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**Syndicate 780  
Annual Accounts  
31 December 2016**

## **Syndicate 780 Annual Accounts**

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# Syndicate 780

## Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report and the Syndicate Annual Accounts for the year ended 31 December 2016.

### Directors

The Directors of the Managing Agent who served during the year ended 31 December 2016 were as follows:

T J Ambridge	Chief Financial Officer
W E Beveridge	Chief Underwriting Officer and Active Underwriter
H H Bohling	Non-Executive Director
J Cloutier	Non-Executive Chairman
N P Fitzgerald	Chief Executive Officer
P J Green	Solvency II Implementation Director from 15 July 2015 (resigned 19 January 2016)
I M Hewitt	Risk and Compliance Director
S P G Lee	Non-Executive Director
N N H Smith	Non-Executive Director

### Directors' Interests

No Directors participated directly on the Syndicate in the calendar year.

Further details of Directors' interests in Group companies are described in Note 16 to the Accounts.

### Business Review

The principal activity of the Syndicate is the underwriting of general insurance and reinsurance business in the Lloyd's market.

Advent Underwriting Limited (AUL), the Managing Agent of Syndicate 780, is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. Advent Capital (No.3) Limited, a subsidiary of Advent Capital (Holdings) LTD (ACH), is the sole provider of capacity for Syndicate 780.

### Strategic Report

The key disclosures required by the Strategic Report have been considered in the sections below, being the results of the business for the calendar year, future outlook and principal risks and uncertainties.

### Result for the Calendar Year

*(All amounts are shown in USD millions, unless otherwise stated)*

For the year ended 31 December 2016, the Syndicate had a profit of \$12.4 (2015: loss of \$38.0), of which \$17.1 was attributable to the technical result. The technical result analysed by year of account (YOA) was a profit of \$39.6 on the 2014 and prior YOA, a profit of \$0.8 on the 2015 YOA and a loss of \$23.3 on the 2016 YOA. The investment result on the funds in syndicate (FIS) assets was a loss of \$17.5, which is included in the non technical result.

The Syndicate seeks to achieve consistent underwriting profitability through the exercise of disciplined underwriting and risk management practices, high degrees of service and professionalism attributable to its claims and other supporting operations, prudent technical reserve standards and valued long standing trading relationships.

The underwriting loss of \$0.7 and combined ratio of 100.4% (2015: \$4.2 underwriting loss and combined ratio of 102.5%) included prior years' reserve releases of \$23.3 (2015: \$24.0).

Gross premiums written increased by 7.2% to \$257.8 in 2016 (2015: \$240.5), due to growth in the Accident & Health (A&H) and the Property Binders classes of business, partially offset by the effect of the competitive underwriting environment across many classes, particularly Property and Energy Insurance. For the year ended 31 December 2016, the portfolio mix was 82% insurance and 18% reinsurance (2015: 76% and 24% respectively).

Net premiums written increased by 1.3% to \$177.0 in 2016 (2015: \$174.8), consistent with gross premiums written except that the A&H class of business has quota share reinsurance of up to 75% on business sourced with Fairmont with \$51.5 of premiums written and \$27.0 million of losses ceded (2015: \$34.2 and \$11.9, respectively).

The Syndicate restructured the timing of its outwards excess of loss reinsurance purchase in 2016, with the majority of purchases commencing at 1 April, as opposed to 1 January previously. The Syndicate ceded premiums of \$16.8 (2015: \$17.8) to its excess of loss programme.

## Syndicate 780

### Report of the Directors of the Managing Agent (Continued)

Net premiums earned increased by 16.3% to \$183.7 in 2016 (2015: \$157.9), reflecting the maturing of the Syndicate's specialty insurance business.

The lower expense ratio results from the effect of the weaker £/\$ exchange rate on a stable expense base in sterling terms on higher net earned premiums.

The Syndicate's investments are managed by Hamblin Watsa Investment Counsel (HWIC), an affiliated company. The investment return of 0.07% (2015: loss of 8.87%) primarily relates to income and realised gains from the Syndicate's bond portfolio, offset by unrealised losses on equities.

#### Investment Return

	2016 \$m	2015 \$m
Average monthly Syndicate funds available for investment	428.8	457.9
Aggregate net investment return in respect of Syndicate and FIS investments	0.3	(40.6)
2016 net investment yield:		
Sterling	14.47%	1.05%
Euro	(22.86%)	(56.5%)
US dollars	2.59%	(4.56%)
Canadian dollars	3.58%	0.80%
<b>Total yield</b>	<b>0.07%</b>	<b>(8.87%)</b>

#### Member's balances

Member's balances increased to \$225.7 at 31 December 2016 (2015: \$201.3) due to the profit for the year and the deposit of additional funds into FIS (\$1.4).

#### 2017 Business Plans and Outlook

Syndicate 780's 2017 business plan and SCR have been approved by Lloyd's with gross premiums of \$293.4. Competitive market conditions prevail across all classes of business, with surplus capacity putting pressure on rates, terms and conditions. In addition, broker portfolio placements and greater cedent risk retention has put pressure on signings. Syndicate 780 views the Fairfax distribution network as a key differentiator in developing new business.

# Syndicate 780

## Report of the Directors of the Managing Agent (Continued)

### Internal Control and Risk Management

#### Overview

The Board of Directors of AUL ("Board") is responsible for the oversight of the Syndicate's systems of internal control, for reviewing their effectiveness at least annually and for reporting on the effectiveness of controls in the Annual Accounts. Executive Management is responsible for the implementation and satisfactory maintenance of systems of internal controls over financial reporting and for compliance with laws and regulations.

All employees of Advent are responsible for internal control and are informed of their role through detailed job descriptions, policies, procedures manuals and communications from Business Unit Leaders and the Board.

The Syndicate's systems of internal control consist of a number of interrelated components as outlined below:

#### 1. Control Environment

The control environment sets the tone of the business influencing the control consciousness of its directors and employees, sometimes referred to as the "tone at the top". It provides structure and discipline for the other four components, incorporating factors such as integrity, ethical values, management's philosophy and operating style; assignment of authority and responsibility; employee competence; organisational structure; and the attention and direction provided by the Board.

The control environment is communicated to employees through the following key policies approved by the Board:

- Corporate objectives and risk appetite
- Code of Business Conduct and Ethics,
- Conduct Policy
- Whistle Blowing
- Anti-Bribery and Corruption, Confidentiality and Trading Responsibilities regarding Fairfax
- Anti-money laundering and financial crime
- Documented policies and procedures for each Business Unit

As a small organisation, the Company's culture is hands-on with extensive interaction between directors, senior management and employees and one which takes pride in maintaining strong underwriting disciplines throughout the insurance cycle while acknowledging the potential volatility in short term results arising from catastrophe events.

#### 2. Risk Assessment

The Syndicate faces a variety of risks from both internal and external sources that require identification, assessment and management. Risk management is the process that enables a business to:

- Identify and understand the risks that it faces in the pursuit of its business objectives;
- Assess the risks against risk appetite;
- Where possible and commercially desirable, reduce the probability and impact of those risks;
- Regularly review, monitor and report on those risks in order to take informed actions; and
- Ensure that any new risks, or changes to existing risks, are captured and assessed.

As the environment in which the Syndicate is operating is constantly changing, the risk assessment process needs to be dynamic and updated on an on-going basis.

The key risks, as assessed by AUL, are set out below:

- **Insurance risk:**
  - **Underwriting and risk selection:** The Syndicate is exposed to risk when underwriters select and price insurance and reinsurance business as there is uncertainty over the ultimate loss ratios.
  - **Extreme losses:** Insurance costs are not fixed and known at the time a policy is issued, so claims can significantly exceed premiums received in any period. Although the frequency and severity of claims may have been priced accurately, in extreme circumstances, claims may be sufficiently large to threaten the Syndicate's capital base.
  - **Reserving:** The Syndicate has a provision on its balance sheet for the estimated ultimate cost of claims. Some of these claims are long tailed in nature and as such, they are susceptible to adverse development (e.g. due to latent exposures, legal reform and unforeseen deterioration of known losses).

