**-**	272
Creditors – amounts falling after one year		**-**	272
Reinsurers' share of deferred acquisition costs		**4,982**	5,040
Accruals and deferred income		**1,068**	24
Other payables		**6,050**	5,064
Total liabilities		**547,332**	429,295

The Notes 1 to 17 form an integral part of these financial statements.

These financial statements were approved by the Board of directors of HUA on 13 March 2017 and signed on its behalf by:

D J Stevens
Director

Statement of cash flows

Reconciliation of operating profit to net cash outflows from operating activities

	2016 £'000	2015 £'000
Operating activities		
Loss for the financial year	**(6,765)**	(9,910)
Adjustments for:		
Financial income	**(2,206)**	(1,448)
Change in fair value of financial investments	**116**	(5,571)
Effect of exchange rate changes on financial investments	**(17,979)**	(5,725)
Change in deferred acquisition costs	**(6,294)**	(555)
Change in reinsurance assets	**(23,387)**	23,723
Change in insurance liabilities	**120,546**	21,675
Change in other assets	**(15,717)**	10,048
Change in other liabilities	**548**	(6,041)
Net cash flows from operating activities	**48,862**	26,196
Investing activities		
Purchase of financial assets	**(167,293)**	(63,514)
Proceeds from sale of financial assets	**108,629**	55,218
Interest and dividends received	**3,509**	2,483
Net cash flows from investing activities	**(55,155)**	(5,813)
Net transfers to/(from) the member in respect of underwriting participations	**3,766**	(13,645)
Net (decrease)/increase in cash and cash equivalents	**(2,527)**	6,738
Cash and cash equivalents at 1 January	**23,949**	15,506
Effect of foreign exchange rate fluctuations on cash and cash equivalents	**5,452**	1,705
Cash and cash equivalents at 31 December	**26,874**	23,949

Notes to the financial statements

1. Accounting policies

Basis of accounting

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008 and applicable Accounting Standards in the United Kingdom, including FRS 102 and FRS 103. The financial statements are prepared under the historical cost accounting rules as modified by the revaluation of investments.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The Syndicate's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business operations paragraph, which forms part of the Strategic report.

The directors have a reasonable expectation that the Syndicate and HUA have adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Foreign currencies

Foreign currency transactions are converted to the presentational and functional currency of the Syndicate (Pound sterling) using the exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in the technical account.

Basis of accounting for underwriting activities

Contracts are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay benefits that were significantly greater than the premium received. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk. The Syndicate has not issued any investments contracts in the current or prior year.

Premiums

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made to premiums written in prior accounting periods. Premiums written on a Losses Occurring During ("LOD") basis are recognised in the month of inception of the policy. Premiums written on a Risk Attaching During ("RAD") basis are spread between the inception and expiry date of the policy. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. In addition, premiums are shown net of premium discounts and certain other deductions. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct inwards business.

The amount due but not paid is included in insurance and reinsurance debtors in the balance sheet.

Notes to the financial statements - continued

1. Accounting policies - continued

Unearned premiums

Premiums written are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired period of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for claims outstanding and settlement expenses, including claims incurred but not reported ("IBNR"), net of salvage and subrogation recoveries.

Outward reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inward reinsurance business being reinsured.

Claims outstanding and related reinsurance recoveries

Provision is made for claims outstanding and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims IBNR at that date. Included in the provision is an estimate of the internal and external costs of handling the claims outstanding. Estimated salvage and other recoveries are deducted from claims outstanding, if material.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where there is more available information about the claim event. In calculating IBNR, the Syndicate uses a variety of estimation techniques. These are largely based on actuarial analysis of historical experience, which assumes the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses, including catastrophes; and
- movements in industry benchmarks.

Large claims are generally assessed separately by each business class, being measured on a case by case basis, to allow for the possible distortive impact of the development and incidence of the large claims.

When calculating the provision for claims outstanding, the Syndicate selects an estimation technique taking into account the individual characteristics of each business class.

Reinsurance recoveries are based upon the provision for claims outstanding, having due regard to collectability. Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with historical patterns of such recoveries, adjusted to reflect any changes in the nature and extent to the Syndicate's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each reinsurer.

The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and the directors therefore consider that its provisions for claims outstanding and related reinsurance recoveries are fairly stated. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years are included in the Technical account within the financial statements of the period when such adjustment is made.

Notes to the financial statements - continued

1. Accounting policies - continued

Liability adequacy test

At each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the profit and loss account as an impairment of any associated deferred acquisition costs and, where these are fully depleted, via the provision for unexpired risks. The adequacy of the provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account relevant investment return.

Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts written during the financial year. Acquisition costs are accrued over a period equivalent to that over which the underlying business is underwritten, and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The Syndicate defers only those acquisition costs which are directly related to the conclusion of insurance contracts as calculated separately for each class of business.

Investment return

All investment return is recognised in the non-technical account.

Investment income comprises interest and dividends and realised gains and losses on investments. Interest is recognised on an accrual basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sales proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accrual basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

Tax

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to the member gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

Investments

The Syndicate designates financial assets upon initial recognition as “fair value through profit and loss” on the basis that the Syndicate manages and evaluates the performance of its investment portfolio on a fair value basis in accordance with its investment strategy.

These financial assets are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is the quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are included in the profit and loss account in the period in which they arise.

Notes to the financial statements - continued

1. Accounting policies - continued

Cash and cash equivalents

Cash and cash equivalents represent cash balances, money market deposits with banks and other short-term highly liquid investments purchased within three months of maturity.

Insurance and other debtors

Insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate on balances beyond one year, except for short-term receivables when the recognition of interest would be immaterial.

Other financial liabilities

Other financial liabilities, including payables arising from insurance contracts, investment contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

2. Critical accounting estimates and judgements

The Syndicate makes estimates and assumptions that affect the reported amounts of assets and liabilities during the financial year. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements in applying accounting policies are continually evaluated for appropriateness.

