Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

Contents

Report of the Directors of the Managing Agent

The Syndicate's Managing Agent is Brit Syndicates Limited (BSL), a company registered in England and Wales.

The Directors of the Managing Agent present the report and annual accounts of Syndicate 2987 for the year ended 31 December 2016.

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

Result

The result for calendar year 2016 is a profit of US$140.9m (2015 profit: US$99.6m). Profits will continue to be distributed by reference to the results of individual underwriting years.

Principal activities

The principal business activity of the Syndicate is general insurance and reinsurance underwriting. The underwriting strategy reflects the Directors' view of prevailing market conditions in the classes of business written by the Syndicate during the year.

Review of the business

Summary of the income statement

The Syndicate delivered a strong result in 2016, with an increase in profit by 41.5% to US$140.9m (2015: US$99.6m). The combined ratio was 99.5% (2015: 91.4%).

The Syndicate's key performance indicators during the year were as follows:

	2016	**2015**
	US$m	**US$m**
Gross written premium	**1,912.2**	1,999.2
Net written premium	**1,274.5**	1,385.5
Net earned premium	**1,306.1**	1,400.8
Underwriting result	**7.0**	120.1
Investment return	**141.7**	33.0
Technical Profit for the financial year as reported	**148.7**	153.1
Non-technical account for the financial year as reported	**(7.8)**	(53.5)
Total Gains and Losses for the Financial Year	**140.9**	**99.6**
Combined ratio	**99.5%**	91.4%

Underwriting: Gross written premium

	2016	**2015**	**Movement**
	US$m	**US$m**	**%**
Global Speciality Direct	**1,546.6**	1,634.0	(5.3)
Global Speciality Reinsurance	**365.8**	365.1	0.2
Other	**(0.2)**	0.1	(300.0)
Total	**1,912.2**	1,999.2	(4.4)

Gross written premium for 2016 decreased by 4.4% to US$1,912.2m (2015: US$1,999.2m). At constant exchange rates over 2015 the decrease was 2.3%, reflecting the market environment and the discipline displayed by our underwriters.

The overarching focus has been on defending the core book, as evidenced by the 84.3% retention rate for the year (2015: 82.4%) and maintaining underwriting discipline in the current rate environment.

The book has selectively grown in more strongly rated lines and where there are increasing new business opportunities, from new or recent underwriting initiatives and from alternative distribution channels. Offsetting these factors were contractions in lines under the greatest rating pressure, most notably Energy and Aviation.

Premium was lower in 2016 as a result of reduced levels of favourable ultimate premium development on prior years compared to 2015. In addition, overall risk adjusted premium rates reduced by 3.3% (2015: 4.1%), with reductions in our direct business of 2.9% (2015: 3.4%) and reductions in our reinsurance portfolio of 4.8% (2015: 6.9%). Rating pressure was most severe in our direct Energy (10.6% reduction), Aviation (5.7% reduction) and Property PRV (8.8% reduction) divisions, partly offset by improved experience in the Specialist Liability and Accident and Health divisions. Property Treaty reinsurance rates reduced by 5.6% (2015: 9.3%), and Casualty Treaty rates reduced by 4.8% (2015: 4.9%). Critically, we continue to see rating adequacy in many lines.

Premiums generated from our business initiatives launched over the last few years continue to make a positive contribution to gross written premium, resulting in a US$39.1m increase over 2015.

The increase in reinsurance expenditure in 2016 is principally driven by the increased use of quota shares to manage the Syndicate’s net exposure in the current soft market conditions, partially offset by savings on other areas of the programme.

The Syndicate combined ratio increased to 99.5% (2015: 91.4%), principally reflecting US$56.0m of major losses (2015: US$nil). Major losses incurred by the Syndicate were Alberta wildfires, Louisiana floods, Hurricane Matthew, Japan earthquake, Houston floods and Gatlinburg wildfires.

