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Marketform

2015 Annual Report

Marketform Managing Agency Limited
Syndicate 2468

Year ended 31 December 2015

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Directors and administration

Managing agent
Marketform Managing Agency Limited

Directors

J E Mumford	Non-executive Chairman
M R D Reith	Chief Executive Officer
P V Olsen	Non-executive
A J Walker	Non-executive

Syndicate secretary
A G C McKay

Managing agent's registered number
03584320

Managing agent's address
20 Gracechurch Street
London
EC3V 0BG

Active underwriter
Darren Lednor

Auditors
Ernst & Young LLP, London

Bankers
Barclays Bank plc
One Churchill Place
London
E14 5HP

Solicitors
Clyde & Co

Consulting actuaries
Towers Watson

Registered office
20 Gracechurch Street
London
EC3V 0BG

Managing agent's report

The directors of Marketform Managing Agency Limited ("the Managing Agent") present their report for Syndicate 2468 ("the Syndicate") for the year ended 31 December 2015 ("the Financial Year").

The annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations").

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) for the years of account 2013 and 2007, which will be made available to the Syndicate's members.

Principal activity

The principal activity of Syndicate 2468 remains the transaction of general insurance and reinsurance business. There have not been any significant changes to the Syndicate's activities during the year.

Business review

The result for the financial year to 31 December 2015 is comprised of the movement on all underwriting years that were open during the year. The Syndicate reports an underwriting loss of £63,288k for the Financial Year and a total recognised loss of £60,908k.

Syndicate result – all years of account	*2015* *£000*	*2014 restated* *£000*
Gross written premiums	210,413	192,211
Net written premiums	188,102	158,794
Net earned premiums	166,114	152,102
Claims ratio	86.0%	68.4%
Commission ratio	31.4%	33.1%
Expense ratio	20.7%	13.7%
Combined ratio	***138.1%***	***115.3%***
Underwriting result	(63,288)	(23,223)
Foreign exchange losses	(1,766)	(763)
Investment return	4,147	7,976
Total recognised loss for the year	(60,908)	(16,010)

The combined ratio is stated before investment return and foreign exchange differences. Expenses include a provision for restructuring costs of £2,734k.

Managing agent's report (continued)

The underwriting loss of £63,288k is analysed below. There have been adverse movements on all underwriting years, apart from on 2007 where a release of claims reserves has resulted in an underwriting profit of £8.3m on that year. A segmental analysis, showing the underwriting result by class of business, is presented in note 2 to the accounts.

Underwriting result by year of account	***Total £000***	*2015 £000*	*2014 £000*	*2013 £000*	*2007 £000*
Gross written premiums	**210,413**	149,283	59,333	1,757	41
Net written premiums	**188,102**	131,742	56,369	(49)	40
Net earned premiums	**166,114**	58,298	89,393	18,383	40
Incurred claims	**(142,831)**	(42,573)	(63,542)	(45,720)	9,003
Commission and expenses	**(86,571)**	(45,953)	(33,159)	(6,749)	(709)
Underwriting result	**(63,288)**	(30,228)	(7,308)	(34,086)	8,334

A separate set of underwriting year accounts has been prepared on the traditional three year accounting for the years of account 2013 and 2007. These separate accounts provide more detail on the underwriting result on those years.

Italian Public Hospitals
Due to the continuing uncertainty on the Italian Public Hospital Medical Malpractice reserves the Board of the Managing Agent has resolved to leave the 2007 year of account open. The Syndicate ceased underwriting this business from the 2008 year of account. However, the uncertainty over the ultimate cost of Italian Public Hospitals claims has reduced and a reserve release on the 2007 and prior years of account has resulted in an operating profit of £8,334k for the financial year.

Review of financial position

Financial investments have reduced to £260,507k from £313,483k, reflecting an increased outflow of resources during the year to settle claims and expenses. Debtors from direct insurance have increased to £68,555k from £50,142k reflecting an increased proportion of gross premiums written outstanding at the balance sheet date.

The gross provision for unearned premiums has increased to £112,705k from £96,902k. Net of deferred acquisition costs the unearned premium reserve has increased to £81,070k from £68,935k.

The members' balance has decreased to £128,801k from £74,843k as detailed in the statement of changes in members' balance on page 13 of the accounts.

Managing agent's report (continued)

Principal risks and uncertainties
The Managing Agent has in place a risk management framework to ensure that all risks associated with the Syndicate's activities are identified and managed. The Risk & Capital Committee (RCC) is accountable to the Managing Agent's board and its terms of reference for the RCC were approved by the board of the Managing Agent on 23rd April 2015. The Board sets the risk appetite annually as part of the Syndicate's business planning and capital setting process.

Own Risk and Solvency Assessment (ORSA)
The RCC reviews and recommends annually the approval of the Own Risk & Solvency Assessment (ORSA) and ORSA Policy to the Managing Agent's board. The RCC is responsible for overseeing the ORSA process.

The Managing Agent uses an Internal Model to calculate its Solvency Capital Requirement (SCR). Internal Model scope is reviewed annually to ensure that the risk coverage in the Internal Model reflects the risk profile of the Syndicate.

The Managing Agent submits a Lloyd's Capital Return (LCR) to Lloyd's each year which is used by Lloyd's to review Syndicate SCRs and inputs into the Lloyd's Internal Model (LIM). The final LCR submitted to Lloyd's each year is based on the Syndicate Business Forecast (SBF).

Regulatory risk
The Managing Agent is required to comply with the requirements of the PRA and FCA and Lloyd's. Lloyd's requirements included those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a Head of Compliance, supported by a team who carry out a compliance monitoring programme, who monitors regulatory developments and assesses the impact on agency policy.