Gross premiums written

Gross premiums written include estimates for pipeline premiums, together with adjustments to premiums written in prior accounting periods.

Outstanding claims provisions and related reinsurance recoveries

The Syndicate's estimates for reported and unreported losses and the resulting provisions and related reinsurance recoverables are regularly monitored, and updated based on the latest available information. Adjustments resulting from this review are reflected in the profit and loss account. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provisions is a complex process, however, and significant uncertainty exists as to the ultimate settlement of these liabilities.

The most critical gross estimate included within the Syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2016 is £127.6 million (2015: £91.5 million) and is included within technical provisions in the balance sheet.

Estimation of the fair value of assets and liabilities

In estimating the fair value of fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using values obtained from quoted market prices of comparable securities.

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable.

Notes to the financial statements - continued

3. Risk management

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The narrative below describes how the principal risks of the Syndicate are managed.

Risk definition

Risk exists as a consequence of uncertainty and is present in all activities regardless of their size or complexity. Risk is the uncertainty associated with the delivery of the Syndicate's objectives, resulting in either a positive or negative outcome.

The Syndicate faces numerous risks to its business from both internal and external sources. These risks have the potential to impact the achievement of the Syndicate's strategic and operational objectives. Successful risk management enables the Board to understand and manage the uncertainty, and associated risk and opportunity, to which the Syndicate is exposed.

Risk statement

The Syndicate considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of the Syndicate's strategic and operational objectives and goals.

The Board of HUA owns risk management within the Syndicate, and communicates its risk strategy through a risk appetite statement. The Board is also responsible for ensuring that the Syndicate's Internal Model is embedded in the operation of its business and that the model is used to improve both the understanding of risk and the quality of the decision making at all levels across the business.

Risk management is an integral part of the Syndicate's decision-making and routine management, and is incorporated within the strategic and operational planning processes at all levels across the business. Employees are expected to manage risk as defined through their roles. This ensures that an assessment of risk remains central to decision-making.

The Risk Management Function maintains a governance framework and a risk register to support the assessment of risk within the business. This includes investigation and challenge around issues and events which may affect the Syndicate's understanding or management of risk.

Risk assessments are conducted on new ventures and activities, including projects, processes, systems and commercial activities to ensure that these are aligned with the Syndicate's objectives and goals. Any risks or opportunities arising from these assessments are identified, analysed and reported to the appropriate management level.

Risk Appetites

The Syndicate's risk appetite statement reflects the Syndicate's risk carrying capacity, business strategy and financial goals. It describes the level and types of risk the Syndicate is prepared to bear.

Syndicate level risk appetite is set by the Board at a level that is most appropriate in the context of the Syndicate's strategy and capital constraints. The risk appetite statement sets out the types and overall amount of risk which is acceptable to achieve the business strategy. Risk appetite is an expression of the need both to limit exposure to unacceptable risks and to assume risks for which the Syndicate is well positioned to make returns from managing risk effectively.

The strategic appetite statements provide high level guidance under the following categories:

- Capital;
- Liquidity;
- Earnings; and
- Franchise.

Detailed appetites provide further guidance on the levels of risk acceptable in the various risk categories. The detailed appetites follow the risk register categorisation and hence provide the limits (for risks which can be controlled) and escalation points (for risks which can only be monitored) for each risk type.

Notes to the financial statements - continued

3. Risk management - continued

Own Risk and Solvency Assessment ("ORSA")

The ORSA is a process for the Syndicate to identify and assess all material risks that may impact the Syndicate's ability to meet, over the full business planning period, its strategic objectives and obligations and to ensure sufficient capital is maintained, on a continuing basis, to meet these risks.

Assessments are forward-looking, taking into account the business plan, long term plan and projections. The assessment is performed regularly and without any delay following any significant change in the risk profile, with the outcome of the assessment informing strategic decisions.

There are seven distinct categories of risk segmented into four high level categories: Insurance risks (Underwriting and Reserving), Finance risks (Credit, Market and Liquidity), Operational risks and Strategic risks. The key mitigation activities against these risk categories are described below

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The Notes below describe how the principal risks of the Syndicate are managed.

Business review of risk and the 'Three lines of defence' governance model

The Syndicate deploys the three lines of defence governance model. In the first line, risk is managed and monitored by those that have a responsibility for risk taking or decision making. Second line monitoring occurs through the Risk and Compliance functions and the Risk Committee, and is evidenced through risk reporting. Third line monitoring is through Internal Audit, supported by external audit and independent experts.

The primary method for identifying, assessing and managing risk in the Syndicate is through the first line of defence review of risk taking and/or decision making activity. Employees are expected to manage risk as defined by their role. A formal risk review takes place at least quarterly where the risk and control performance and relevance are considered. Indicators and appetites may be refreshed more regularly and will prompt ad-hoc reviews where they fall outside agreed tolerances.

The risk register is a live tool that is central to the management of risk at the Syndicate. The Risk Management Function works with risk owners to agree the material risks to which the Syndicate is exposed, as well as the relevant sub-risks, controls and key risk indicators against each risk. The suite of risks on the register makes up the universe of risks within the Syndicate.

Emerging and developing risk

Emerging risks are defined as conditions, situations or trends that could impact the financial strength, competitive position or reputation of the Company, within a defined future timescale, and for which probability of occurrence and extent of impact are in the process of being understood and quantified.

To differentiate emerging risks from material risks that are already tracked, emerging risks are those where:

- The likelihood and impact may not be fully quantifiable;
- The business is monitoring the risk, but is not able to actively manage it.

Emerging and developing risks are related to potential changes in the environment, or in the understanding of the environment, which could positively or negatively impact the Syndicate's ability to meet its short or longer term plans.

The purpose of actively researching and discussing developing risk as a business is to be able to identify and benefit from new opportunities ahead of the Syndicate's peers, and to avoid or mitigate potential threats to the Syndicate's business performance.