## Syndicate 780

### Report of the Directors of the Managing Agent (Continued)

- **Other financial risks:**
  - **Credit risk:** The Syndicate is exposed to the risk that a counterparty will be unable to pay amounts in full when due. The Syndicate is exposed to credit risk through reinsurance recoverables and amounts due from intermediaries and policyholders. There remains an increased risk of counterparty failure in a challenging economic climate.
  - **Market risk:**
    - **Matching** – Mismatches in the duration of the Syndicate's assets and liabilities due to movements in interest rates may lead to an increase in capital requirements while a mismatch in assets and liabilities denominated in foreign currencies may lead to losses from changes in exchange rates.
    - **Asset** – The Syndicate's investments (comprising individual holdings in sovereign and corporate fixed interest securities as well as equities, derivatives, real estate and cash) are also exposed to the risk of default and/or fluctuations in market prices.
    - **Liquidity risk** – The Syndicate may not have cash available to pay obligations when due at a reasonable cost, particularly for major catastrophe events where it has to post US situs funds on gross incurred claims or where it has to pay gross claims before collecting the related reinsurance.
- **Operational risk:**
  - The Syndicate is exposed to a range of operational risks, some of which could have a direct financial impact such as:
    - inaccurate **management information** (e.g. through staff error, inadequate processes or loss of IT systems) causing inadequate pricing, reserving or exposure management;
    - loss of office **facilities** (though fire, flood, terrorism, etc.);
    - **outsourcing** issues; and
    - **fraud**.
  - Other operational risks may not have direct financial losses, but may be equally damaging to the Syndicate's business model if not managed effectively. These include:
    - **Reputational:** AUL's business model relies on the maintenance of its good reputation. For example, AUL's ability to attract and retain staff or business from brokers will be undermined if it suffers reputational damage from the actions of AUL itself or indirectly due to the actions of employees.
    - **Conduct:** AUL has a duty to ensure that the process and outcome from doing business with AUL is fair for all policyholders.
    - **Regulatory:** AUL is regulated by the PRA, the FCA and Lloyd's of London. AUL is at risk of censure, fine or restriction of business if it fails to run the business in compliance with the applicable rules and regulations.
    - **Cultural:** There is a risk that AUL fails to ensure it has a culture that promotes an effective and efficient working environment which encourages teamwork from all members of staff.
    - **Political changes:** There is a risk that AUL's business model is impacted by changes to the economic landscape, for example, changes to the tax regime or the legal framework.
- **Other Risks:**
  - **Group** – The risk of the Fairfax group being unable to support the Syndicate, particularly in the provision of new capital if it is required.
  - **Strategic** – The Syndicate faces the risk of loss through the setting of an inappropriate strategy or the ineffective execution of an appropriate strategy.
  - **Capital** – AUL has to ensure that it has sufficient capital from a regulatory perspective in order to trade at Lloyd's within the PRA's regulatory regime.

Ownership of risks and controls within AUL is clearly defined. The Risk Function coordinates an assessment of all risks through a quarterly risk review, carried out in line with policies and procedures, to ensure that risks remain relevant and up-to-date.

All risks have a risk appetite recommended by the Director of Risk & Compliance to the Board for its approval. When any risk falls outside AUL's risk appetite, action plans are agreed, implemented and monitored. Risk mitigation actions have clearly defined owners and implementation timescales.

AUL's risk appetite for extreme losses, its major insurance risk, is to limit the pre tax cost of a single event catastrophe loss, after reinsurance recoveries and reinstatement premiums, to \$35.

## Syndicate 780

### Report of the Directors of the Managing Agent (Continued)

#### 3. Control Activities

Control activities are the policies and procedures that are set by Executive Management to manage risk and support the delivery of AUL's objectives.

AUL maintains and updates policies and procedures addressing all key areas of the business.

#### 4. Information, Communication and Key Performance Indicators

Appropriate information must be identified, captured and communicated in a form and timeframe that enables directors and employees to carry out their responsibilities. AUL has an established management information system for the production of operational, financial and compliance reports which allow the Executive Management and the Board to run and control the business.

AUL has established corporate objectives and risk appetite. The key performance data required for management and control purposes has been identified as the combined ratio, adequacy of reserves, exposure to catastrophe losses on a gross and net basis and performance against the approved business plan. Management reports are produced monthly for Executive Management and reported to the Board quarterly. Decision making is made at the appropriate level, within pre-agreed parameters, and communicated throughout AUL as required.

AUL maintains pro-active channels of communication with all key stakeholders including existing and prospective clients, staff, brokers, reinsurers, the shareholder, and regulators.

#### 5. Monitoring

Internal control systems need to be monitored to assess the quality of the system over time. AUL achieves this through a combination of day-to-day operational monitoring conducted by management, such as the review of exception reports, together with a comprehensive risk based internal audit programme.

The audit programme is risk focused with the majority of the activity centered upon those areas which are considered to generate the largest risks namely underwriting, reinsurance and claims.

AUL believes it has implemented an effective system of internal control.

#### Statement of Disclosure of Information to the auditors

So far as each person who was a Director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with their report, of which the auditors are unaware. Having made enquiries of fellow Directors of the Managing Agency and the Syndicate's auditors, each Director has taken all the steps that he is obliged to take as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information.

#### Independent auditors

The Managing Agent intends to reappoint PricewaterhouseCoopers LLP as Syndicate auditors. PricewaterhouseCoopers LLP also act as auditors to the Managing Agent, Advent Underwriting Limited.

#### Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding a syndicate annual general meeting this year.

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



Trevor J Ambridge, FCPA, FCA  
Chief Financial Officer



Ian M Hewitt, FCII  
Risk and Compliance Director

17 February 2017



## Syndicate 780

### Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Managing Agent's Report and the annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) requires the Managing Agent to prepare the annual accounts for each financial year. Under that law the Managing Agent is required to prepare the syndicate accounts in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland (FRS 102) and Financial Reporting Standard 103, Insurance Contracts (FRS 103). Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) the Managing Agent must not approve the annual accounts unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period.

In preparing these syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, including FRS 102 and FRS 103, subject to any material departures disclosed and explained in the syndicate annual accounts;
- prepare the syndicate annual accounts on the going concern basis unless it is inappropriate to presume that the syndicate will continue in business.

The Managing Agent is responsible for keeping adequate accounting records that are sufficient to show and explain the syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the syndicate and enable them to ensure that the syndicate annual accounts 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.

Approved by the Board and signed on its behalf by:



Trevor Ambridge FCPA, FCA  
Chief Financial Officer



Ian M Hewitt, FCII  
Risk and Compliance Director

17 February 2017

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 780

## Report on the syndicate annual accounts

### Our Opinion

In our opinion, Syndicate 780's syndicate annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### What we have audited

The syndicate annual accounts for the year ended 31 December 2016, included the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the year then ended;
- the statement of changes in member's balances;
- the statement of cash flows and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

### Opinion on 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 for which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

### Other matters on which we are required to report by exception

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

## Responsibilities for the syndicate annual accounts and the audit

### Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8, the Managing Agent is responsible for the preparation of syndicate annual accounts and for being satisfied that they 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) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of syndicate annual accounts involves**

We conducted our audit in accordance with ISAs (UK & Ireland). 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.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

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.



Mark Bolton (Senior statutory auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

February 2017

# Syndicate 780

## Statement of Comprehensive Income: Technical Account – General Business

Year ended 31 December 2016

(All amounts are shown in USD millions, unless otherwise stated)

	Note	2016 \$	2015 \$ (re-stated)
<b>Net premiums earned</b>			
Gross premiums written	5, 6	257.8	240.5
Outward reinsurance premiums		(80.8)	(65.7)
Net premiums written		177.0	174.8
Change in the provision for unearned premiums			
– gross amount		1.8	(30.3)
– reinsurers' share		4.9	13.4
Change in the net provision for unearned premiums		6.7	(16.9)
<b>Net premiums earned</b>		<b>183.7</b>	<b>157.9</b>
Allocated investment return transferred from the non-technical account		17.8	(2.4)
<b>Total technical income</b>		<b>201.5</b>	<b>155.5</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
– gross amount		(163.9)	(116.2)
– reinsurers' share		42.2	23.1
Net claims paid		(121.7)	(93.1)
Change in the provision for claims			
– gross amount		25.3	15.5
– reinsurers' share		(11.1)	(7.8)
Change in the net provision for claims		14.2	7.7
<b>Claims incurred, net of reinsurance</b>		<b>(107.5)</b>	<b>(85.4)</b>
Net operating expenses	8, 9	(76.9)	(76.7)
<b>Total technical charges</b>		<b>(184.4)</b>	<b>(162.1)</b>
<b>Balance on the technical account for general business and profit (loss) for the year</b>		<b>17.1</b>	<b>(6.6)</b>

All operations are continuing.

The Notes on pages 17 to 41 are an integral part of these financial statements.

# Syndicate 780

## Statement of Comprehensive Income:

### Non-Technical Account

Year ended 31 December 2016

(All amounts are shown in USD millions, unless otherwise stated)

	Note	2016 \$	2015 \$
<b>Balance on the technical account for general business and profit (loss) for the year</b>		<b>17.1</b>	<b>(6.6)</b>
Investment income	10	1.4	19.7
Unrealised gains on investments		22.3	3.6
Unrealised losses on investments		(22.0)	(62.4)
Investment management expenses	10	(1.4)	(1.5)
Allocated investment return transferred to the general business technical account		(17.8)	2.4
Other income		12.8	6.8
<b>Profit (loss) for the year</b>		<b>12.4</b>	<b>(38.0)</b>

The Syndicate has no recognised gains or losses other than the reported profit (loss) for the year.

All operations are continuing.

The Notes on pages 17 to 41 are an integral part of these financial statements.

## Syndicate 780

### Statement of Financial Position: Assets

As at 31 December 2016

(All amounts are shown in USD millions, unless otherwise stated)

	Note	2016 \$	2015 \$(re-stated)
<b>Investments</b>			
Financial investments	7	472.1	489.7
		<b>472.1</b>	<b>489.7</b>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		28.4	23.5
Claims outstanding		45.3	59.3
		<b>73.7</b>	<b>82.8</b>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	11	49.7	59.1
Debtors arising out of reinsurance operations	12	36.4	38.9
Other debtors		8.2	6.6
		<b>94.3</b>	<b>104.6</b>
<b>Other assets</b>			
Cash at bank and in hand		17.6	23.6
		<b>17.6</b>	<b>23.6</b>
<b>Prepayments and accrued income</b>			
Accrued interest		1.0	1.7
Deferred acquisition costs		27.0	28.6
		<b>28.0</b>	<b>30.3</b>
<b>Total assets</b>		<b>685.7</b>	<b>731.0</b>

The Notes on pages 17 to 41 are an integral part of these financial statements.