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

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme.

The Board monitors performance and exposures against the business plan. Claims reserves are re-assessed quarterly by the actuarial function with input from the Syndicate's external actuaries, underwriters, claims personnel and the board.

Credit risk
The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers. Compliance with the policy is monitored and exposures and breaches are reported to the Syndicate risk committee. Coverholder, broker and TPA insolvency are considered as a credit risk to the Syndicate. The Managing Agent mitigates the risk of exposure to these risks through robust selection and monitoring processes.

Managing agent's report (continued)

Market risk
Market risk relates to the Syndicate's exposure to fluctuations in asset values, interest rates or exchange rates. The Investment Committee is responsible for recommending investment risk policy and strategy to the board.

The majority of Syndicate funds are invested with Lloyd's Treasury. Investment management services are provided by a number of fund managers, the performance of which is monitored quarterly by the Investment Committee. Independent investment advisors assist with the monitoring of fund performance and to provide advice on investment strategy.

Loss arising from exchange rate fluctuations, due to mismatches between assets and liabilities, is considered a material market risk; the Managing Agent has in place a hedging strategy to mitigate losses arising from exchange rate fluctuations.

Liquidity risk
Liquidity risk is the risk that the Syndicate has insufficient financial resource available to meet obligations as they fall due. The Syndicate's main exposure relates to calls on funds resulting from large claims. The board considers that the size and availability of funds available to meet exposure, in relation to the Syndicate's Realistic Disaster Scenario (RDS), is adequate. Routine cash management ensures that funds are available to meet daily cash requirements.

Operational risk
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Elements of operational risk are found within all of the other risk categories and controls to mitigate these risks are contained throughout the Syndicate's risk register. The Managing Agent manages operational risk through internal compliance monitoring and the Risk and Capital Committee (RCC).

Financial instruments and risk management
Information on the use of financial instruments by the Syndicate and its management of financial risk is disclosed in note 19 to the financial statements.

Future developments and important events since the end of the financial year

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirements of the Syndicate, since this has previously been calculated based on Solvency II principles.

Due to uncertainty on the Italian Public Hospital Medical Malpractice reserves, the 2007 year of account remains open. The board of the Managing Agent are in advanced discussions with third parties towards closing the 2007 year of account and are hopeful to reach an acceptable outcome during 2016.

Research and development
The syndicate has not participated in any research and development activity during the period.

Managing agent's report (continued)

Directors

The current directors of the managing agent are shown on page 2. Changes to directors since 1 January 2015 are as follows:

Name	**Date of appointment**
A G C McKay	1 April 2015
M R D Reith	3 December 2015

Name	**Date of resignation**
V Badal	5 February 2016
S Barr	29 October 2015
S P Lotter	3 December 2015
J G F O'Neill	12 February 2016
A S Ribaudo	5 February 2016

Disclosure of information to the auditors

In the case of each of the persons who are directors of the Managing Agent at the time the report is approved:

- So far as the director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditors' report, of which the auditor is unaware; and
- Having made enquiries of fellow directors of the agency and the syndicate's auditor, each director has taken all the steps that he or she ought to have taken as director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Reappointment of auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

On behalf of the Board

M R D Reith
Chief Executive Officer

15 March 2016

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the Syndicate annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the managing agent is required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgments and estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and
- Prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The managing agent is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is 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.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent auditors' report

We have audited the syndicate annual accounts of syndicate 2468 ('the syndicate') for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

This report is made solely to the syndicate's members, as a body, in accordance with 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 auditors' 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 the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page8, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts 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 syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts 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 syndicate annual accounts. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited syndicate annual accounts 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 syndicate annual accounts

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Independent auditors' report (continued)

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

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

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 annual accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Emphasis of matter – quantification of insurance contract liabilities

In forming our opinion on the annual accounts, which is not modified, we have considered the adequacy of the disclosures made by the managing agent in the managing agent's report, relating to the uncertainty regarding the ultimate cost of a reinsurance to close which has resulted in the managing agent deciding to not close the 2007 run-off year of account. The ultimate estimate of the reinsurance to close is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the annual accounts.

Ernst & Young LLP

Stuart Wilson (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

15 March 2016

Income Statement
Technical account – General business
For the year ended 31 December 2015

	Notes	2015	2014 restated
		£000	£000
Gross premiums written	2	210,413	192,211
Outward reinsurance premium		(22,311)	(33,417)
Net written premiums		188,102	158,794
Change in provision for unearned premiums			
- Gross amount		(16,246)	(9,347)
- Reinsurers' share		(5,742)	2,655
Change in the net provision for unearned premiums		(21,988)	(6,692)
Earned premiums, net of reinsurance		166,114	152,102
Allocated investment return transferred from the non-technical account	10	4,147	7,976
Claims paid			
- Gross amount		(145,449)	(122,354)
- Reinsurers' share		39,548	30,181
		(105,901)	(92,173)
Change in claims outstanding			
- Gross amount		(21,142)	14,024
- Reinsurers' share		(15,789)	(25,943)
Change in the net provision for claims		(36,931)	(11,919)
Claims incurred, net of reinsurance		(142,832)	(104,092)
Net operating expenses	6	(86,571)	(71,233)
Balance on technical account - general business		(59,142)	(15,247)

Income Statement
Non-technical account – General business
For the year ended 31 December 2015

	Notes	2015	2014 restated
		£000	£000
Balance on technical account - general business		(59,142)	(15,247)
Investment return		6,528	8,260
Unrealised gains on investments		752	2,566
Investment expenses and charges		(835)	(1,222)
Unrealised losses on investments		(2,298)	(1,628)
Allocated investment return transferred to the general business technical account		(4,147)	(7,976)
Exchange gains and losses	20	(1,766)	(763)
Loss for the financial year		(60,908)	(16,010)

Other than the items reported in the income statement the Syndicate has no items of other comprehensive income in any of the periods for which the financial statements are presented. In accordance with FRS 102.3.19 the Syndicate only presents an income statement and does not present a statement of comprehensive income.'