Notes to the financial statements - continued

3. Risk management - continued

Risk quantification and modelling

The Internal Model is the tool used to calculate the Syndicate's Solvency Capital Requirement. The Syndicate's Internal Model provides a tool to quantitatively assess the material risks to which the Syndicate is exposed. The Internal Model encompasses the processes and methodologies in place for quantifying the risks faced by the Syndicate as well as the data, assumptions, applied expert judgements, model outputs and the systems of governance and independent validation. All model changes must go through a formal approval process.

Capital management

The capital position is managed to take account of the Syndicate's long term needs and particularly of the underwriting cycle, since the variability of the Syndicate's exposures at different points in the cycle is critical. The Board's strategy is to ensure capital adequacy in accordance with commercial and regulatory requirements.

The Syndicate's corporate member is required to hold capital at Lloyd's which is held in trust in FAL. The amount of capital required to be provided as FAL for the 2016 Year of Account was determined by the Syndicate and Lloyd's on a Solvency II basis, using an Internal Model. This is a risk based capital assessment based upon the Syndicate's specific circumstances.

The Syndicate's regulatory capital required for the 2017 year of account is £210.9 million (2016 year of account: £204.9 million). This capital requirement was increased by £11.5 million by way of solvency credits (2015: reduced by £2.6 million of solvency credits). This requirement is fulfilled by a mixture of cash and investments held by HUB and its subsidiaries, and by £60.5 million (2015: £48.4 million) of investments held by CICL to support the Syndicate's capital requirement.

Insurance risk

Insurance risk, in the most general sense, is the assumption of risk by an insurer from the individuals or organisations who are directly subject to the risk concerned.

There are inherent uncertainties in assuming insurance risk, some of which relate to the scope of coverage and the understanding of that scope by the insurer. The principal uncertainty, however, is associated with frequency and severity of claims and with the potential for these to be greater than expected. Insurance events must be subject to fortuity and are therefore, by their very nature, random as to number and size.

Insurers put in place strategies to manage insurance uncertainties and the framework utilised by the Syndicate is outlined below.

Underwriting risk

Underwriting risk represents risk associated with the continuing acceptance of insurance policies by the Syndicate. This relates to the uncertainty as to whether premiums received will be sufficient to cover future incurred losses, including expenses as well as risks associated with potential volatility in claims experience.

Processes used to manage underwriting risk include the setting of underwriting and pricing standards and limits on risk-taking. The Syndicate also monitors and manages its natural catastrophe exposures and uses catastrophe modelling software in order to assess its risk. Where necessary, reinsurance is used to mitigate and transfer risk falling outside risk appetite. Additionally the Syndicate employs a business model that achieves diversification through the spread of business across territories and sectors. The Underwriting Committee provides governance over managing underwriting risk.

Notes to the financial statements - continued

3. Risk management - continued

Control of aggregating exposures

Measurement and control of exposures are the means by which volatility within the portfolio is constrained. It goes to the heart of the business' appetite for risk, since exposures are contained at a level that represents the extent to which the Syndicate is prepared to bear a net loss. Within an insurance business, aggregations of risk may arise from a single insurance contract or through a number of related contracts. Whilst some level of claims activity from these aggregations is expected on a regular basis, certain events, or a series of events, may occur that stress the business financially. Examples of such events are hurricanes and earthquakes. The extent of the impact may also be very dependent on the size and location of the insured events.

Control of aggregating exposures in vulnerable locations is clearly vital, and is the key to maximising the potential for good underwriting profit in loss free periods without, on the downside, over-exposing capital to the impact of large and costly events. Factors which would impact the assumption of risk in these circumstances include an appropriate pricing of risk, a spread of risk across geographical territories and the availability, subject to cost, of a suitable reinsurance programme. The Syndicate determines the maximum total exposure levels to a range of events that it is prepared to accept. Beyond this level, no further exposure may be assumed. At any point in time, the current exposure position for the underwriting portfolio is available to underwriters to enable them to assess the impact of individual risk exposures on the whole account.

The Syndicate uses a number of modelling tools for this purpose, and their main objective is to simulate catastrophe losses so as to measure the effectiveness of the reinsurance programme and to confirm that the net exposure to which the Syndicate is exposed has not exceeded the predetermined limit. A number of stress and scenario tests are also run during the year to examine the exposure to specific types of events.

Management of reinsurance risk

Treaty reinsurance is purchased to proactively manage the volatility inherent in the business. The Syndicate seeks to balance cost versus protection though outward reinsurance treaty protections.

In addition to protecting the business against catastrophe exposure, reinsurance is also purchased to lay off risks that have characteristics that the Syndicate does not wish to retain and also to control net exposures on single risks or aggregations of risks. Both proportional and non-proportional reinsurances are employed.

Facultative reinsurance may also be used in certain predetermined circumstances for individual large lines. The focus on adequacy of pricing generally means that the underwriting team is comfortable to underwrite most classes of business without significant levels of facultative reinsurance.

The erosion and ongoing adequacy of the reinsurance programme as well as the reinsurance credit risk are also actively monitored.

Notes to the financial statements - continued

3. Risk management - continued

Reserve risk

Reserve risk is associated with liabilities the Syndicate has from insurance policies issued in the past. This is the risk that claims reserves and related claims handling reserves will be materially inadequate relative to the ultimate cost of settlement.

The Syndicate adopts a prudent philosophy and approach in quantifying the Syndicate's insurance liabilities. Under this philosophy the Syndicate seeks to provide an appropriate level of confidence in the level of insurance liabilities, through estimating individual case reserves and the ultimate estimation of the ultimate cost of claims.

The Claims department is responsible for the setting of individual case reserves. The primary source of information for claims is through the London Market Bureau (Xchanging). Information is also received directly from customers and brokers, which is used to complement the official advice of claims through the Bureau.