## Syndicate 780

### Statement of Financial Position: Liabilities

As at 31 December 2016

(All amounts are shown in USD millions, unless otherwise stated)

	Note	2016 \$	2015 \$ (re-stated)
<b>Member's balances</b>		<b>225.7</b>	<b>201.4</b>
<b>Technical provisions</b>			
Provision for unearned premiums		105.1	109.3
Claims outstanding		313.8	348.5
		<b>418.9</b>	<b>457.8</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	13	1.0	9.4
Creditors arising out of reinsurance operations	14	26.8	30.4
Other creditors including taxation and social security		4.9	23.9
		<b>32.7</b>	<b>63.7</b>
<b>Accruals and deferred income</b>		<b>8.4</b>	<b>8.1</b>
<b>Total liabilities</b>		<b>685.7</b>	<b>731.0</b>

The Syndicate Financial Statements on pages 11 to 41 were approved by the Board of Advent Underwriting Limited on 17 February 2017 and were signed on its behalf by:



Trevor J Ambridge, FCPA, FCA

Director



Ian M Hewitt, FCII

Director

## Syndicate 780

### Statement of Changes in Member's Balances

Year ended 31 December 2016

(All amounts are shown in USD millions, unless otherwise stated)

	2016 \$	2015 \$
<b>Member's balances at 1 January</b>	<b>201.4</b>	<b>211.8</b>
Profit (loss) for the year	12.4	(38.0)
Profit distribution	(16.9)	(48.6)
Addition to FIS	34.0	80.6
Exchange difference on member's balances	(5.2)	(4.4)
<b>Member's balances carried forward at 31 December</b>	<b>225.7</b>	<b>201.4</b>

The corporate member participates on the Syndicate by reference to YOA and its ultimate result, assets and liabilities are assessed with reference to policies incepting in that YOA.



# Syndicate 780

## Statement of Cash Flows

Year ended 31 December 2016

(All amounts are shown in USD millions, unless otherwise stated)

	Note	2016 \$	2015 \$ (re-stated)
<b>Profit (loss) for the year</b>		<b>12.4</b>	<b>(38.0)</b>
Increase (decrease) in technical provisions		(38.9)	2.6
Decrease in reinsurers' share of technical provisions		9.1	2.2
Decrease (increase) in debtors		10.2	(8.1)
Increase (decrease) in creditors		(31.1)	28.7
Movement in other assets (liabilities)		2.5	(9.1)
Investment return		(0.2)	39.1
Other		1.6	0.3
<b>Net cash (outflow) inflow from operating activities</b>		<b>(34.4)</b>	<b>17.7</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(552.8)	(513.7)
Sale of equity and debt instruments		552.3	476.3
Investment income received		11.6	9.1
Foreign exchange gains (losses) on investments		6.8	(2.3)
<b>Cash flows from financing activities</b>			
Profit distribution		(16.9)	(48.6)
Addition to FIS		34.0	80.6
Foreign exchange gains (losses) on Member's Balance		(5.2)	(4.4)
<b>Net increase in cash and cash equivalents</b>		<b>(4.6)</b>	<b>14.7</b>
Cash and cash equivalents at beginning of year		23.6	9.4
Exchange gains (losses) on cash and cash equivalents		(1.4)	(0.5)
<b>Cash and cash equivalents at end of year</b>		<b>17.6</b>	<b>23.6</b>

The Notes on pages 17 to 41 are an integral part of these financial statements.

# Syndicate 780

## Notes to the Accounts

Year ended 31 December 2016

(All amounts are shown in USD millions, unless otherwise stated)

### 1. General Information

The Syndicate participates in the general insurance market at Lloyd's of London (Lloyd's). The assets and liabilities arising as a result of the underwriting activities are held under various Lloyd's trust deeds for the benefit of policyholders.

### 2. Statement of compliance

The individual financial statements of the Syndicate have been prepared in compliance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008") and applicable Accounting Standard in the United Kingdom, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, Insurance Contracts.

### 3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Syndicate has adopted FRS 102 and FRS 103 in these financial statements.

#### (a) Basis of Preparation

These financial statements are prepared on a going concern basis, under the historical cost convention.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

#### (b) Going concern

The Syndicate meets its day-to-day working capital requirements through its underwriting activities. Competitive market conditions continue to prevail across the insurance market with surplus capacity putting pressure on rates, terms and conditions. The Syndicate's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Syndicate should be able to operate and have the resources available to meet members' and Lloyd's capital requirements. After making enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. The Syndicate therefore continues to adopt the going concern basis in preparing its financial statements.

#### (c) Foreign currency

##### (i) Functional and presentation currency

The Syndicate's functional and presentational currency is US Dollars.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the monthly rate of exchange for the period in which they occur. At each period end foreign currency monetary and non-monetary items are translated using the closing rate. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary and non-monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Foreign exchange gains and losses are presented in the profit and loss account within the non-technical account for general business.

The Syndicate uses forward exchange contracts to mitigate the exchange risk associated with claims in currencies other than its principal settlement currencies and to manage its currency balance sheet. Gains or losses on forward exchange contracts are recorded in the profit and loss account within claims incurred, to the extent that they are used to hedge claims costs in non-settlement currencies. All other gains or losses are recorded within profit on exchange. The fair value of the forward exchange contracts is determined by reference to quoted period end exchange rates.

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 3. Summary of significant accounting policies (continued)

#### (d) General insurance business

The results for general insurance business written are determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

- (i) Premiums written relate to business inception during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicate, less an allowance for cancellations. Premiums are shown net of premium taxes and other levies on premiums.
- (ii) Premiums are accreted to the income statement on a pro-rata basis over the term of the related policy, except for those contracts where the period of risk differs significantly from the contract period. In these cases, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided.
- (iii) Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date. The unearned premium reserve is translated to US Dollars at closing rates of exchange.
- (iv) Acquisition costs, which represent commission and other related expenses, are allocated over the period in which the related premiums are earned.
- (v) Reinsurance premium costs of "losses occurring during" policies are charged over the period for which coverage is provided. Other reinsurance premium costs are expensed over the period in which the premiums relating to business written are earned.
- (vi) Claims incurred comprise claims and related expenses paid in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported (IBNR) and related expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.
- (vii) Claims outstanding represent the ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the balance sheet date, including provision for IBNR, less any amounts paid in respect of those claims. Claims outstanding are reduced by anticipated salvage and other recoveries.
- (viii) Provision is made at the year-end for the estimated costs of claims incurred but not settled at the balance sheet date, including the cost of IBNR to the Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims and a deduction for the value of salvage and other recoveries. The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established.
- (ix) Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts receivable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Any impairment to a reinsurance asset is immediately recognised in the Income Statement.

#### (e) Investment Return

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

Dividends are recorded on the date on which the shares are quoted ex-dividend. Interest income is recognized using the effective interest rate method.

Realised gains and losses on investments carried at current value are calculated as the difference between net sales proceeds and purchase price. Movements in unrealised gains and losses on investment represent the difference between the valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 3. Summary of significant accounting policies (continued)

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the technical account of the investment return on investments supporting the insurance technical provisions and related member's balances.

#### (f) Taxation

Under Schedule 19 of the Finance Act 1993 Managing Agents are not required to deduct basic rate income tax from trading income, including capital appreciation, of the Syndicate. Furthermore, all UK basic rate income tax deducted from Syndicate investment income is recoverable by the Managing Agents; therefore, the distribution made to members is gross of tax.

It remains the responsibility of the member to agree its corporation tax liabilities with the Inland Revenue.

The Syndicate is required to fund on account assessments of tax on US dollar and Canadian dollar source income and these amounts are then recovered by reimbursement from the Members Services Unit (MSU). At the balance sheet date such Syndicate fundings are included within other debtors. The final assessments are charged direct to the underwriting members.

#### (g) Impairment of non-financial assets

At each balance sheet date, non-financial assets not carried at fair-value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future pre-tax and interest cash flows obtainable as a result of the asset's continued use. The pre-tax and interest cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the profit and loss account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

#### (h) Cash and cash equivalents

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

#### (i) Financial Instruments

The Syndicate has chosen to adopt IFRS 9 and the disclosure requirements of Sections 11 and 12 of FRS 102 in respect of financial instruments.

##### *i) Financial assets*

Basic financial assets, including trade and other receivables, cash and bank balances and investments in commercial paper, are initially recognized at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest rate method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognized in profit or loss.

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 3. Summary of significant accounting policies (continued)

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognized the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognized. The impairment reversal is recognized in profit or loss.

Other financial assets, including investments in equity instruments which are not subsidiaries, associates or joint ventures, are initially measured at fair value, which is normally the transaction price. Such assets are subsequently carried at fair value whereby:

- a) listed investments are stated at market value on the balance sheet date;
- b) unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date; and
- c) for investments where market quotes are unavailable, the Syndicate uses estimation techniques to determine fair value.