Total investment return was US$141.7m (2015: US$33.5m). Investment income was stable, with the improvement in performance compared to 2015 principally reflecting gains on the fixed income book from a contraction in yield curves over the first three quarters of 2016. The fourth quarter experienced a significant increase in yield curves and as the US elections drew near, the majority of the longer dated fixed income positions were sold, crystallising the losses for the quarter, but locking in a solid result for the year.

Syndicate outlook

Brit Global Specialty remains a highly focussed specialty insurance and reinsurance business. Our stamp capacity for Syndicate 2987 remained unchanged at £1.075bn for the 2016 year of account (2015 YOA: £1.075bn) and has increased to £1.200bn for 2017.

The outlook for 2017 remains challenging with Brit and the industry facing a number of continued adverse trends, including declining rating adequacy, increased competition, alternative capital and insurer / broker consolidations all impacting market conditions. We expect rates to continue to soften into 2017 but to a lesser extent than in recent years.

We believe our strategy makes our business more resilient to such pressures and enables us to continue to generate attractive returns. Brit has the capital strength and the strong risk management capability to navigate these conditions and, as a result, we are confident that our strategy and business model are well-positioned to create long-term value for our clients and shareholders.

Discipline remains at the core of our underwriting, with risk selection and capital management remaining fundamentals of our business. Our underwriting expertise and agility as an organisation will allow us to meet the continuing demands ahead. We will continue to focus on retaining core accounts, being proactive in the pursuit of prospective new business and the management of broker relationships, and maintaining progress with the selective expansion of our global distribution capability and the launch of innovative new products that address client needs.

Principal risks and uncertainties

The information on principal risks and uncertainties is disclosed in note 3 to the accounts.

Employee and environmental matters

All staff in the UK are employed by Brit Group Services Limited, the group services company and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

Brit is committed to managing and reducing its environmental impact in a cost effective and responsible way.

Directors

The names of the current Directors of the Managing Agent and those who have served during the year are shown on page 46.

Independent Auditors

On 16 May 2016, Ernst & Young LLP (EY) tendered its resignation as auditor of the Syndicate and confirmed there were no circumstances relating to their resignation to bring to the Board's attention. On 14 June 2016, PricewaterhouseCoopers LLP was appointed as EY's successor.

Statement of disclosure of information to the Auditors

The Syndicate's auditors are PricewaterhouseCoopers LLP. Each person who is a Director of the Managing Agent at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate's auditors in connection with its report, of which the Syndicate's auditors are unaware; and

- he or she has taken all the steps that he or she is obliged to take as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

On behalf of the Board

Matthew Wilson
Group Chief Executive Officer
16 March 2017

Statement of Managing Agent's Responsibilities

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

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

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

1. select suitable accounting policies and then apply them consistently;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate annual accounts; and
4. prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 2987

Report on the Syndicate annual accounts

Our Opinion

In our opinion, 2987'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 within the Annual report (the "Annual Report"), comprise:

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

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 2987 (CONTINUED)

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 6, the Managing Agent is responsible for the preparation of the 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 member 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
16 March 2017

Income Statement
Technical Account – General Business for the year ended 31 December 2016

	Notes	2016 US$m	2015 US$m
Gross premiums written	4	**1,912.2**	1,999.2
Outward reinsurance premiums		**(637.7)**	(613.7)
Net premiums written		**1,274.5**	1,385.5
Change in the gross provision for unearned premiums	12	**(2.4)**	8.0
Change in the provision for unearned premiums, reinsurers' share	12	**34.0**	7.3
Net change in the provision for unearned premiums		**31.6**	15.3
Earned premiums, net of reinsurance		**1,306.1**	1,400.8
Allocated investment return transferred from the non-technical account		**141.7**	33.0
Total technical income		**1,447.8**	1,433.8
Claims paid:			
Gross amount	13	**(876.4)**	(871.3)
Reinsurers' share	13	**261.8**	331.0
Net claims paid		**(614.6)**	(540.3)
Change in the provision for claims:			
Gross amount		**(207.0)**	(207.6)
Reinsurers' share		**115.9**	68.4
Net change in the provision for claims		**(91.1)**	(139.2)
Claims incurred, net of reinsurance	13	**(705.7)**	(679.5)
Net operating expenses	5	**(593.4)**	(601.2)
Total technical charges		**(1,299.1)**	(1,280.7)
Balance on the technical account for general business		**148.7**	153.1

The accompanying notes are an integral part of these accounts.