Due to the nature of insurance business there will be a time delay between the occurrence of an event, the reporting of that event to the insurer, assessing the quantum of the loss, and final settlement. A provision for IBNR is established to provide for the future notification or development of claims which have already occurred at each statement of financial position date. The Syndicate uses a number of methodologies in estimating the provision for IBNR claims, which are highly dependent on the assumptions used. These methodologies and assumptions will vary by class of business, underwriting year and method of acceptance.

Critical to the reserve setting process is the assumption that the past claims development experience can be used to predict the future claims development and hence the ultimate cost of claims. Triangulation statistics that show the historical development of premiums and claims for each class of business and underwriting year are used to assist in the process of determining reserves. Numerous other factors and assumptions are applied to the claims historical progression data to assist in setting these estimates. The factors include changes over time to the business mix and method of acceptance within each class of business, rating and conditions, legislation and court awards, claims inflation and economic conditions. By its nature, the process involves a significant amount of judgement, although every effort is made to ensure that the process and resultant reserves are set on a consistent basis and will be sufficient to meet the cost of claims when they are finally settled.

There is a significant amount of uncertainty in the reserve established, which may be more or less than adequate. The level of uncertainty varies between classes of business and generally increases for longer tail classes of business. Any change in the estimate of a reserve, or a settlement at a value other than the reserve provided, is recognised in the reporting period in which the change is identified. The following table quantifies the impact on the Syndicate's profit and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

The following table quantifies the impact on the Syndicate's profit and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

	Gross of reinsurance 2016 £'000	**Net of reinsurance 2016 £'000**	Gross of reinsurance 2015 £'000	Net of reinsurance 2015 £'000
Impact of a 1% variance in:				
Claims liability	**3,431**	**2,607**	2,497	1,898
Combined ratio	**2,703**	**2,312**	2,613	2,071

Notes to the financial statements - continued

3. Risk management - continued

Financial risk

Financial risks can be broken down into the following categories:

Credit risk

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations resulting in a financial loss to the Syndicate. The Syndicate is exposed to credit risk primarily through its investment and insurance activities.

The exposure to credit risk from holdings of debt and other fixed income securities, is managed by adherence to the Syndicate's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average Standard & Poor's credit rating of the Syndicate's debt and other fixed income securities remained high throughout the year, and at 31 December 2016 was "A+" (2015: "A+").

The Syndicate is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are the reinsurers' share of claims outstanding and debtors arising out of direct and reinsurance operations from both policyholders and intermediaries. Ceded reinsurance is used to mitigate risks arising from inwards business. Ceded reinsurance does not discharge the Syndicate's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. Reinsurance coverages are normally placed with reinsurers who are included on the approved reinsurance security listing used by the Syndicate. Generally, these reinsurers will have a Standard & Poor's credit rating of "A" or better. With regard to direct insurance and reinsurance receivables, the Syndicate operates processes to review broker security and to monitor arrangements with managing general agents. Receivables consist of payments of premium due from a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Syndicate does not have a significant credit risk exposure to any single counterparty or any group of counterparties. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

The assets bearing credit risk are summarised below:

	2016 £'000	2015 £'000
Other financial investments	**233,234**	163,462
Reinsurers' share of claims outstanding	**82,423**	59,922
Debtors arising out of direct insurance operations	**107,167**	95,637
Debtors arising out of reinsurance operations	**6,561**	7,365
Cash at bank and in hand	**26,874**	23,949
Overseas deposits	**25,463**	17,845
Other debtors	**381**	2,902
Total assets bearing credit risk	**482,103**	371,082

The concentration of credit risk is substantially unchanged compared to the prior year.

The carrying amount of the above assets at the balance sheet date represents the maximum credit risk exposure. At year end, the Syndicate does not hold any investments in wrapped debt or other such fixed income securities.

Notes to the financial statements - continued

3. Risk management - continued

Credit risk - continued

Other financial investments are designated as fair value through profit or loss at inception, and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. The credit rating for other financial investments is detailed below. The ratings are derived from Standard & Poor's.

	2016 £'000	2015 £'000
AAA	**19,227**	18,653
AA	**81,386**	71,901
A	**94,733**	55,450
BBB	**37,087**	17,458
Below BBB or not rated	**801**	-
Total other financial investments bearing credit risk	**233,234**	163,462

Other financial investments and cash at bank are neither past due nor impaired.

The Standard & Poor's or equivalent credit rating for reinsurers' share of claims outstanding and debtors arising out of reinsurance operations is detailed below:

	2016 £'000	2015 £'000
AAA	**-**	-
AA	**16,576**	11,951
A	**66,450**	50,136
BBB	**118**	26
Below BBB or not rated	**5,840**	5,174
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	**88,984**	67,287

Debtors arising out of direct and reinsurance operations includes a £0.2 million (2015: £0.7 million) provision for impairment.

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk

Liquidity risk is the risk that cash may not be available, or that assets cannot be liquidated at a reasonable price, to pay obligations when they fall due. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising through insurance and reinsurance contracts. In respect of business underwritten in certain international regions there is a requirement to collateralise regulated trust funds in respect of gross insurance liabilities. This puts an additional burden on the Syndicate’s liquidity.

The table below summarises the maturity profile of the Syndicate’s financial and insurance liabilities based on an analysis by estimated timing of the amounts recognised in the balance sheet for insurance liabilities, and based on remaining undiscounted contractual obligations for all other liabilities.

	Within 1 year 2016 £’000	**1-2 years 2016 £’000**	**3-5 years 2016 £’000**	**Over 5 years 2016 £’000**	**Total 2016 £’000**
Claims outstanding	159,978	141,402	34,812	6,885	**343,077**
Creditors	41,961	-	-	-	**41,961**
Other payables	6,050	-	-	-	**6,050**
As at 31 December 2016	207,989	141,402	34,812	6,885	**391,088**

	Within 1 year 2015 £’000	1-2 years 2015 £’000	3-5 years 2015 £’000	over 5 years 2015 £’000	Total 2015 £’000
Claims outstanding	116,529	104,996	22,433	5,722	249,680
Creditors	42,185	272	-	-	42,457
Other payables	5,064	-	-	-	5,064
As at 31 December 2015	163,778	105,268	22,433	5,722	297,201

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk – continued

The table below summarises the maturity profile of the Syndicate's financial and insurance assets where the maturity profile is an analysis by estimated timing of the amounts recognised in the balance sheet.