Changes in fair value are recognized in profit or loss, except that investments in equity instruments that are not publicly traded and whose fair values cannot be measured reliably are measured at cost less impairment.

#### ii) *Financial liabilities*

Basic financial liabilities, including trade and other payables are initially recognised at transaction price.

Creditors arising out of reinsurance operations, amounts due to other group companies and other creditors are obligations to pay for services that have been acquired in the ordinary course of business. These obligations are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Derivatives, including forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognized in profit or loss in finance costs or income as appropriate.

The Syndicate does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognized when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

#### iii) *Offsetting*

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is an enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### (j) *Restatement of prior year balances*

In previous years balances relating to reinsurer's share of commission payments were netted off against outwards reinsurance premiums. In the current year, these balances are now shown gross, accordingly the equivalent prior year balances have been restated on the same basis.

### 4. Critical accounting judgements and estimation uncertainty

The Syndicate makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

#### i) *Claims reserves*

The establishment of claims reserves represents the area of greatest uncertainty in preparing the Syndicate accounts. Reserves for future anticipated claims are made based on information available at the time of preparation of the accounts.



## Syndicate 780

### Notes to the Accounts (continued)

Year ended 31 December 2016

#### 4. Critical accounting estimates and judgements (continued)

Any "best estimate" of ultimate claims needs to be viewed as a point value within a likely range of outcomes. The nature of each insurer's business, and the reinsurance arrangements in place, influence how wide that likely range of outcomes will be.

- Estimates of the amount of any liability in respect of claims notified but not settled and incurred but not reported claims (IBNR) to be included within provisions for inward insurance and reinsurance contracts.
- The corresponding estimate of the amount of outwards reinsurance recoveries which will become due as a result of the estimated claims on inwards business.
- The recoverability of amounts due from reinsurers.

The estimation of claims incurred but not reported (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 more information about the claim event is generally available. Claims IBNR may often not be apparent to the insured until many years after the event giving rise to the claims has happened. Classes of business where the IBNR proportion of the total reserve is high, such as casualty, will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these reserves. Classes where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility. In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

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

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these claims the Syndicate has regard to the claim circumstance as reported, any information available from cedants and information on the cost of settling claims with similar characteristics in previous years.

Large claims impacting each relevant business class are generally assessed separately, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of these large claims.

For major natural catastrophe events, the original loss estimate for all 'on risk' exposures is analysed using computer simulation to ascertain those accounts likely to be impacted. From the initial output, modelled loss estimates, per account, are generated. An underwriting review of the account, by cedant, is then conducted to validate the individual loss estimates and, where applicable, amend the model driven estimates with underwriter input relevant to the particular features of the loss and its anticipated impact on an account. Where accounts cannot be analysed, using catastrophe-modelling software, benchmark analysis is conducted, again on an account-by-account basis, to generate loss estimates. As more specific client information becomes available the ultimate loss estimates are updated from the initial forecast to reflect the client specific data.

Where possible, the Syndicate adopts multiple techniques to estimate the required level of provisions. This assists in giving greater understanding of the trends inherent in the data being projected. The projections resulting from the various methodologies also assist in setting the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the amounts that will be recoverable from reinsurers based upon the gross provisions and having due regard to collectability.

Actual claims experience will always differ from projected estimates. Such differences in relation to risks previously earned are recognised in the income statement in the accounting period during which the difference is identified.

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 4. Critical accounting estimates and judgements (continued)

The Syndicate's claims reserves are calculated by the Syndicate's Head of Reserving with input from the Head of Claims and Reinsurance Administration and underwriters. These reserves are reviewed and approved monthly by the Reserve Group and quarterly by the Board. Annually, the reserves of the Syndicate are reviewed by external actuaries who issue a valuation opinion on the adequacy of reserves.

The carrying value at the date of the Statement of Financial Position of gross claims reported and loss adjustment expenses and claims incurred but not reported were \$313.8m (2015: \$348.5m).

#### ii) Pipeline premiums

Written premiums include pipeline premiums which represent future premiums receivable on in-force insurance contracts.

Pipeline premium estimates are typically based on underwriter knowledge and experience of the contracts being written and are updated regularly based on actual cash received versus expectation.

#### iii) Financial Investments

Financial investments are carried in the Statement of Financial Position at fair value. The carrying amount of financial investments at the date of the Statement of Financial Position was \$472.1 (2015: \$489.7). Determining the fair value of certain investments requires estimation.

The Syndicate values investments using designated methodologies, estimations and assumptions. The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy' in accordance with the valuation inputs. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level one); the middle priority to fair values other than quoted prices based on observable market information (level two); and the lowest priority to unobservable inputs that reflect the assumptions that we consider market participants would normally use (level 3). At 31 December 2016, financial investments amounting to \$16.5m (2015: \$19.8) were classified as level three.

### 5. Foreign Exchange Risk

The Syndicate's operations are conducted in a number of currencies, the principal ones of which are US\$, £, CDN\$ and Euro. The Syndicate's policy is that it is not in the business of taking or speculating on foreign currency risk. Its objective is to match each principal currency position.

On a monthly basis, Advent reviews its consolidated foreign currency balance sheet, prepared in its principal currencies. Action is taken to reduce or mitigate foreign currency mismatches through the purchase or sale of the appropriate currencies or the use of forward exchange transactions where necessary.

The Syndicate, in common with many Syndicates, makes use of a currency translation service from Xchanging, whereby premiums and claims receivable in currencies outside the Syndicate's settlement currencies (currently US\$, £, CDN\$ and Euro) are translated at the spot rate of exchange to Sterling (or in some cases US\$) at the date of payment of the claim or receipt of the premium. The Syndicate has used forward exchange contracts to hedge the expected settlement cost of claims in these currencies where required.

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the preparation of these accounts were:

	2016		2015	
	Period average Rate	Period end Rate	Period average Rate	Period end Rate
	\$	\$	\$	\$
Sterling	0.7382	0.8093	0.6543	0.6785
Euro	0.9032	0.9481	0.9017	0.9206
Canadian dollar	1.3230	1.3410	1.2772	1.3891

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

The Syndicate's gross premiums were written in the following currencies:

	2016		2015	
	\$	%	\$	%
US dollar	215.1	83.5	191.8	79.8
£ sterling	30.4	11.8	29.8	12.4
Canadian dollar	4.3	1.7	4.6	1.9
Euro	8.0	3.0	14.3	5.9
	<u>257.8</u>	<u>100.0</u>	<u>240.5</u>	<u>100.0</u>

The Syndicate's asset and liability positions in its major foreign currencies were as follows in millions:

31 December 2016	US\$	£	CAD\$	€	NZ\$	JPY	AU\$
Total assets	565.1	30.4	30.7	41.8	0.2	0.0	7.2
Total liabilities	(354.4)	(49.2)	(14.2)	(22.0)	(14.6)	(71.7)	0.0
Net assets (net liabilities)	<u>210.7</u>	<u>(18.8)</u>	<u>16.5</u>	<u>19.8</u>	<u>(14.4)</u>	<u>(71.7)</u>	<u>7.2</u>

  

31 December 2015	US\$	£	CAD\$	€	NZ\$	JPY	AU\$
Total assets	545.2	57.4	31.2	57.4	5.2	68.2	12.0
Total liabilities	(346.5)	(61.5)	(17.1)	(47.9)	(24.0)	(300.6)	(9.5)
Net assets (net liabilities)	<u>198.7</u>	<u>(4.1)</u>	<u>14.1</u>	<u>9.5</u>	<u>(18.8)</u>	<u>(232.4)</u>	<u>2.5</u>

The effect on profit before tax of a 5% increase or decrease in the closing exchange rates on the foreign currency balance sheet at 31 December 2016 is approximately \$0.7 (2015: \$0.1) given the Syndicate's policy of minimising foreign currency mismatches on a monthly basis.

The Syndicate enters into forward exchange contracts to mitigate the exchange rate risk on its balance sheet. At 31 December 2016 the outstanding contracts mature within 6 months (2015: 6 months) of the year end. The Syndicate is committed purchase NZ\$12.5 for exchange of GBP Sterling and €5.0 for exchange of US Dollars and to sell €10.0 for exchange of GBP Sterling and CAD\$11.0 for exchange of US Dollars.

The forward exchange contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key assumptions used in valuing the derivatives are the forward exchange rates for USD:CAD and NZD:GBP.

### 6. Insurance risk management

The Syndicate is exposed to insurance risk through its underwriting activities. Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board sets the Syndicate's overall risk appetite for insurance and catastrophe risk with specific parameters for risk set out in the approved annual business plan. Management of insurance risk on an operational basis is the responsibility of the Chief Underwriting Officer of Advent Underwriting (AUL).