Income Statement
Non-Technical Account for the year ended 31 December 2016

	Notes	2016 US$m	2015 US$m
Balance on the technical account for general business		**148.7**	153.1
Investment income		**37.3**	40.8
Unrealised gains/(losses) on investments		**9.3**	(44.8)
Realised gains on investments		**95.1**	37.5
Net investment return	8	**141.7**	33.5
Allocated investment return transferred to general business technical account	8	**(141.7)**	(33.0)
Loss on exchange		**(7.8)**	(54.0)
Profit for the financial year		**140.9**	99.6

The accompanying notes are an integral part of these accounts.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the Income Statement. Therefore no Statement of Other Comprehensive Income has been presented

Statement of Changes in Member's Balance
for the year ended 31 December 2016

	Notes	2016 US$m	2015 US$m
Member's balance brought forward at 1 January		**145.8**	85.8
Total comprehensive income for the financial year		**140.9**	99.6
Transfer of Funds in Syndicate	20	**(54.7)**	54.7
Distribution of the closed year of account		**(135.3)**	(96.3)
Payments on account in respect of overseas taxation		**5.1**	1.4
Currency exchange movement on balance due to member		**-**	0.6
Member's balance carried forward at 31 December		**101.8**	145.8

The member's balance comprises the following:

	2016 US$m	2015 US$m
Underwriting participation	**106.0**	155.0
Payments on account in respect of overseas taxation	**(4.2)**	(9.2)
Member's balance carried forward at 31 December	**101.8**	145.8

The accompanying notes are an integral part of these accounts.

Statement of Financial Position - Assets
as at 31 December 2016

	Notes	2016 US$m	2015 US$m
Assets			
Investments:			
Financial investments	10,11	**1,961.8**	1,840.7
		1,961.8	1,840.7
Reinsurers' share of technical provisions:			
Provision for unearned premium	12	**256.8**	244.4
Claims outstanding	13	**1,214.8**	1,214.1
		1,471.6	1,458.5
Debtors:			
Debtors due within one year:			
Debtors arising out of direct insurance operations		**386.8**	335.5
Debtors arising out of reinsurance operations		**303.9**	311.6
Other debtors		**2.5**	6.2
Debtors due after one year:			
Debtors arising out of direct insurance operations		**0.3**	0.7
Debtors arising out of reinsurance operations		**0.8**	0.9
		694.3	654.9
Other assets:			
Cash at bank and in hand	14	**165.1**	279.4
Other	15	**212.3**	232.0
		377.4	511.4
Prepayments and accrued income:			
Deferred acquisition costs	16	**219.1**	222.9
Other prepayments and accrued income		**3.4**	6.0
		222.5	228.9
Total assets		**4,727.6**	4,694.4

The accompanying notes are an integral part of these accounts.

Statement of Financial Position - Liabilities
as at 31 December 2016

	Notes	2016 US$m	2015 US$m
Member balance and liabilities			
Member balance		**101.8**	145.8
		101.8	145.8
Technical provisions:			
Provision for unearned premium	12	**827.2**	850.6
Claims outstanding	13	**3,400.3**	3,314.9
		4,227.5	4,165.5
Creditors:			
Creditors arising out of direct insurance operations	17	**12.3**	3.4
Creditors arising out of reinsurance operations		**352.2**	280.0
Derivative contracts	11	**4.0**	3.3
Other creditors		**5.0**	78.9
		373.5	365.6
Accruals and deferred income		**24.8**	17.5
Total liabilities		**4,625.8**	4,548.6
Total member balance and liabilities		**4,727.6**	4,694.4

The accompanying notes are an integral part of these accounts.