	Within 1 year 2016 £'000	**1-2 years 2016 £'000**	**3-5 years 2016 £'000**	**Over 5 years 2016 £'000**	**Total 2016 £'000**
Other financial investments	71,437	47,926	103,812	10,059	**233,234**
Reinsurers' share of claims outstanding	38,435	33,971	8,363	1,654	**82,423**
Debtors	113,905	204	-	-	**114,109**
Cash at bank and in hand and overseas deposits	52,337	-	-	-	**52,337**
Prepayments and accrued income	40,551	-	-	-	**40,551**
As at 31 December 2016	316,665	82,101	112,175	11,713	**522,654**

	Within 1 year 2015 £'000	1-2 years 2015 £'000	3-5 years 2015 £'000	over 5 years 2015 £'000	Total 2015 £'000
Other financial investments	75,273	29,960	55,641	2,588	163,462
Reinsurers' share of claims outstanding	27,966	25,199	5,384	1,373	59,922
Debtors	105,360	544	-	-	105,904
Cash at bank and in hand and overseas deposits	41,794	-	-	-	41,794
Prepayments and accrued income	34,421	-	-	-	34,421
As at 31 December 2015	284,814	55,703	61,025	3,961	405,503

The Board manages this risk by structuring its working capital to ensure that there are available cash resources or sufficiently liquid investments to meet expected cash flow requirements. The Syndicate's investment guidelines are structured to ensure that Syndicate investments can be liquidated at short notice to meet higher levels of demand in exceptional circumstances.

The Syndicate has no significant concentrations of liabilities that would result in a concentrated cash outflow or any significant concentration of assets that may result in restrictions in liquidating at short notice.

Liquid funds and cash flow forecasts are monitored regularly to ensure that the need for sufficient liquidity is balanced against investment return objectives.

Notes to the financial statements - continued

3. Risk management - continued

Market risk

Market risks are principally related to the Syndicate's investment activity, notably its holding of debt and other fixed income investments. Within this area, the primary risks to which the Syndicate is exposed are: currency risk and interest rate risk.

The Syndicate manages these exposures through its Investment Group. The Group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the Group is responsible for the management of all investment asset risks, the selection of its investment manager and reviewing investment performance.

The investment management function is outsourced to an external fund manager.

The Investment Group has established an asset allocation policy of investing primarily in listed debt, other fixed income securities and cash. The policy also stipulates that surplus cash can only be held on deposit with highly rated credit institutions until such time as suitable investments in appropriate listed debt and other fixed income securities can be made.

An investment management agreement has been established with the Syndicate's external fund manager. The agreement includes specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and concentration exposures. The agreement also limits concentration of exposures to single countries, economic sectors and individual securities and provides for minimum standards of creditworthiness. The external fund manager provides quarterly affirmation of compliance with these guidelines.

Market risk - currency risk

The Syndicate transacts insurance business in the five main Lloyd's settlement currencies (Pound sterling, Euro, US dollars, Canadian dollars and Japanese yen). Assets are held in each of these currencies to generally match the liabilities arising in each of these currencies, the main components being claims settlements to policyholders, reinsurance premiums ceded and operational expenses.

The Syndicate is exposed to movements in foreign exchange where there is a mismatch between assets and liabilities in any of these currencies representing profits or losses recognised from the Syndicate's insurance operations. When a mismatch occurs the Syndicate looks to limit this mismatch exposure, wherever possible.

Notes to the financial statements - continued

3. Risk management - continued

Market risk - currency risk - continued

The following tables summarises the sterling equivalent net carrying value of financial instruments and monetary insurance balances by currency at 31 December:

		Sterling equivalent		
	US Dollars 2016 £'000	**Euros 2016 £'000**	**Sterling and other 2016 £'000**	**Total 2016 £'000**
Other financial investments	191,832	17,405	23,997	**233,234**
Reinsurers' share of claims outstanding	59,448	6,255	16,720	**82,423**
Debtors, accrued interest and prepayments and other accrued income	82,725	7,155	26,057	**115,937**
Cash at bank and in hand and overseas deposits	9,984	6,420	35,933	**52,337**
Net deferred acquisition costs	19,891	2,157	11,693	**33,741**
Claims outstanding	(208,773)	(35,519)	(98,785)	**(343,077)**
Creditors	(37,719)	(641)	(4,669)	**(43,029)**
Net provision for unearned premiums	(94,820)	(10,153)	(44,220)	**(149,193)**
Net exposure	22,568	(6,921)	(33,274)	**(17,627)**

		Sterling equivalent		
	US Dollars 2015 £'000	Euros 2015 £'000	Sterling and other 2015 £'000	Total 2015 £'000
Other financial investments	138,849	12,966	11,647	163,462
Reinsurers' share of claims outstanding	32,936	1,023	25,963	59,922
Debtors, accrued interest and prepayments and other accrued income	73,263	8,731	25,844	107,838
Cash at bank and in hand and overseas deposits	8,412	3,818	29,564	41,794
Net deferred acquisition costs	17,808	2,082	7,557	27,447
Claims outstanding	(156,015)	(21,882)	(71,783)	(249,680)
Creditors	(41,336)	(434)	(711)	(42,481)
Net provision for unearned premiums	(83,789)	(10,042)	(29,099)	(122,930)
Net exposure	(9,872)	(3,738)	(1,018)	(14,628)

Whilst the matching of liabilities with assets within the above currencies reduces economic exposure to currency risk, it does not prevent exchange gains and losses from being recognised in the profit and loss account. A 10% strengthening of sterling against the following currencies at 31 December 2016 would have increased/(decreased) the Syndicate's profits by the amounts shown below. This analysis assumes no hedging of currency and that all other variables remain constant.