The Syndicate manages its underwriting activities on a line of business basis with the four segments having the following insurance risk characteristics:

- The Reinsurance segment consists of the Syndicate's property and casualty treaty reinsurance classes. The property treaty class offers property catastrophe and individual risk cover for insurance and reinsurance contracts written predominantly on a "losses occurring during policy period" basis with generally no risks in excess of 12 months and with a large proportion of risks expiring at 31 December each year. The casualty treaty class provides excess of loss coverage for general casualty classes such as auto liability, medical malpractice, workers compensation and associated exposures, with an emphasis on clash business. The majority of the account is written in the United States and no business is written on an unlimited basis.
- The Marine Insurance segment includes a broad range of products including marine, offshore energy portfolios with coverage provided for individual risk and catastrophe accumulations and marine hull & machinery, liability and cargo insurance. The energy portfolio consists of short tail offshore physical damage and operator's extra expense cover written on a direct basis. Most risks are written on an excess or limited conditions basis with the objective of avoiding exposure to attritional losses. The marine hull & machinery, liability and cargo accounts are written on both a primary and excess direct basis, as well as through binding authorities.



# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 6. Insurance risk management (continued)

- c) The Non-Marine Insurance segment comprises the Syndicate's property, terrorism and A&H insurance classes. The property classes include commercial property, personal lines and commercial automobile physical damage insurance written in the open market on both a lead and following basis, either through underwriting facilities or on an individual risk basis. The Terrorism account, which is written on both a direct basis and through binding authorities, provides cover for the risk of
- d) terrorist attacks and political violence on property throughout the world. The A&H account provides a wide range of medical and accident coverage, primarily through binding authorities.
- e) The discontinued segment includes classes of business written prior to 2012.

#### i) Segmental analysis

The tables below detail the Syndicate's underwriting performance by segment. Acquisition costs, consisting of direct brokerage commissions, are allocated to each segment on a direct basis while operating costs, including underwriting costs, where they cannot be specifically attributed, are either allocated based on gross premiums written or gross premiums earned. The Syndicate does not prepare a segmented balance sheet by line of business and accordingly, has presented key insurance account balances only.

	Gross premiums written \$	Gross premiums earned \$	Gross claims incurred \$	Gross operating expenses \$	Reinsurance balance \$	Total \$
<b>2016</b>						
Direct insurance						
Accident and health	82.7	75.5	(43.7)	(28.1)	(5.5)	(1.8)
Motor (other classes)	4.1	3.2	(2.1)	(1.4)	0.1	(0.2)
Marine aviation and transport	27.1	32.2	(22.0)	(14.3)	(2.3)	(6.4)
Fire and other damage to property	72.1	74.7	(48.1)	(30.4)	(7.6)	(11.4)
Third party liability	1.2	0.7	(0.3)	(0.3)	(0.1)	(0.0)
	187.2	186.3	(116.2)	(74.5)	(15.4)	(19.8)
Reinsurance acceptances	70.6	73.3	(22.4)	(22.7)	(9.1)	19.1
<b>Net technical result</b>	<b>257.8</b>	<b>259.6</b>	<b>(138.6)</b>	<b>(97.2)</b>	<b>(24.5)</b>	<b>(0.7)</b>
Investment return						17.8
<b>Balance on technical account</b>						<b>17.1</b>

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 6. Insurance risk management (continued)

	Gross premiums written \$	Gross premiums earned \$	Gross claims incurred \$	Gross operating expenses \$	Reinsurance balance \$	Total \$
<b>2015</b>						
Direct insurance						
Accident and health	51.3	34.9	(17.7)	(21.0)	(2.4)	(6.2)
Motor (other classes)	-	-	-	-	-	-
Marine aviation and transport	32.6	32.5	(18.5)	(15.8)	(3.5)	(5.3)
Fire and other damage to property	72.6	54.5	(27.2)	(22.9)	(13.8)	(9.4)
Third party liability	0.4	0.5	(0.2)	(0.2)	(0.3)	(0.2)
	156.9	122.4	(63.6)	(59.9)	(20.0)	(21.1)
Reinsurance acceptances	83.6	87.8	(37.2)	(31.7)	(2.0)	16.9
<b>Net technical result</b>	<b>240.5</b>	<b>210.2</b>	<b>(100.8)</b>	<b>(91.6)</b>	<b>(22.0)</b>	<b>(4.2)</b>
Investment return						(2.4)
<b>Balance on technical account</b>						<b>(6.6)</b>

All premiums were concluded in the UK.

Total commissions for direct insurance accounted for in the year amounted to \$36.3m (2015: \$47.3m).

The geographical analysis of gross premiums written by location is as follows:

	2016 \$	2015 \$
UK	60.7	58.6
Other EU	14.2	17.6
US and Canada	162.6	126.3
Other	20.3	38.0
	<b>257.8</b>	<b>240.5</b>

#### ii) Catastrophe Exposure

Lloyd's defines its own set of Realistic Disaster Scenarios (RDS) events for which all syndicates must report their exposures. The Syndicate's exposure, before and after reinsurance, to its major RDS scenarios are set out below:

Catastrophe event	Industry Loss US\$Bn	1 January 2017 Gross loss \$	1 January 2017 Net loss \$	1 January 2016 Gross loss \$	1 January 2016 Net loss \$
Florida Windstorm – Miami	131	90.3	18.6	72.8	24.0
Florida Windstorm – Pinellas	134	89.0	19.6	75.1	23.5
Gulf of Mexico Windstorm	111	87.1	16.8	78.8	21.9
USA North East Windstorm	81	49.7	18.5	52.2	21.1
Los Angeles Earthquake	78	106.5	21.0	94.4	27.8
European Windstorm	26	9.6	4.6	10.3	6.6
Japan Earthquake	71	12.0	6.5	13.3	9.2

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 6. Insurance risk management (continued)

As the catastrophe element of the underwriting portfolio remains Property Insurance biased, we maintained a more traditional Catastrophe excess of loss reinsurance structure for the 2016 underwriting year.

Our largest net wind scenario is a Florida (wind) event, driven mainly by the property open market and property binder portfolios, and would result in an estimated after tax loss of \$19.2 or 10.9% of required capital (2015: USA North East Windstorm catastrophe event: \$29.4 and 15.5% respectively).

The Syndicate's approach to underwriting is governed by key principles which run throughout the underwriting units and are continuously monitored by management. Strict underwriting guidelines are adopted in terms of class of business, line size and in terms of policy periods, which are preferably limited to 12 months (plus odd time). The Syndicate's policy is that it does not write excess of loss reinsurance contracts on an unlimited basis in any business segment. Any risk outside agreed guidelines must be approved by the Chief Underwriting Officer before the risk is underwritten and is reported to the Executive Committee. The Chief Underwriting Officer reports regularly to the Executive Committee and the Board on underwriting results against the approved business plan.

The Syndicate uses reinsurance, including excess of loss and quota share reinsurance, to reduce the impact of probable maximum losses following major catastrophe events to levels within the Syndicate's risk appetite for exposure to such catastrophe losses. The reinsurance programme is determined predominantly using the Syndicate's 1:100 and 1:250 Exceedance Probability curves as a guide to the amount of cover required along with the Syndicate's own perception of risk for the key areas and considers number of other factors including reinsurance security, availability of reinsurers and retrocessional reinsurers, pricing, terms and conditions and commercial relationships are reviewed prior to purchase. The key catastrophe protection is validated against prior year losses and the Solvency II Internal model to assess cost, benefits and efficiency of recoveries before confirming final purchase to the broker.

Specific protections are purchased to cover the major classes written and the programme is designed to provide significant vertical cover for major losses. The Syndicate records all of its exposures and uses RDS analysis and industry accepted third party catastrophe modelling software to monitor and analyse its peak exposures and estimated losses, based on key concentrations of risk. For worldwide territories where catastrophe modelling software is not available, the Chief Underwriting Officer is responsible for reviewing and approving probable maximum loss estimates to ensure any catastrophe loss will be within the Syndicate's approved risk appetite for that territory.

### iii) Claims outstanding

The movement in the Syndicate's claims reserves for the year ended 31 December 2016 is set out below:

31 December 2016	Provision for unearned premiums \$	Claims outstanding \$	Total \$
<b>Gross</b>			
At 1 January 2016	109.3	348.5	457.8
Exchange adjustments	(2.4)	(9.4)	(11.8)
Movements in provisions			
- Current year	(1.8)	154.2	152.4
- Prior year	-	(15.6)	(15.6)
- Paid claims	-	(163.9)	(163.9)
<b>At 31 December 2016</b>	<b>105.1</b>	<b>313.8</b>	<b>418.9</b>
<b>Reinsurers' share</b>			
At 1 January 2016	23.5	59.3	82.8
Exchange adjustments	-	(2.9)	(2.9)
Movements in provisions			
- Current year	4.9	23.4	28.3
- Prior year	-	7.7	7.7
- Paid recoveries	-	(42.2)	(42.2)
<b>At 31 December 2016</b>	<b>28.4</b>	<b>45.3</b>	<b>73.7</b>
<b>Net</b>			
<b>At 31 December 2016</b>	<b>76.7</b>	<b>268.5</b>	<b>345.2</b>

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 6. Insurance risk management (continued)

31 December 2015 (restated)	Provision for unearned premiums \$	Claims outstanding \$	Total \$
<b>Gross</b>			
At 1 January 2015	80.6	374.6	455.2
Exchange adjustments	(1.6)	(9.7)	(11.3)
Movements in provisions			
- Current year	30.3	132.0	162.3
- Prior year	-	(32.2)	(32.2)
- Paid claims	-	(116.2)	(116.2)
<b>At 31 December 2015</b>	<b>109.3</b>	<b>348.5</b>	<b>457.8</b>
<b>Reinsurers' share</b>			
At 1 January 2015	10.1	70.0	80.1
Exchange adjustments	(0.1)	(3.0)	(3.1)
Movements in provisions			
- Current year	13.5	23.1	36.6
- Prior year	-	(7.6)	(7.6)
- Paid recoveries	-	(23.2)	(23.2)
<b>At 31 December 2015</b>	<b>23.5</b>	<b>59.3</b>	<b>82.8</b>
<b>Net</b>			
<b>At 31 December 2015</b>	<b>85.8</b>	<b>289.2</b>	<b>375.0</b>

For the year ended 31 December 2016, improvement in prior years' claims, net of reinstatement premiums and reinsurance recoveries, amounted to \$23.3 (2015: \$24.6).