Statement of changes in members' balances
For the year ended 31 December 2015

	2015	2014
	£000	£000
Members' balance at 1 January	(74,843)	(80,890)
Loss for the financial year	(60,908)	(16,010)
2012 & prior year of account results	6,950	2,057
Cash calls during the year	-	20,000
Members' balance at 31 December	(128,801)	(74,843)

Statement of financial position
As at 31 December 2015

	Notes	2015 £000	2014 restated £000
ASSETS			
Investments			
Financial investments	11	260,507	313,483
Reinsurers' share of technical provisions			
Provision for unearned premiums		14,657	20,701
Claims outstanding		88,888	106,448
		103,545	127,149
Debtors			
Debtors arising out of direct insurance operations	12	68,555	50,142
Debtors arising out of reinsurance operations		9,111	7,684
Other debtors		2,175	2,368
		79,841	60,194
Cash and other assets			
Cash at bank and in hand	13	10,539	5,321
Other assets	14	74,230	62,203
		84,769	67,524
Prepayments and accrued income			
Deferred acquisition costs	5	31,635	27,967
Other prepayments and accrued income		1,610	2,738
		33,245	30,705
Total assets		561,907	599,055

Statement of financial position (continued)
As at 31 December 2015

	Notes	2015	2014 restated
		£000	£000
MEMBERS' BALANCE AND LIABILITIES			
Members' balances		(128,801)	(74,843)
LIABILITIES			
Technical provisions			
Provision for unearned premiums	4	112,705	96,902
Claims outstanding	3	551,198	549,509
		663,903	646,411
Creditors			
Creditors arising out of direct insurance operations		857	906
Creditors arising out of reinsurance operations		11,139	16,652
Other creditors		8,485	7,373
		20,481	24,931
Accruals and deferred income		6,324	2,556
Total liabilities		690,708	673,898
Total members' balances and liabilities		561,907	599,055

The financial statements and the notes on pages 17 to 42 were approved by the board of directors on 15 March 2016 and were signed on its behalf by:

M. Reith

M R D Reith
Chief Executive Officer

Statement of cash flows
For the year ended 31 December 2015

	Notes	*2015*	*2014 Restated*
		£000	*£000*
Loss on ordinary activities		(60,908)	(16,010)
Movement in general insurance unearned premiums and outstanding claims		17,492	(22,014)
Movement in reinsurers' share of unearned premiums and outstanding claims		23,604	25,196
Investment return		(4,147)	(7,976)
Movement in other assets/liabilities		(22,869)	(637)
Net cash inflow from operating activities		(46,828)	(21,441)
Investing activities			
Purchases of debt and equity instruments		(334,471)	(589,404)
Sale of debt and equity instruments		359,470	573,620
Net cash outflow from investing activities		24,999	(15,784)
Financing activities			
Open year cash calls made/not paid		6,290	22,316
Other		20,757	11,218
Net cash outflow from financing activities		27,047	33,534
Increase in cash and cash equivalents		5,218	(3,690)
Cash and cash equivalents at 1 January		5,321	9,011
Cash and cash equivalents at 31 December	13	10,539	5,321

The amount shown as cash and cash equivalents, shown above, is the same as the amount shown as cash at bank and in hand in the statement of financial position.

Notes to the financial statements
For the year ended 31 December 2015

1. Accounting Policies
1.1. Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

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

The Syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in note 20.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2015 were approved for issue by the Board of Directors on 15 March 2016.

The financial statements are prepared in Sterling which is the functional and presentational currency of the Syndicate and rounded to the nearest £'000. As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

1.3. Judgements and key sources of estimation uncertainty

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

Insurance contract technical provisions
For insurance contracts, estimates are made for both the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty.

Actuarial projection techniques are used to calculate the ultimate cost of outstanding claims. The main assumption underlying these techniques is that past claims development experience can be used to project future claim development and hence ultimate claims cost. The provision for claims outstanding is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. Provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

1.3. Judgements and key sources of estimation uncertainty continued

Estimates of future premiums
For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

1.4. Significant accounting policies

Financial investments
As permitted by FRS 102, the Syndicate has elected to apply the provisions of FRS 102 Section 11 and Section 12 to account for all of its financial instruments. Details of the financial investments held by the Syndicate at 31 December 2015 are provided in note 11 to the financial statements.

All of the Syndicate's financial investments are measured at fair value through profit and loss. Financial investments are initially measured at cost and subsequently valued each balance sheet date with reference to statements received from Lloyds Treasury and external fund managers.

Derivative financial instruments
Financial assets at fair value through profit or loss include derivative financial instruments. The Syndicate uses derivatives in the form of forward foreign currency contracts. Such derivative financial instruments are initially recognised at fair value on the date that the derivative contract is entered into and are subsequently re-measured at fair value through profit or loss at each balance sheet date. Derivative financial instruments are carried as assets when the fair values are positive and as liabilities when the fair values are negative. The Syndicate employs a hedging strategy of purchasing currency forward contracts to protect against currency fluctuations in the members' balance. The Syndicate has used hedge accounting for the presentation of gains and losses arising from these derivatives.