Notes to the financial statements - continued

3. Risk management - continued

Market risk - currency risk - continued

	Net assets		Profit before tax	
	2016	2015	**2016**	2015
	£'000	£'000	**£'000**	£'000
US Dollars	**(451)**	197	**(2,257)**	987
Euros	**138**	75	**692**	374

A 10% weakening of sterling against the above currencies at 31 December 2016 would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Market risk - interest rate risk

The Syndicate's exposure to interest rate risk is primarily through its investments in debt and other fixed income securities due to instrument duration and the associated duration of the liabilities arising from insurance activities. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

The actual durations measured in years for the fixed income portfolios were:

Euro	**2016**	2015
	%	%
0 to 1 years	**22%**	39%
1 to 2 years	**12%**	27%
over 2 years	**66%**	34%
Total assets bearing credit risk	**100%**	100%
Average duration in years	**2.87**	1.91

US Dollar	**2016**	2015
	%	%
0 to 1 years	**24%**	26%
1 to 2 years	**25%**	26%
over 2 years	**51%**	48%
Total assets bearing market risk	**100%**	100%
Average duration in years	**2.16**	2.02

Notes to the financial statements - continued

3. Risk management - continued

Market risk – interest rate risk - continued

Canadian Dollar	2016 %	2015 %
0 to 1 years	**0%**	-
1 to 2 years	**37%**	-
over 2 years	**63%**	-
Total assets bearing market risk	**100%**	-
Average duration in years	**1.82**	-

The investment portfolio is periodically analysed for changes in duration and related price change risk. The evaluation is performed by applying an instantaneous change in yield rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the fair value at risk and the resulting effect on net assets.

To illustrate the down side risk within the debt and other fixed income securities portfolio of £206.7 million as at 31 December 2016 (2015: £119.0 million), the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously has been estimated. The Syndicate does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £4.2 million (2015: £2.3 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2016 would have had an equal and opposite effect to the amounts shown above.

Operational risk

The Syndicate is exposed to operational risks associated with internal processes, people, systems and external events. These exposures are analysed, monitored and managed. The Syndicate has a well developed and tested business continuity plan and IT disaster recovery plan. The operational risk management framework also includes an operational loss reporting facility handled through the Syndicate's broader risk management framework. HUA arranges Corporate Insurances to help protect against financial loss.

Strategic and Group risk

The risk universe covers all group operations with a risk register in place to ensure risk can be managed and monitored at the local level as well as Syndicate and Group.

Group risk is the risk that the Syndicate's business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from their activities. The primary areas of focus in respect of group risk are:

Notes to the financial statements - continued

3. Risk management - continued

Capital

A risk based approach is used to determine the amount of capital required to support the activities of the Group. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is performed and the results are reviewed against Board risk appetite.

Reputation

Negative publicity as a result of the Group's contractual arrangements, customers, products, services and other activities could impact upon our brand and our ability to deliver against our business plan and interact as needed with the capital markets. We aim to minimise reputation risks, but where reputational risk arises, it would be contained by prompt management of public communications.

Shared services

The Syndicate has reliance on certain group services, such as financial systems. Any issues in these services will manifest as group risk. These outsourced service risks are monitored and assessed at both the local and group level.

Notes to the financial statements - continued

4. Segmental Information

An analysis of the underwriting result before investment return is set out below, using segmental classes as prescribed by Lloyd's.

For the year ended 31 December 2016:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Accident and health	8,565	13,188	(5,330)	(4,434)	363
Marine, aviation and transport	46,317	43,077	(38,183)	(14,483)	1,926
Fire and other damage to property	69,559	63,696	(36,646)	(21,415)	(2,569)
Third party liability	32,557	23,875	(19,702)	(8,027)	(1,282)
Pecuniary loss	19,121	13,172	(33,735)	(4,428)	3,491
Total direct	176,119	157,008	(133,596)	(52,787)	1,929
Reinsurance accepted	109,546	113,286	(72,933)	(38,087)	(697)
Total	285,665	270,294	(206,529)	(90,874)	1,232

For the year ended 31 December 2015:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Accident and health	15,124	14,956	(8,452)	(6,776)	(806)
Marine, aviation and transport	66,957	73,502	(37,158)	(24,920)	(14,506)
Fire and other damage to property	114,672	114,932	(61,099)	(38,908)	(16,820)
Third party liability	24,409	19,836	(15,660)	(5,825)	(388)
Pecuniary loss	20,835	13,393	(17,248)	(5,410)	479
Total direct	241,997	236,619	(139,617)	(81,839)	(32,041)
Reinsurance accepted	25,941	24,722	(6,251)	(7,964)	(6,813)
Total	267,938	261,341	(145,868)	(89,803)	(38,854)

Notes to the financial statements - continued

4. Segmental Information - continued

Geographical regions

Gross premiums written by location of risk:

	2016 £'000	2015 £'000
UK	**14,617**	16,006
Other European Union member states	**15,867**	8,484
United States of America	**55,041**	54,919
Worldwide	**200,140**	188,529
Gross premiums written	**285,665**	267,938

The 2015 figures have been represented to ensure consistency with the 2016 geographical regions.

5. Claims incurred

Over/(under) provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2016 £'000	2015 £'000
Commercial	**14,739**	12,588
Specialty	**(5,807)**	(8,902)
Total	**8,932**	3,686

Notes to the financial statements - continued

6. Net operating expenses

	2016 £'000	2015 £'000
Acquisition costs	**63,332**	56,068
Other acquisition costs	**4,966**	3,707
Change in deferred acquisition costs	**(3,567)**	599
Change in reinsurance commissions	**(3,994)**	(4,604)
Change in ceded deferred acquisition costs	**(657)**	(834)
Total acquisition costs	**60,080**	54,936
Administrative expenses	**30,794**	34,867
Total	**90,874**	89,803

Administrative expenses include:

	2016 £'000	2015 £'000
Operating lease expenses recharged from CNA Services	**2,193**	1,598
Auditor's remuneration	**149**	157

The Syndicate has not disclosed the fees payable to the Syndicate's auditor for 'Other services' as this information is included in the consolidated financial statements of Hardy Underwriting Group plc.