The claims balance is further analysed between notified outstanding claims and IBNR below:

	2016		2015	
	Gross \$	Net \$	Gross \$	Net \$
Notified outstanding claims	115.5	100.9	132.7	109.0
IBNR	198.3	167.6	215.8	180.2
<b>Outstanding claims</b>	<b>313.8</b>	<b>268.5</b>	<b>348.5</b>	<b>289.2</b>
Percentage of IBNR to notified outstanding claims	172%	166 %	163%	165%

The breakdown of the gross and net claims reserves by category of claims is set out below.

	2016		2015	
	Gross \$	Net \$	Gross \$	Net \$
Large catastrophe provisions	23.9	10.1	48.5	20.9
All other short tail provisions	148.7	117.1	164.7	133.0
Long-tail casualty provisions	141.2	141.3	135.3	135.3
<b>Total</b>	<b>313.8</b>	<b>268.5</b>	<b>348.5</b>	<b>289.2</b>

Large catastrophe provisions include major hurricanes and earthquakes. All other short tail provisions represent coverages where the majority of claims are expected to be reported within two years of the occurrence of the claim. Long tail provisions consist of casualty and personal accident accounts.

## Syndicate 780

### Notes to the Accounts continued

Year ended 31 December 2016

#### 6. Insurance risk management (continued)

The projected payout of the ultimate gross and net claims reserves at 31 December 2016 is as follows:

Payment within	1 year	2 years	3 years	4 years	5 years	More than 5 years
	\$	\$	\$	\$	\$	\$
Gross	115.3	66.2	36.0	24.3	18.7	53.3
Net	98.5	56.6	30.7	20.7	15.9	46.1

The payout patterns have been estimated based on the historical payment patterns at a class of business level. Future payment patterns are inherently uncertain.

The following table shows the adverse or favourable development of claims, on a gross and net basis, determined on a year of account basis, from the amounts originally estimated at the end of the preceding year. Claims in currencies other than US dollars have been reconverted at 31 December 2016 exchange rates for all years.

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2016

### 6. Insurance risk management (continued)

#### Gross earned claims

Year of account	At the end of calendar year \$	One year later \$	Two years later \$	Three years later \$	Four years later \$	Five years later \$	Cumulative payments \$	Estimated balance to pay \$
2010 & prior	-	-	-	-	-	-	-	203.2
2011	134.2	224.3	232.0	231.7	234.5	236.9	(208.9)	28.0
2012	44.8	94.9	100.1	104.6	109.0	-	(93.9)	15.1
2013	37.9	78.1	83.7	87.1	-	-	(73.4)	13.7
2014	29.5	84.2	98.9	-	-	-	(76.4)	22.5
2015	21.0	113.2	-	-	-	-	(92.7)	20.5
2016	29.2	-	-	-	-	-	(18.4)	10.8
<b>Total gross claims outstanding</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>313.8</b>

#### Earned net claims

Year of account	At the end of calendar year \$	One year later \$	Two years later \$	Three years later \$	Four years later \$	Five years later \$	Cumulative payments \$	Estimated balance to pay \$
2010 & prior	-	-	-	-	-	-	-	174.3
2011	81.0	141.2	150.3	149.6	152.7	155.1	(133.7)	21.4
2012	39.0	81.7	87.3	92.2	96.4	-	(80.9)	15.5
2013	34.1	73.4	79.3	82.8	-	-	(68.8)	14.0
2014	22.3	65.3	78.5	-	-	-	(59.0)	19.5
2015	20.3	88.3	-	-	-	-	(75.5)	12.8
2016	27.6	-	-	-	-	-	(16.6)	11.0
<b>Total gross claims outstanding</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>268.5</b>

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 6. Insurance risk management (continued)

#### iv) Outwards reinsurance

##### Ceded reinsurance written:

The Syndicate's reinsurance costs as a percentage of gross written premiums are set out below:

	2016	2015
	\$	\$
Gross premiums written (GPW)	257.8	240.5
Ceded reinsurance premiums (third party)	(21.3)	(19.6)
Ceded reinsurance premiums (affiliate)	(59.5)	(46.1)
Net premiums written	<u>177.0</u>	<u>174.8</u>
Third party reinsurance premiums as a percentage of GPW	<u>8.3%</u>	<u>8.2%</u>

The security of the Syndicate's proposed and existing reinsurers is reviewed and approved by the Strategic Underwriting Risk Committee, to ensure that the outward placements are with reinsurers of an acceptable level of security. The core list of approved reinsurers currently consists of 13 (2015: 14) Lloyd's syndicates and 24 (2015: 14) reinsurance companies all of which are rated A- or higher, or where policy limits are fully collateralised.

Reinsurers are selected depending on their rating by either AM Best or Standard & Poors. No reinsurer is selected with a rating below A except in specific circumstances and with the prior approval of the Advent's Outwards Reinsurance Committee or where the policy limits are fully collateralised by acceptable security, currently US Treasury bills or equivalent funds. The Syndicate's exposure under its reinsurance programme expiring 1 April 2017 is provided by reinsurers rated as follows:

Reinsurers	Exposure
	\$
A++	10.0
A+ Companies	37.3
A+ Lloyd's syndicates	22.3
A Companies	73.2
A- Companies	4.6
Not rated – fully collateralised limits	23.3
<b>Total exposure</b>	<u><b>170.7</b></u>

The Syndicate reviews amounts due from reinsurers on paid losses, amounts recoverable from reinsurers on outstanding losses and amounts in dispute to determine if a provision for bad debt is required. The Syndicate's policy is to provide for reinsurer bad debts in situations where it does not expect to collect the full amount outstanding due to the financial position of the reinsurer or due to disputes over coverage.

##### Reinsurance recoverable:

At 31 December 2016, the Syndicate's reinsurance recoverable on outstanding claims amounted to \$45.3 with reinsurers who had the following risk ratings by AM Best (or equivalent S&P rating in the absence of an AM Best rating):

Risk Rating	\$	%
A+	5.0	11.0
Lloyd's	1.2	2.7
A	16.5	36.5
A-	0.5	1.1
Affiliates	22.1	48.7
Total	<u>45.3</u>	<u>100.0</u>

Trust funds of \$23.7 are held as security for certain balances due from affiliates.

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 6. Insurance Risk Management (continued)

#### v) Debtors arising from insurance and reinsurance operations

The table below sets out the analysis of the debtors arising from insurance and reinsurance operations, at cost and fair value.

	2016	2015
	\$	\$
Insurance and reinsurance premiums due	12.8	20.3
Pipeline premium	66.7	73.7
Reinsurance recoveries on paid claims	6.6	4.0
	<u>86.1</u>	<u>98.0</u>

Pipeline premium represents amounts receivable in respect of premiums inception typically on delegated authority business for which notification from the broker has not yet been received, together with reinstatement premiums on claims. The estimate of the likely settlement date for reinstatement premiums due is intrinsically related to the estimate of the likely settlement dates for the major losses. Almost all of this balance would generally be expected to be recovered within one year. A provision of \$nil (2015: \$0.6) has been recorded against a debt due from an insured where currency controls put in place after the inception of the risk have prevented the payment of the debt.

The reinsurance recoveries accrued on paid claims is further analysed below:

	2016	2015
	\$	\$
Fully performing	6.6	4.0
Past due	-	-
	<u>6.6</u>	<u>4.0</u>

Of the remaining debtor balances, it is expected that substantially all of the insurance and reinsurance premiums due and approximately 88% of the deferred acquisition costs will be received or expensed within one year. Other than reinsurance recoveries as noted above all of these debtors are fully performing.

#### vi) Sensitivity analysis

The Syndicate is subject to Insurance risk from three sources, underwriting risk, claims risk and reserve risk.

#### Underwriting risk:

There is the risk that a policy will be written for too low a premium or provide inappropriate cover. The Syndicate is exposed to general market trends around the pricing of (re)insurance, consequently premiums received for a given level of cover can vary from plan.

The table below shows the impact on the Syndicate's result further to the general pricing environment varying by 5% and 10% compared to actual experience. This impact is assumed to result in net earned premiums increasing or decreasing in proportion to the pricing variance, whilst claims experience remains constant.