Cash and cash equivalents
Cash and cash equivalents in the statements of financial position comprise cash at bank and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

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

- Level 1: Quoted prices for identical instruments in active market
- Level 2: Prices of recent transactions for identical instruments
- Level 3: Valuation techniques using unobservable market data

Offsetting of financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only if there is a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

1.4. Significant accounting policies continued

Investment return

All of the Syndicate's financial investments are measured at fair value through profit and loss, accordingly unrealised gains and losses are shown as unrealised gains and losses within the non-technical account. Gains and losses on financial investments are realised when the underlying investment is sold and the amount of gain or loss realised is recognised as investment income.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return has been wholly allocated to the technical account as all investments relate to the technical account.

Profit commission

Profit commission is charged by the managing agent at a rate of 15% of the profit on a year-of-account basis subject to the operation of a deficit clause. This is charged to the Syndicate as incurred but does not become payable until after the appropriate year of account closes, normally at 36 months.

Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years. Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical provisions

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

Claims outstanding

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

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums. Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

1.4. Significant accounting policies continued

Unexpired risks
A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs. The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date. At 31 December 2015 and 31 December 2014 the Syndicate did not have an unexpired risks provision.

Deferred acquisition costs
Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement. Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Reinsurance assets
The Syndicate cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract. Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance receivables
Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement. Insurance receivables are derecognised when the derecognition criteria for financial assets have been met.

Insurance payables
Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

1.4. Significant accounting policies continued

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

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

Taxation
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 deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

Pension costs
Marketform Management Services Limited, on behalf of the Managing Agent, makes contributions to employees' individual pension plans. Pension contributions relating to Syndicate employees are charged to the Syndicate and included within net operating expenses.

2. Segmental analysis

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

2015	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Direct insurance:						
Accident and health	12,211	13,754	(19,191)	(5,686)	804	(10,319)
Motor - other	13	13	(2)	-	(2)	9
Marine aviation and transport	15,472	13,636	(6,766)	(6,833)	(2,525)	(2,488)
Fire and other damage to property	23,283	22,710	(15,386)	(10,315)	(4,129)	(7,120)
Third party liability	112,272	107,213	(94,583)	(47,607)	3,453	(31,524)
Credit and suretyship	27,612	20,065	(15,979)	(8,027)	(1,377)	(5,318)
	190,863	177,391	(151,907)	(78,468)	(3,776)	(56,760)
Reinsurance acceptances	19,550	16,778	(14,686)	(8,102)	(518)	(6,528)
	210,413	194,169	(166,593)	(86,570)	(4,294)	(63,288)

2014	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
Direct insurance:						
Accident and health	19,925	19,139	(14,332)	(6,961)	(459)	(2,613)
Motor - other	-	-	-	-	-	-
Marine aviation and transport	13,607	14,433	(8,210)	(5,676)	(2,376)	(1,829)
Fire and other damage to property	19,964	19,416	(8,652)	(9,100)	(2,242)	(578)
Third party liability	105,175	99,931	(66,643)	(38,084)	(16,453)	(21,249)
Credit and suretyship	16,926	13,435	(4,655)	(5,063)	(2,958)	759
	175,597	166,354	(102,492)	(64,884)	(24,488)	(25,510)
Reinsurance acceptances	16,614	16,510	(5,839)	(6,349)	(2,035)	2,287
	192,211	182,864	(108,331)	(71,233)	(26,523)	(23,223)

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation. The reinsurance balance includes reinsurance commission receivable. All premiums were concluded in the UK.

2. Segmental analysis continued – Geographical analysis

The geographical analysis of premiums by situs of risk is as follows:

	2015	*2014*
	£000	*£000*
United Kingdom	41,146	21,350
Other EU countries	28,078	25,332
Australia	24,043	40,887
North America	39,958	28,306
Other territories	77,188	76,336
	210,413	192,211

3. Claims outstanding

2015	Gross	Reinsurers' share	Net
	£000	*£000*	*£000*
At 1 January 2015	549,509	(106,448)	443,061
Claims incurred in current underwriting year	48,119	(5,546)	42,573
Claims incurred in prior underwriting years	118,472	(18,213)	100,259
Claims paid during the year	(145,449)	39,548	(105,901)
Foreign exchange	(19,453)	1,771	(17,682)
At 31 December 2015	551,198	(88,888)	462,310

2014	Gross	Reinsurers' share	Net
	£000	*£000*	*£000*
At 1 January 2014	581,108	(134,216)	446,892
Claims incurred in current underwriting year	39,336	(6,935)	32,401
Claims incurred in prior underwriting years	68,994	2,697	71,691
Claims paid during the year	(122,354)	30,181	(92,173)
Foreign exchange	(17,575)	1,825	(15,750)
At 31 December 2014	549,509	(106,448)	443,061

4. Provision for unearned premiums

2015	Gross	Reinsurers' share	Net
	£000	*£000*	*£000*
At 1 January 2015	96,902	(20,701)	76,201
Premiums written in the year	210,413	(22,311)	188,102
Premiums earned in the year	(194,168)	28,054	(166,114)
Foreign exchange	(442)	301	(141)
At 31 December 2015	112,705	(14,657)	98,048

2014	Gross	Reinsurers' share	Net
	£000	*£000*	*£000*
At 1 January 2014	87,318	(18,130)	69,188
Premiums written in the year	190,659	(33,417)	157,242
Premiums earned in the year	(181,312)	30,761	(150,551)
Foreign exchange	237	85	322
At 31 December 2014	96,902	(20,701)	76,201

5. Deferred acquisition costs

	2015	*2014*
	£000	*£000*
At 1 January	27,967	25,861
Change in deferred acquisition costs	3,938	2,144
Foreign exchange	(270)	(38)
At 31 December	31,635	27,967

6. Net operating expenses

	2015	*2014*
		Restated
	£000	*£000*
Acquisition costs	56,079	52,467
Change in deferred acquisition costs	(3,938)	(2,144)
Administrative expenses	34,430	20,910
Net operating expenses	86,571	71,233

Members' standard personal expenses amounting to £3,212k (2014: £2,482k) are included in administrative expenses, these include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

Due to the transition to FRS 102 and FRS 103 all foreign exchange differences are now included within the non-technical account. Operating expenses for the 2014 financial year have been restated to exclude £12,756k of foreign exchange losses. More information on this adjustment is provided in note 20.