7. Staff numbers and costs

A management fee for the provision of administration services is payable to CNA Services. During 2016 no staff were employed by the managing agent and no staff costs were incurred by the managing agent during 2016 (2015: nil and £nil).

Notes to the financial statements - continued

8. Emoluments of the directors of Hardy (Underwriting Agencies) Limited

The following directors of HUA served during the period, listed below, were all employed and remunerated by CNA Services. It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CNA Services:

P J Gage, C A Kearney and D J Stevens

The following directors of HUA served during the period, listed below, were all employed and remunerated by Continental Casualty Company ("CCC"), a member of the CNA group. It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CCC:

J M Anderson, D J Brosnan, T F Motamed, and T J Szerlong

Within Note 6, administrative expenses include the active underwriter's emoluments for the full year of:

	2016 £'000	2015 £'000
Emoluments	**579**	699

9. Other financial investments

	Cost 2016 £'000	Cost 2015 £'000	**Fair Value 2016 £'000**	Fair Value 2015 £'000
Debt securities and other fixed income securities	**182,601**	114,613	**206,724**	119,025
Shares and other variable yield securities	**11**	14,163	**11**	14,163
Deposits with credit institutions	**26,499**	30,274	**26,499**	30,274
Total	**209,111**	159,050	**233,234**	163,462

Other financial investments measured by the fair value hierarchy at 31 December are summarised below:

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
2016				
Other financial investments	**37,471**	**195,763**	**-**	**233,234**
2015				
Other financial investments	24,419	139,043	-	163,462

Notes to the financial statements - continued

10. Debtors arising out of direct operations

	2016 £'000	2015 £'000
Amounts due from intermediaries	**107,405**	96,357
Impairment provision	**(238)**	(720)
Total	**107,167**	95,637

	2016 £'000	2015 £'000
Within one year	**107,032**	95,093
After one year	**135**	544
Total	**107,167**	95,637

11. Other debtors

	2016 £'000	2015 £'000
Other tax and social security	**160**	104
Insurance premium tax	**132**	904
Amounts due from group companies	**-**	1,894
Sundry debtors	**89**	-
Total	**381**	2,902

All amounts are expected to be recovered within one year.

12. Overseas deposits

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

Notes to the financial statements - continued

13. Technical provisions

Total technical provisions

	2016 £'000	2015 £'000
Gross		
Claims reported	**209,730**	152,298
Loss adjustment expenses	**5,702**	5,853
Claims incurred but not reported	**127,645**	91,529
Unearned premiums	**173,871**	146,722
Total gross insurance liabilities	**516,948**	396,402
Reinsurers' share of insurance liabilities		
Claims reported	**57,034**	41,211
Claims incurred but not reported	**25,389**	18,711
Unearned premiums	**24,678**	23,792
Total reinsurers' share of insurance liabilities	**107,101**	83,714
Net		
Claims reported	**152,696**	111,087
Loss adjustment expenses	**5,702**	5,853
Claims incurred but not reported	**102,256**	72,818
Unearned premiums	**149,193**	122,930
Total net insurance liabilities	**409,847**	312,688

The gross liabilities for claims reported, loss adjustment expenses and claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of the current and prior year are not material.

On 27 February 2017 the UK Government announced an update to the discount rate applicable in the Ogden tables, from 2.5% to -0.75%. The Ogden tables are used to assist in calculating claims reserves for serious personal injury claims, to which the Syndicate has certain exposures. In the context of this change, the Syndicate considers that it has adequate carried loss reserves at 31 December 2016.

Notes to the financial statements - continued

13. Technical provisions - continued

Movement in technical provisions

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2015	139,342	235,385	374,727
Foreign exchange revaluation	783	7,216	7,999
Movement in provision	6,597	7,079	13,676
At 1 January 2016	**146,722**	**249,680**	**396,402**
Foreign exchange revaluation	**11,778**	**44,697**	**56,475**
Movement in provision	**15,371**	**48,700**	**64,071**
At 31 December 2016	**173,871**	**343,077**	**516,948**
Reinsurance amount			
At 1 January 2015	27,788	79,649	107,437
Foreign exchange revaluation	(9,170)	2,368	(6,802)
Movement in provision	5,174	(22,095)	(16,921)
At 1 January 2016	**23,792**	**59,922**	**83,714**
Foreign exchange revaluation	**(608)**	**10,789**	**10,181**
Movement in provision	**1,494**	**11,712**	**13,206**
At 31 December 2016	**24,678**	**82,423**	**107,101**
Net			
At 31 December 2016	**149,193**	**260,654**	**409,847**
At 31 December 2015	122,930	189,758	312,688