31 December 2016	-10%	-5%	Actual result	+5%	+10%
	\$	\$	\$	\$	\$
Net premiums earned	165.3	174.5	183.7	192.9	202.0
Net claims incurred	(107.5)	(107.5)	(107.5)	(107.5)	(107.5)
Profit (loss)	(6.0)	3.2	12.4	21.5	30.8
Combined ratio	111.5%	105.7%	100.4%	95.6%	91.2%
31 December 2015 (re-stated)					
Net premiums earned	142.1	150.0	157.9	165.8	173.7
Net claims incurred	(85.4)	(85.4)	(85.4)	(85.4)	(85.4)
Profit (loss)	(53.8)	(45.9)	(38.0)	(30.1)	(22.2)
Combined ratio	114.1%	108.1%	102.7%	97.8%	93.3%



# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 6. Insurance Risk Management (continued)

#### Claims risk:

There is the risk that the frequency or severity of insured events will be higher than expected.

The table below shows the impact on the Syndicate's results further to claims experience in the year varying by 5% and 10% compared to actual experience. This impact is assumed to result in net claims incurred increasing or decreasing proportionately, whilst all other balances remain constant.

31 December 2016	-10%	-5%	Actual result	+5%	+10%
	\$	\$	\$	\$	\$
Net premiums earned	183.7	183.7	183.7	183.7	183.7
Net claims incurred	(96.7)	(102.1)	(107.5)	(112.9)	(118.2)
Profit (loss)	23.1	17.7	12.4	7.0	1.6
Combined ratio	94.5%	103.3%	100.4%	97.4%	106.2%

  

31 December 2015 (re-stated)					
Net premiums earned	157.9	157.9	157.9	157.9	157.9
Net claims incurred	(76.9)	(81.1)	(85.4)	(89.7)	(93.9)
Profit (loss)	(29.5)	(33.7)	(38.0)	(42.3)	(46.5)
Combined ratio	97.3%	100.0%	102.7%	105.4%	108.1%

#### Reserve risk:

There is the risk that estimates of claims subsequently prove to be insufficient.

The table below shows the impact on the Syndicate's results further to an additional deterioration or improvement in the Syndicate's opening net reserves of 5% and 10% compared to actual experience.

31 December 2016	-10%	-5%	Actual result	+5%	+10%
	\$	\$	\$	\$	\$
Net premiums earned	183.7	183.7	183.7	183.7	183.7
Net claims incurred	(136.4)	(122.0)	(107.5)	(93.0)	(78.6)
Profit (loss)	(16.6)	(2.1)	12.4	26.8	41.3
Combined ratio	116.1%	108.2%	100.4%	92.5%	84.6%

  

31 December 2015 (re-stated)					
Net premiums earned	157.9	157.9	157.9	157.9	157.9
Net claims incurred	(122.8)	(104.1)	(85.4)	(66.6)	(47.9)
Profit (loss)	(75.4)	(56.7)	(38.0)	(19.2)	(0.5)
Combined ratio	126.3%	114.5%	102.7%	90.8%	78.9%

### 7. Financial assets at fair value through profit and loss

#### i) Financial Instruments

	Market value		Cost	
	2016	2015	2016	2015
	\$	\$	\$	\$
Equities	82.2	95.0	146.9	167.2
Debt securities and other fixed income securities	350.9	342.0	339.1	327.4
Other investments	1.8	4.8	22.2	22.2
Overseas deposits	11.6	13.8	11.6	13.8
Investment pools	25.6	34.1	25.0	35.3
	472.1	489.7	544.8	565.9

## **Syndicate 780**

### **Notes to the Accounts (continued)**

Year ended 31 December 2016

#### **7. Financial assets at fair value through profit and loss (continued)**

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

The Syndicate has investments in certain Kennedy Wilson real estate partnerships and HWIC Asia unit trusts. These investments are classified as participations in investment pools. Deflation derivatives and forward exchange contracts are classified as other investments.

At 31 December 2016, Syndicate investments of \$124.1 (2015: \$122.9) were held in US situs and other regulatory deposits available for the payment of claims in those jurisdictions and are not available for the payment of other claims and obligations.

At 31 December 2016, cash and investments of \$265.8 (2015: \$253.5) were held within FIS to support Syndicate 780's underwriting activities and for uncalled losses.

#### **ii) Fair value estimation**

FRS 102 requires the Syndicate to categorise its investment portfolio in terms of the quality of the pricing information used to value the individual assets. The different levels have been defined as follows:

All short dated government debt is categorised as Level 1, as there is an active market and prices are available from multiple sources. The Syndicate has also designated its equity portfolio as Level 1 as all holdings are listed on recognised exchanges with observable prices. The Syndicate's participation in overseas deposits is split between Levels 1 and 2 based upon information provided by Lloyd's.

Determinations to classify fair value measures within Level 3 of the valuation hierarchy are generally based on the significance of the unobservable factors to the overall fair value measurement. Included in the Level 3 classification are deflation derivatives and investments in convertible debentures. The Syndicate has categorised the deflation derivatives as Level 3 due to the pricing being model derived from a single broker. The Syndicate has categorised the convertible debentures as Level 3 as they are unrated and not frequently traded.

The remainder of the portfolio is considered to be Level 2, as these assets are valued based upon prices quoted for a similar asset in an active market.

# Syndicate 780

## Notes to the Accounts continued

Year ended 31 December 2016

### 7. Financial assets at fair value through profit and loss (continued)

The following table presents the Syndicate's assets that are measured at fair value, together with an analysis of when they mature.

At 31 December 2016	Total \$	Less than 1 year \$	1 to 2 Years \$	2 to 3 Years \$	More than 3 years \$
<b>Level 1</b>					
Equities	69.8	-	-	-	-
Debt securities and other fixed income securities	250.9	-	250.9	-	-
Overseas deposits	6.9	4.5	0.9	1.2	0.3
	<b>327.6</b>	<b>4.5</b>	<b>251.8</b>	<b>1.2</b>	<b>0.3</b>
<b>Level 2</b>					
Equities	12.4	-	-	-	-
Debt securities and other fixed income securities	87.0	-	-	-	87.0
Overseas deposits	4.7	1.0	1.5	1.3	0.9
Forward exchange contracts	0.3	0.3	-	-	-
Investment pools	23.6	-	-	-	-
	<b>128.0</b>	<b>1.3</b>	<b>1.5</b>	<b>1.3</b>	<b>87.9</b>
<b>Level 3</b>					
Deflation derivatives	1.5	-	-	-	1.5
Convertible debentures	13.0	-	-	-	13.0
Investment pools	2.0	-	-	-	-
	<b>16.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14.5</b>
	<b>472.1</b>	<b>5.8</b>	<b>253.3</b>	<b>2.5</b>	<b>102.7</b>
<b>At 31 December 2015</b>	<b>Total \$</b>	<b>Less than 1 year \$</b>	<b>1 to 2 Years \$</b>	<b>2 to 3 Years \$</b>	<b>More than 3 years \$</b>
<b>Level 1</b>					
Equities	84.7	-	-	-	-
Debt securities and other fixed income securities	199.5	199.5	-	-	-
Overseas deposits	8.1	2.3	4.2	1.1	0.4
	<b>292.3</b>	<b>201.8</b>	<b>4.2</b>	<b>1.1</b>	<b>0.4</b>
<b>Level 2</b>					
Equities	10.3	-	-	-	-
Debt securities and other fixed income securities	128.1	-	-	-	128.1
Overseas deposits	5.7	2.0	1.2	1.4	1.2
Forward exchange contracts	1.1	1.1	-	-	-
Investment pools	32.4	-	-	-	-
	<b>177.6</b>	<b>3.1</b>	<b>1.2</b>	<b>1.4</b>	<b>129.3</b>
<b>Level 3</b>					
Deflation derivatives	3.6	-	-	-	3.6
Convertible debentures	14.4	-	-	-	14.4
Investment pools	1.8	-	-	-	-
	<b>19.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18.0</b>
	<b>489.7</b>	<b>204.9</b>	<b>5.4</b>	<b>2.5</b>	<b>147.7</b>

## Syndicate 780

### Notes to the Accounts (continued)

Year ended 31 December 2016

#### 7. Financial assets at fair value through profit and loss (continued)

The maximum loss to the Syndicate in relation to the deflation derivative investments is the market value of \$1.5 at 31 December 2016 (2015: \$3.6).

Level 3 investment movements are summarised as follows:

	2016 \$	2015 \$
Balance at 1 January	19.8	14.2
Purchases	0.0	5.6
Profit recognised in the income statement	(3.3)	0.0
Balance at 31 December	16.5	19.8

#### iii) Interest rate risk

The table below sets out the sensitivity of the Syndicate's fixed income portfolio to unexpected changes in interest rates, by currency of the investment.

##### Change in Interest rates (Basis points)

	\$
+200	(21.3)
+100	(11.6)
-100	14.10
-200	31.2

#### iv) Liquidity Risk

Liquidity risk is the risk that cash may not be available to pay obligations when due. The Syndicate monitors its liquidity needs through daily monitoring and monthly cash flow forecasts.

#### v) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Syndicate is exposed to credit risk are:

- amounts due from corporate bondholders;
- amounts due from reinsurers on paid and outstanding losses;
- amounts due from policyholders and intermediaries; and
- counterparty risk with respect to derivative transactions.

The Syndicate places limits on its exposure to any single counterparty for investments and reinsurers and to geographical and industry segments. The tables below summarise the assets subject to credit risk by Standard & Poors (S&P) credit rating or equivalent where no S&P rating is available.