Previous year net operating expenses have been restated to include £1,552k of overseas taxes, which is offset by an equivalent restatement of gross premiums written. This is explained further in note 20.

7. Staff costs

All employees are employed by Marketform Management Services Limited. The Syndicate is charged a share of employee costs pre-determined in accordance with the time spent on Syndicate activities.

	2015	*2014*
	£000	*£000*
Wages and salaries	15,384	12,059
Social security costs	1,890	1,497
Other pension costs	1,128	981
	18,402	14,537
Restructure provision	2,733	-
	21,135	14,537

The restructure provision of £2,733k is the estimated costs of staff compensation and loss of office costs arising due to organisational restructure.

The average number of Managing Agent employees working for the Syndicate during the year was as follows:

	2015	*2014*
Administration and finance	79	66
Underwriting	61	46
Claims	23	19
	163	131

8. Auditors' remuneration

	2015 £000	2014 £000
Audit of the Syndicate annual accounts	301	265
Tax compliance services	8	8
	309	273

Auditors' remuneration is included as part of administrative expenses in note 6 to the financial statements.

9. Directors' emoluments

The directors of the Managing Agent received the following aggregate remuneration charged to the Syndicate and included within net operating expenses (note 6).

	2015 £000	2014 £000
Aggregate remuneration in respect of qualifying services	2,103	1,516

The amounts shown above do not include any amounts for loss of office. A provision is included within net operating expenses for the estimated cost of staff compensation and loss of office resulting from organisation restructure (note 7). Within this provision the amount of £1,105k relates to compensation for loss of office of directors of the Managing Agent.

The active underwriter received the following remuneration charged as a Syndicate expense:

	2015 £000	2014 £000
Aggregate remuneration in respect of qualifying services	248	338

No advances or credits were granted by the Managing Agent to any of its directors during the year.

10. Investment return

The Syndicate carries financial investments at market value. Movements in the market value of investments during the financial year are recognised through the income statement as unrealised gains and unrealised losses on investments which only become realised when the underlying investment is sold, at which point investment gains or losses are considered realised and form part of investment return.

	2015	*2014*
	£000	*£000*
Income from other financial investments	5,388	6,461
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	493	906
Total investment income	5,881	7,367
Net unrealised gains on investments		
- Financial instruments at fair value through profit and loss	(1,547)	938
Investment expenses and charges	(187)	(329)
Total investment return	4,147	7,976

	2015	*2014*
	£000	*£000*
Average amount of funds available for investment during the year:		
Sterling	14,202	21,988
United States dollars	120,938	86,042
Canadian dollars	264,111	243,068
Euro	104,042	152,476
Australian dollars	101,058	98,226
Combined in sterling	351,591	381,060
Gross calendar year investment yield:		
Sterling	2.14%	0.45%
United States dollars	0.21%	(0.59)%
Canadian dollars	1.85%	1.88%
Euro	(0.41)%	2.99%
Australian dollars	3.02%	4.30%
Combined in sterling	1.21%	2.08%

Average funds are calculated as the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices.

11. Financial investments

Investment risk appetite is established by the Board via the Investment Committee. The majority of Syndicate investments are managed by Lloyd's Treasury. The remaining investment portfolio is managed by a number of external fund managers, who are appointed by the Investment Committee. Decisions taken in respect of these investments are made in conjunction with external investment advisors.

At 31 December 2015	*Carrying value £000*	*Purchase price £000*
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	134,940	135,142
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	124,058	124,715
	258,998	259,857

At 31 December 2014	*Carrying value £000*	*Purchase price £000*
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	185,102	184,219
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	131,694	131,820
	316,796	316,039

The figures above do not include derivative contracts, these are included within the tables on page 29.

11. Financial investments (continued)

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

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2015	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	-	134,940	-	134,940
Debt securities and other fixed income securities	12,825	111,233	-	124,058
Derivatives	-	1,509	-	1,509
	12,825	247,682	-	260,507
Loans and deposits with credit institutions	10,386	63,844	-	74,230
	23,211	311,526	-	334,737

	Level 1	*Level 2*	*Level 3*	*Total*
31 December 2014	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	-	185,102	-	185,102
Debt securities and other fixed income securities	11,602	120,092	-	131,694
Derivatives	-	(3,313)	-	(3,313)
	11,602	301,881	-	313,483
Loans and deposits with credit institutions	33,467	28,736	-	62,203
	45,069	330,617	-	375,686

Level 1: The best evidence of fair value is a quoted price for an identical asset in an active market. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the current bid price.

Level 2: When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the entity can demonstrate that the last transaction price is not a good estimate of fair value, that price is adjusted.

Level 3: If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using a valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

12. Debtors arising out of direct insurance operations

	2015	*2014*
	£000	*£000*
Due from intermediaries within one year	68,429	50,052
Due from intermediaries after one year	126	90
	68,555	50,142

13. Cash and cash equivalents

Cash and cash equivalents of £10,539k comprises deposits not subject to time restrictions on withdrawal, with approved credit institutions and approved financial institutions and local authorities.