Notes to the financial statements - continued

13. Technical provisions - continued

Claims development table gross of reinsurance

Underwriting year	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
100% syndicate values												
At end of first year	91,507	119,058	125,617	139,605	214,419	229,653	220,604	168,011	172,763	172,116	185,013	**1,838,366**
One year later	(11,590)	(14,539)	1,070	11,608	92,009	17,611	(52,305)	11,766	213	34,320		
Two years later	(1,819)	(2,787)	(6,978)	(6,618)	7,576	(4,825)	(1,371)	(970)	6,950			
Three years later	4,504	(7,238)	(184)	(2,968)	5,105	(4,149)	(2,496)	(12,436)				
Four years later	(6,487)	570	(5,548)	-	3,504	3,558	215					
Five years later	(734)	(1,069)	215	(1,658)	575	(2,547)						
Six years later	528	98	(1,902)	2,807	592							
Seven years later	1,748	178	(44)	(1,993)								
Eight years later	(220)	(339)	(1,843)									
Nine years later	(297)	(1,683)										
Ten years later	(1,583)											
Current estimate of ultimate claims	75,557	92,249	110,403	140,783	323,780	239,301	164,647	166,371	179,926	206,436	185,013	**1,884,466**
Cumulative payments to date	(74,703)	(88,986)	(108,658)	(138,346)	(312,828)	(223,275)	(138,470)	(140,453)	(100,234)	(73,327)	(18,928)	**(1,418,208)**
Provision as at 31 December 2016	854	3,263	1,745	2,437	10,952	16,026	26,177	25,918	79,692	133,109	166,085	**466,258**
Claims to be recognised in future underwriting years	-	-	-	(36)	(114)	(209)	(696)	(973)	(7,820)	(22,198)	(94,457)	**(126,503)**
Insurance liabilities in respect of prior underwriting years												**3,322**
Insurance liabilities as at 31 December 2016												**343,077**

Notes to the financial statements - continued

13. Technical provisions - continued

Claims development table net of reinsurance

Underwriting year	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
100% syndicate values												
At end of first year	71,479	91,061	103,276	109,808	147,567	148,553	141,370	139,674	151,480	146,730	159,492	**1,410,490**
One year later	(2,110)	(8,525)	(2,699)	(1,020)	23,690	(3,232)	(23,673)	18,380	5,905	32,493		
Two years later	(17)	(2,705)	(6,250)	(5,210)	585	4,157	(561)	(3,791)	(3,707)			
Three years later	2,685	(6,345)	(6,295)	(379)	2,299	(3,503)	(1,385)	(16,674)				
Four years later	(4,074)	(3,431)	(340)	(2,631)	3,331	2,325	(3,630)					
Five years later	(656)	168	(298)	(3,660)	4,170	(6,487)						
Six years later	1,363	467	(1,387)	2,912	(5,014)							
Seven years later	(1,479)	134	(413)	(2,113)								
Eight years later	(89)	(1,590)	(1,157)									
Nine years later	(199)	(1,730)										
Ten years later	(1,765)											
Current estimate of ultimate claims	65,138	67,504	84,437	97,707	176,628	141,813	112,121	137,589	153,678	179,223	159,492	**1,375,330**
Cumulative payments to date	(64,570)	(65,870)	(82,220)	(95,484)	(171,689)	(136,438)	(101,400)	(118,756)	(92,777)	(68,985)	(17,957)	**(1,016,146)**
Provision as at 31 December 2016	568	1,634	2,217	2,223	4,939	5,375	10,721	18,833	60,901	110,238	141,535	**359,184**
Claims to be recognised in future underwriting years	-	-	-	-	(74)	(178)	(491)	(425)	(139)	(16,541)	(81,310)	**(99,158)**
Insurance liabilities in respect of prior underwriting years												**628**
Insurance liabilities as at 31 December 2016												**260,654**

Notes to the financial statements - continued

13. Technical provisions - continued

The analysis shows the Syndicate's estimate of the ultimate cost of claims at initial assessment and annually thereafter. An underwriting year basis, rather than an accident year basis, has been presented as this is used internally for the assessment of underwriting performance. Data from all years has been restated at the 2016 closing rates of exchange to remove fluctuations caused by movements in foreign currency rates.

Each table then provides a reconciliation of the syndicate level reserves to the liability provided in the Syndicate's statement of financial position. The adjustments have the effect of:

- converting the assessment of claims liabilities from an ultimate to an earned basis, by removing the estimated cost of future claims that are attributable to the unearned premium reserve; and
- including the Syndicate's share of liabilities for the pre-2005 underwriting years

14. Other creditors

	2016 £'000	2015 £'000
Amounts due to group companies	**631**	-
Contingent commissions	**366**	80
Amounts owed to credit institutions	**57**	-
Sundry creditors	**177**	475
Total	**1,231**	555

15. Related parties

The immediate parent undertaking of HUA is Hardy Underwriting Group plc a company incorporated in the United Kingdom and registered in England and Wales.

The ultimate parent and controlling party is Loews Corporation, incorporated in the United States of America. Group financial statements for Loews Corporation are available from 667 Madison Avenue, New York, 10065-8087, USA.

CICL provided HUL with Funds at Lloyd's to support the Syndicate's capital requirement to continue underwriting at Lloyd's. HUL pays a fee for this provision.

During the year CNA Services recharged £30,495,000 (2015: £34,770,000) in administrative expenses to the Syndicate. These amounts are included within Note 6.

During the year Hardy Underwriting Asia Pte. Limited recharged £2,622,000 (2015: £2,000,000) in administrative expenses to the Syndicate. These amounts are included within Note 6.

Managing agent fees of £495,000 (2015: £2,475,000) were paid by the Syndicate to HUA during 2016.

During the year the Syndicate purchased £nil (2015: £85,000) of reinsurance from CNA.

Notes to the financial statements - continued

16. Funds at Lloyd's

Every member of Lloyd's is required to hold capital at Lloyd's. This capital is held in trust and is known as Funds at Lloyd's ("FAL"). The funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating member's underwriting activities.

The level of FAL that Lloyd's requires a member to maintain is ultimately determined by Lloyd's taking account, inter alia, of a number of factors including the nature and amount of underwriting risk assumed by the member and the assessment of the reserving risk in respect of business that has already been underwritten. FAL is not under the management of the managing agent, so no amounts have been shown in these financial statements to reflect it. The managing agent is able to make a call on member's FAL to meet liquidity requirements and to settle losses should this be required.

17. Post balance sheet events

The reinsurance premium to close the 2014 year of account of Syndicate 382 at 31 December 2016 was agreed by the managing agent on 14 February 2017. £18.3 million will be distributed to the member.