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 7. Financial assets at fair value through profit and loss (continued)

At 31 December 2016	AAA \$	AA \$	A \$	BBB \$	Below BBB \$	Not Rated \$	Total \$
Debt securities and other fixed income securities	227.8	61.9	10.4	23.9	26.9	-	350.9
Investment pools	-	-	-	-	12.8	12.8	25.6
Overseas deposits	6.6	1.5	1.4	0.4	-	1.7	11.6
Other investments	-	-	-	-	-	1.8	1.8
Reinsurers' share of claims outstanding	-	-	45.3	-	-	-	45.3
Other debtors	-	-	-	-	-	8.2	8.2
Cash at bank, deposit institutions and in hand	-	-	17.4	-	-	-	17.4
	<b>234.4</b>	<b>63.4</b>	<b>74.5</b>	<b>24.3</b>	<b>39.7</b>	<b>24.5</b>	<b>460.8</b>

  

At 31 December 2015	AAA \$	AA \$	A \$	BBB \$	Below BBB \$	Not Rated \$	Total \$
Debt securities and other fixed income securities	217.7	91.6	3.8	22.7	6.1	-	341.9
Investment pools	-	-	-	-	-	34.2	34.2
Overseas deposits	8.4	3.1	1.9	0.3	0.0	0.0	13.7
Other investments	-	-	-	-	-	4.8	4.8
Reinsurers' share of claims outstanding	-	-	59.3	-	-	-	59.3
Other debtors	-	-	-	-	-	6.6	6.6
Cash at bank, deposit institutions and in hand	-	1.8	21.8	-	-	-	23.6
	<b>226.1</b>	<b>96.5</b>	<b>86.8</b>	<b>23.0</b>	<b>6.1</b>	<b>45.6</b>	<b>484.1</b>

Collateral is provided to the Syndicate as security over reinsurance recoverable balances due from some reinsurers. At 31 December 2016, collateral totalling \$23.7 was available to the Syndicate (2015: \$34.2). No other collateral is provided for the benefit of the Syndicate.

Debtors arising from insurance and reinsurance operations comprise premiums due from insureds and reinsureds, but not paid at 31 December 2016. The balance includes reinstatement premiums due on losses, which will be collected when the associated claims are paid.

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

**Syndicate 780**  
**Notes to the Accounts (continued)**  
Year ended 31 December 2016

**8. Net Operating Expenses**

	2016 \$	2015 \$
Gross acquisition costs	60.3	65.2
Change in gross deferred acquisition costs	1.0	(11.0)
Administrative expenses	35.9	37.4
Gross operating expenses	97.2	91.6
Reinsurance commission and profit participation	(20.6)	(10.0)
Change in reinsurance deferred acquisition costs	0.3	(4.9)
<b>Net operating expenses</b>	<b>76.9</b>	<b>76.7</b>
Administrative expenses include:		
Auditors' remuneration		
– audit services – fees payable for audit of Syndicate accounts and Lloyd's returns	0.2	0.2
– non audit services valuation and actuarial services	0.1	0.2
– other services	-	0.1

Other services relate to the review of the Syndicate's Solvency II balance sheet.

Member's standard personal expenses are included within administrative expenses.

**9. Employees and Directors**

The Syndicate does not have any employees. The employees are engaged by ACH. The Syndicate is charged a single management charge based on the total actual expenses of the group companies, which is included in net operating expenses. The specific element of the costs of employees or Directors is therefore not identified. The Executive Directors comprise the key management emoluments as disclosed in ACH's financial statements.

The average number of employees who have worked on the Syndicate during the year was as follows:

	2016	2015
Underwriting	56	46
Claims and reinsurance	6	5
Finance and actuarial	16	15
Management	4	5
Compliance	6	5
IT	8	9
Administration	11	10
	107	95

# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 9. Employees and Directors (continued)

#### Emoluments of the Directors of Advent Underwriting Limited

The Active Underwriter received the following remuneration charged as a Syndicate expense:

	2016 \$	2015 \$
Emoluments:		
William Beveridge	0.7	0.5
Contributions to defined contribution pension schemes:		
William Beveridge	0.0	0.1

### 10. Investment Income and expenses

Financial assets investment income and realised gains	2016 \$	2015 \$
Investment income		
Income from investments	10.9	9.2
Net (losses) gains on the realisation of investments	(9.5)	10.5
	1.4	19.7
Investment management expenses	(1.4)	(1.5)

### 11. Debtors Arising out of Direct Insurance Operations

	2016 \$	2015 \$
Due within one year from intermediaries	42.0	59.0
Due after one year from intermediaries	7.7	0.1
	49.7	59.1

### 12. Debtors Arising out of Reinsurance Operations

	2016 \$	2015 \$
Due within one year from intermediaries	29.6	38.8
Due after one year from intermediaries	6.8	0.1
	36.4	38.9

### 13. Creditors Arising out of Direct Insurance Operations

	2016 \$	2015 \$
Due within one year to intermediaries	1.0	9.4

### 14. Creditors Arising out of Reinsurance Operations

	2016 \$	2015 \$
Due within one year to intermediaries	26.8	30.4

## Syndicate 780

### Notes to the Accounts (continued)

Year ended 31 December 2016

#### 15. Related Parties

The immediate parent undertaking of AUL is ACH. The ultimate parent undertaking and controlling party is Fairfax Financial Holdings Limited (Fairfax), a company incorporated in Canada. The consolidated financial statements of Fairfax are available from 95 Wellington Street, Suite 800, Toronto, Canada, M5J 2N7.

Advent Capital (No. 3) Limited, a subsidiary ACH, the sole capital provider, has provided \$265.8 of Funds in Syndicate ("FIS") to support the 2016 underwriting year (2015 \$199.4).

Total fees payable to AUL in respect of services provided to the Syndicate amounted to \$6.8 (2015: \$11.4).

AUL manages the expenses of the group through one entity, ACH. In 2016, expenses totalling \$26.0 (2015: \$45.8) were recharged to the Syndicate from ACH.

Amounts due to ACH at 31 December 2016 totalled \$2.6 (2015: \$55.1).

The Syndicate accepts inwards reinsurance business from and places outwards reinsurance business with, companies that are deemed to be related parties of AUL by virtue of the shareholding of Fairfax and certain of its subsidiaries in ACH. All transactions with these entities were conducted at arm's length and at normal commercial terms.

Syndicate 780 accepted inwards reinsurance premiums from related parties of \$4.5 in 2016 (2015: \$9.8) as set out below:

	2016 \$	2015 \$
Polish Re	1.1	7.9
Crum and Forster	0.0	0.0
Zenith National Insurance Corp.	0.2	0.2
Hudson Insurance Company	-	0.4
Odyssey Reinsurance Company	1.6	-
Brit Ltd	1.6	1.3
	4.5	9.8

Syndicate 780 ceded outwards reinsurance premiums and related reinsurance recoveries to / from related parties as set out in the table below.

	Reinsurance Premiums		Reinsurance Recoveries	
	2016 \$	2015 \$	2016 \$	2015 \$
Wentworth Insurance Company Ltd	4.9	9.0	0.6	2.9
Polish Re	0.0	0.2	(0.1)	(0.1)
Odyssey Reinsurance Company	2.9	2.8	0.4	0.5
Brit Ltd	0.1	-	-	-
Crum and Forster	51.6	34.0	26.5	12.0
	59.5	46.0	27.4	15.3

The Syndicate incurred investment management fees to HWIC \$1.3 (2015: \$1.5).

All transactions with these parties were conducted at arms length and at normal commercial terms.



# Syndicate 780

## Notes to the Accounts (continued)

Year ended 31 December 2016

### 16. Disclosure of Interests

T J Ambridge, N P Fitzgerald and J Cloutier are Directors of ACH.

T J Ambridge and I M Hewitt are directors of Advent Capital (No. 3) Limited.

T J Ambridge and I M Hewitt are Directors of Advent Group Services Limited.

P J Green was a director of ACH, Advent Capital (No. 3) Limited and Advent Group Services Ltd until his resignation on 31 December 2015, 19 January 2016 and 19 January 2016 respectively.

H H Bohling is a Director of Pool Re (Nuclear) Limited and was a director of Market Insurance Brokers Limited until his resignation in May 2016.

N H H Smith is a Director of Great Lakes Reinsurance (UK) PLC and The UK P&I Club (Europe)

S P G Lee is a Director of Brit Syndicates Limited and Polish Re S.A

J Cloutier is a Director of a number of affiliated companies of the Fairfax group.

### 17. Capital framework at Lloyd's

Lloyd's is a regulated undertaking and subject to the supervision of the PRA under the Financial Services and Markets Act 2000.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, 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 780 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, 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. The SCRs of each Syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member, operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's 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'.

### 18. Provision of capital by members

Each member may provide 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 FIS or as the member's share of the members' balances on each syndicate on which it participates.

As at 31 December 2016, \$265.8 (2015: \$253.5) of FIS is included in investments and cash in the balance sheet. The balance of all of the other assets less liabilities of the syndicate, as represented in the member's balances reported on the balance sheet on pages 13 and 14, represent resources available to meet members' and Lloyd's capital requirements.

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