14. Other assets

Other assets of £74,230k comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

15. Other creditors

Other creditors of £8,485k include £6,650k relating to profit commission due to coverholders.

16. Related parties

Managing agency fees of £1,500,000 (2014: 1,312,500) were charged to the Syndicate by the Managing Agent. These fees are calculated as 0.75% of the Syndicate's approved stamp capacity of each underwriting year.

SCOR Underwriting Limited is a corporate underwriting member for the 2002 to 2015 years of account. SCOR Group P&C France (a SCOR group company) has a 7.5% line on political risk (trade credit) reinsurance. The premiums paid to that reinsurer during the year amounted to £108,800 (2014: £124,288)

Great American Insurance Co. (GAIC) is a wholly owned subsidiary of American Financial Group (AFG) and participates as a reinsurer of the Syndicate. The premiums paid to that reinsurer in 2015 amounted to £1,094,295 (2014: £3,732,061) which represents 3.3% of outward reinsurance spend of the Syndicate. Reinsurance recoveries received from GAIC amounted to £434,614. The Syndicate also has inwards reinsurance agreements with GAIC which amounted to premiums of £384,290 in the 2015 financial year.

GAI Indemnity Limited (GAII) is a wholly owned subsidiary of GAI Holdings Bermuda Ltd, the ultimate parent of both of these companies is AFG. GAII is a corporate member of the Syndicate and participates on the 2013, 2014 and 2015 years of account as detailed in note 20 to these accounts.

There are no other transactions or arrangements to disclose.

17. Funds at Lloyd's

Every member of the Syndicate is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

18. Off-balance sheet items

The Syndicate has not been party to an arrangement, which is not reflected in its statement of financial position, where material risks and benefits arise for the Syndicate.

19. Risk management

(a) Governance framework

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

The Managing Agent has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'.

(b) Capital management objectives, policies and approach

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. This change has not significantly impact the Solvency Capital requirement of the Syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives. Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 2468 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss (99.5% confidence over a one year time frame), reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements.

19. Risk Management (continued)

The SCRs of each Syndicate are subject to review and approval by Lloyd's. Lloyd's applies an uplift to the members' capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members of Syndicate 2468

The Syndicate is comprised of a number of underwriting members of Lloyd's. Each member is only liable for its own share of underwriting liabilities on the Syndicate on which it participates. Each member's SCR is determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Each member provides capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. The members of Syndicate 2468 do not hold any funds in Syndicate. All of the assets required by the members of Syndicate 2468 (over and above their share of the Syndicate's Solvency II net assets) are held as funds at Lloyds.

At 31 December 2015, the Syndicate's agreed ECA was £217.8m, representing 93% of the agreed underwriting capacity for the 2016 year of account. The Syndicate also benefits from mutualised capital within the Lloyd's Central Funds, for which an annual levy of 0.5% of Syndicate gross premium is payable.

Participation for each underwriting year that was open during 2015, and for the 2016 underwriting year, is as follows:

Members' participations (% of Syndicate stamp capacity)	*2016*	*2015*	*2014*	*2013*	*2007*
Lavenham Underwriting Limited	35%	20%	20%	20%	15.5%
Sampford Underwriting Limited	36%	21%	21%	21%	16.5%
GAI Indemnity Limited	29%	29%	29%	29%	0%
SCOR Underwriting Limited	0%	30%	30%	30%	39%
Hermanus Underwriting Limited	0%	0%	0%	0%	15%
Ebury Underwriting Limited	0%	0%	0%	0%	14%
Total	100%	100%	100%	100%	100%

Members' premium limits	*2016*	*2015*	*2014*	*2013*	*2007*
	£000	*£000*	*£000*	*£000*	*£000*
Lavenham Underwriting Limited	82,250	40,000	35,000	29,000	15,500
Sampford Underwriting Limited	84,600	42,000	36,750	30,450	16,500
GAI Indemnity Limited	68,150	58,000	50,750	42,050	-
SCOR Underwriting Limited	-	60,000	52,500	43,500	39,000
Hermanus Underwriting Limited	-	-	-	-	15,000
Ebury Underwriting Limited	-	-	-	-	14,000
Syndicate stamp capacity	235,000	200,000	175,000	145,000	100,000

19. Risk Management (continued)

Scor Underwriting Limited is not participating on the 2016 underwriting year. All of the corporate members providing capital to support the 2016 year of accounts are subsidiaries wholly owned by the Managing Agent's ultimate parent, American Financial Group.

(c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the riming thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefit paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities. Risk exposure is mitigated by diversification across a large portfolio of insurance contracts.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate purchases reinsurance as part of its risks mitigation programme and the agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

Claims development table

The following table shows the estimate of cumulative incurred claims, including both notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. All of the amounts shown in the tables are in converted sterling amounts.

The Syndicate has taken advantage of transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016-2020.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

19. Risk Management (continued)

Gross outstanding claims provision at 31 December 2015 *Underwriting year*	*Before 2011 £000*	*2011 £000*	*2012 £000*	*2013 £000*	*2014 £000*	*2015 £000*	*Total £000*
Estimate of cumulative claims incurred							
At end of underwriting year		37,010	33,305	36,925	39,334	48,682	
12 months later		104,150	82,962	95,721	119,939		
24 months later		112,789	89,502	116,644			
36 months later		112,619	95,033				
48 months later		118,333					
Current estimate of cumulative claims incurred		118,333	95,033	116,644	119,939	48,682	
Cumulative paid claims							
At end of underwriting year		(7,446)	(2,797)	(3,961)	(4,948)	(5,610)	
12 months later		(33,969)	(15,637)	(21,403)	(28,712)		
24 months later		(47,848)	(26,892)	(44,228)			
36 months later		(60,129)	(38,609)				
48 months later		(67,161)					
Cumulative payments to date		(67,161)	(38,609)	(44,228)	(28,712)	(5,610)	
Gross outstanding claims provision at 31 December 2015 in converted sterling	236,887	51,172	56,424	72,416	91,227	43,072	551,198
Total gross outstanding claims provision per the statement of financial position	236,887	51,172	56,424	72,416	91,227	43,072	551,198

Net outstanding claims provision at 31 December 2015 *Underwriting year*	*Before 2011 £000*	*2011 £000*	*2012 £000*	*2013 £000*	*2014 £000*	*2015 £000*	*Total '000*
Estimate of cumulative claims incurred							
At end of underwriting year		29,646	28,112	30,073	33,296	43,053	
12 months later		81,401	71,344	77,363	96,575		
24 months later		86,255	80,772	101,820			
36 months later		87,879	87,943				
48 months later		90,587					
Current estimate of cumulative claims incurred		90,587	87,943	101,820	96,575	43,053	
Cumulative paid claims							
At end of underwriting year		(4,967)	(2,783)	(3,870)	(4,229)	(5,527)	
12 months later		(25,182)	(14,241)	(15,899)	(21,258)		
24 months later		(35,118)	(25,410)	(34,604)			
36 months later		(44,244)	(36,637)				
48 months later		(52,045)					
Cumulative payments to date		(52,045)	(36,637)	(34,604)	(21,258)	(5,527)	
Net outstanding claims provision at 31 December 2015 at converted sterling	192,403	38,542	51,306	67,216	75,317	37,526	462,310
Total net outstanding claims provision per the statement of financial position	192,403	38,542	51,306	67,216	75,317	37,526	462,310

19. Risk Management (continued)

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The tables below show the maximum exposure to credit risk for the components of the statement of financial position. No investments were impaired during either of the years presented.

31 December 2015	*Neither past due nor impaired*	*Impaired*	*Past due*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	134,940	-	-	134,940
Other financial investments				
- Debt securities	124,058	-	-	124,058
- Derivative assets	1,509	-	-	1,509
Overseas deposits	74,230	-	-	74,230
Reinsurers' share of claims outstanding	89,553	(665)	-	88,888
Debtors arising out of direct insurance operations	66,417	-	2,138	68,555
Debtors arising out of reinsurance operations	7,645	(632)	-	7,013
Other debtors	2,175	-	-	2,175
Cash at bank and in hand	10,539	-	-	10,539
	511,066	(1,297)	2,138	511,907

31 December 2014	*Neither past due nor impaired*	*Impaired*	*Past due*	*Total*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities	185,102	-	-	185,102
Other financial investments				
- Debt securities	131,694	-	-	131,694
- Derivative assets	(3,313)	-	-	(3,313)
Overseas deposits	62,203	-	-	62,203
Reinsurers' share of claims outstanding	107,283	(836)	-	106,447
Debtors arising out of direct insurance operations	47,843	-	2,299	50,142
Debtors arising out of reinsurance operations	6,976	(694)	-	6,282
Other debtors	2,368	-	-	2,368
Cash at bank and in hand	5,321	-	-	5,321
	545,477	(1,530)	2,299	546,246

19. Risk Management (continued)

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2015 by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

31 December 2015	*AAA*	*AA*	*A*	*BBB*	*Less than BBB*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities						134,940	134,940
Other financial investments							
- Debt securities	71,440	24,095	19,383	9,140	-	-	124,058
- Derivative assets	-	-	1,509	-	-	-	1,509
Overseas deposits	44,127	18,316	6,842	4,810	10	125	74,230
Reinsurers' share of claims outstanding	-	7,114	81,173	-	-	601	88,888
Debtors arising out of reinsurance operations	-	508	6,468	-	-	39	7,015
Cash at bank and in hand	-	-	10,539	-	-	-	10,539
	115,567	50,033	125,914	13,950	10	135,705	441,179

31 December 2014	*AAA*	*AA*	*A*	*BBB*	*Less than BBB*	*Not rated*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*
Shares and other variable yield securities	-	-	-	-	-	185,102	185,102
Other financial investments							
- Debt securities	86,761	24,455	15,709	4,769	-	-	131,694
- Derivative assets	-	-	(3,313)	-	-	-	(3,313)
Overseas deposits	35,959	13,433	7,342	3,975		1,494	62,203
Reinsurers' share of claims outstanding	-	11,440	94,481	-	-	527	106,448
Debtors arising out of reinsurance operations	-	660	5,592	-	-	31	6,283
Cash at bank and in hand	-	-	5,321	-	-	-	5,321
	122,720	49,988	125,132	8,744		187,154	493,738

19. Risk Management (continued)

(e) Liquidity risk

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

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

31 December 2015	*Carrying amount £000*	*Up to one year £000*	*1-3 years £000*	*3-5 years £000*	*5-10 years £000*	*Over 10 years £000*
Outstanding claim liabilities	551,198	102,368	158,133	99,941	120,331	70,425
Creditors arising out of direct insurance	857	826	31	-	-	-
Creditors arising out of reinsurance	11,139	11,139	-	-	-	-
Other creditors	8,745	5,068	3,677	-	-	-

31 December 2014	*Carrying amount £000*	*Up to one year £000*	*1-3 years £000*	*3-5 years £000*	*5-10 years £000*	*Over 10 years £000*
Outstanding claim liabilities	549,509	102,054	157,649	99,635	119,963	70,208
Creditors arising out of direct insurance	906	898	8	-	-	-
Creditors arising out of reinsurance	16,652	16,652	-	-	-	-
Other creditors	11,283	8,811	2,472	-	-	-

Other creditors include net liabilities on certain derivative contracts.

19. Risk Management (continued)

(f) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk, and equity price risk. These risks are discussed below:

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, US dollars, Australian dollars, and Canadian dollars.

The table below summarises the exposure of the financial assets and liabilities to foreign exchange risk at the reporting date (as converted Sterling amounts), as follows:

Converted £'000	UK £	US $	EUR €	CAD $	AUD $	Total
As at 31 December 2015						
Total assets	84,540	144,560	117,307	151,419	64,081	561,907
Total liabilities	(11,112)	(136,076)	(308,226)	(135,769)	(99,525)	(690,708)
Net assets	73,428	8,484	(190,919)	15,650	(35,444)	(128,801)
As at 31 December 2014						
Total assets	84,438	132,491	145,354	158,074	78,698	599,055
Total liabilities	(146,666)	(114,700)	(231,724)	(83,307)	(97,501)	(673,898)
Net assets	(62,228)	17,791	(86,370)	74,767	(18,803)	(74,843)

The Syndicate employs a hedging strategy of purchasing currency forward contracts to protect against currency fluctuations in the members' balance.

19. Risk Management (continued)

(ii) Interest rate risk

The analysis below is performed for reasonably possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on:

Changes in variables	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2015		
+50 basis points	(1,666)	(1,666)
-50 basis points	1,666	1,666
31 December 2014		
+50 basis points	7	1,873
-50 basis points	(7)	(1,873)

(iii) Equity price risk

The analysis below is performed for reasonable possible movements in market indices on financial instruments, insurance assets and liabilities with all other variables held constant, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities.

Changes in stock market prices	*Impact on profit*	*Impact on members' balance*
	£000	*£000*
31 December 2015		
+50 basis points	6,747	6,747
-50 basis points	(6,746)	(6,746)
31 December 2014		
+50 basis points	84	9,085
-50 basis points	(84)	(9,085)

20. Transition to FRS 102 and FRS 103

The Syndicate transitioned to FRS 102 and FRS 103 from previously extant UK GAAP as at 1 January 2014. The impact from the transition to FRS 102 and FRS 103 is as follows:

Reconciliation of exchange gains and losses for the year ended 31 December 2014	*£000*
Foreign exchange gains previously within the statement of recognised gains and losses	11,993
Foreign exchange losses previously part of net operating expenses	(12,756)
Exchange losses shown in non-technical account under FRS 102 and FRS 103	(763)

Foreign exchange differences arising from the revaluation of monetary items and unrealised profit on forward contracts amounted to £11,993k in the previous year, this amount is now included within exchange gains and losses in the non-technical account. Foreign currency losses of £12,756k were previously part of net operating expenses and are now included within exchange gains and losses in the non-technical account. The restated amount of exchange gains and losses is a loss of £763k shown within the non-technical account.

Foreign operations
Under previous UK GAAP a foreign operation could be a syndicate's assets and liabilities accounted for in a foreign currency; the Syndicate previously applied this model for foreign operations. Under FRS 102, all of the Syndicate's foreign currency assets and liabilities no longer meet the definition of foreign operation and exchange differences arising from the retranslation of theses balances into the functional currency have to be recognised in income statement rather than recognised in the Statement of Comprehensive Income.

DAC and UPR revaluation
As a result of FRS 103, both DAC and UPR are treated as monetary items and therefore have been translated at the closing exchange rate.

Members' balances
The members' balance at 31 December 2014 has not changed as a result of the transition to FRS 102 and FRS 103.

Reconciliation of net operating expenses for the year ended 31 December 2014	*£000*
Net operating expense under previous UK GAAP	82,437
Foreign exchange losses	(12,756)
	69,681
Overseas taxes adjustment (note 20)	1,552
	71,233

Under previous UK GAAP, foreign exchange differences arising from the revaluation of monetary items and forward contracts were recognised through net operating expenses. The income statement for the year to 31 December 2014 has been restated by moving £12,756k of foreign exchange losses out of net operating expenses into exchange gains and losses in the non-technical account.

20. Transition to FRS 102 and FRS 103 (continued)

Reconciliation of financial investments as at 31 December 2014	*£000*
Financial investments under previous UK GAAP	313,390
Amounts payable under forward contracts previously part of other creditors	(5,067)
Amounts received under forward contracts previously part of other debtors	1,754
	(3,313)
Funds previously part of cash and cash equivalents	3,406
Net increase in financial instruments due to FRS 102 and FRS 103	93
Financial investments under FRS 102 and FRS 103	313,483

As a result of FRS 102, forward contracts are now treated as derivatives. The corresponding amounts receivable and payable under forward contracts are now included within financial instruments. All of the Syndicate's forward contracts relate to the buying and selling of foreign currency.

Funds held within money-market funds are classified as financial investments. The amount £3,406k shown above, that was part of cash and cash equivalents at 31 December 2014, is now included within financial investments. The amount previously shown as cash and cash equivalents at 31 December 2014 was £8,727k as shown on the statement of financial position and on the cash flow statement. Both the statement of financial position and the statement of cash flows have been restated to show the balance of cash and cash equivalents as the restated amount of £5,321k.

Gross premiums written
The previous year's financial statements, for the year ending 31 December 2014, presented gross premiums written net of certain overseas levies amounting to £1,552k. Such levies are now reported as part of operating expenses, with their recognition following Section 21 of FRS 102. Gross premiums written and net operating expenses have been restated. Gross premiums written now includes the amount £1,552k relating to overseas levies, with a corresponding increase in net operating expenses. This change has no net impact on the Syndicates result for the financial year, or on the members' balance.