The annual accounts on pages 9 to 46 were approved by the Board of Brit Syndicates Limited on 16 March 2017 and signed on its behalf by:

Matthew Wilson
Group Chief Executive Officer

Mark Allan
Chief Financial Officer

Statement of Cash Flows
for the year ended 31 December 2016

	Notes	2016 US$m	2015 US$m
Cash flows from operating activities			
Profit for the financial year		**140.9**	99.6
Movement in unearned premiums and outstanding claims		**206.7**	198.7
Movement in reinsurers' share of unearned premiums and outstanding claims		**(142.2)**	(73.1)
Movement in other assets/ liabilities		**(63.4)**	52.8
Investment return		**(141.7)**	(33.0)
Net cash flows from operating activities		**0.3**	245.0
Cash flows from investing activities			
Purchase of equity and debt instruments		**(1,835.2)**	(1,833.0)
Sale of equity and debt instruments		**2,104.3**	1,559.1
Purchase of derivatives		**(8.2)**	-
Investment income received		**129.5**	85.3
Net cash flows from investing activities		**390.4**	(188.6)
Cash flows from financing activities			
Distribution of profits		**(73.8)**	(45.3)
Profits added to Funds in Syndicate		**-**	54.7
Funds in Syndicate released to member		**(54.7)**	-
Movement in non-standard personal expenses		**5.1**	1.5
Net cash flows from financing activities		**(123.4)**	10.9
Net increase in cash and cash equivalents		**267.3**	67.3
Cash and cash equivalents at 1 January		**279.8**	220.1
Exchange differences on opening cash		**(3.6)**	(7.6)
Cash and cash equivalents at 31 December	14	**543.5**	279.8

1 Accounting policies, statement of compliance and basis of preparation

1.1 Statement of compliance and basis of preparation

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

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 financial statements are prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value. The annual basis of accounting has been applied to all classes of business written by the Syndicate.

All amounts are presented in rounded US$m to one decimal place, unless otherwise stated.

1.2 Change in accounting policy

In March 2016 the FRC issued an amendment to FRS102 which impacted the fair value hierarchy disclosure. The amended disclosures are effective for accounting periods beginning on or after 1 January 2017. The Syndicate has early adopted the revision as permitted by the standard. The disclosures in note 10 are reported using the definitions in the amended FRS102 34.22. The amounts presented for the comparative period have been prepared on a consistent basis.

1.3 Product classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect to the policyholder.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

1.4 Significant accounting policies

1.4.1 Insurance Contracts

The results for all classes of business have been determined on an annual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premium written, net of reinsurance as follows:

a. Premiums

Premiums written relate to business incepted 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 received or notified, less an allowance for cancellations. Premiums are accreted to the Technical Account on a pro rata basis over the term of the related policy, except for those contracts where the period of the risk differs significantly from the contract period. In these circumstances, premiums are recognised over the period of risk in proportion to the amount of insurance protection provided. Reinstatement premiums are accreted to the Technical Account on a pro rata basis over the term of the original policy to which it relates. Premiums are stated gross of commissions but net of premium taxes and other duties levied on premiums.

b. Profit commissions receivable

Income arising from whole account quota share contracts is recognised when the economic benefits are highly probable.

1 Accounting policies, statement of compliance and basis of preparation (continued)

c. Deferred acquisitions costs

Commission and other acquisition costs incurred during the financial period that are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relate to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. Deferred acquisition costs are capitalised and amortised over the life of the policy to which they relate on a basis consistent with the earnings pattern of that policy.

d. Claims

Claims incurred comprise claims and claims handling costs 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 adjustments to claims from prior years. Claims handling costs are mainly external costs related to the negotiation and settlement of claims.

Claims outstanding represent the estimated ultimate cost of settling all claims (including direct and indirect claims settlement costs) arising from events which have occurred up to the date of the statement of financial position, including IBNR, less any amounts paid in respect of those claims.

Claims provisions have been established on an individual class of business basis. The underwriting and management teams conduct a quarterly review of each class of business. Claims are projected to the ultimate position and provision is made for known claims and claims incurred but not reported.

Whilst the Directors consider that the estimate of claims outstanding is fairly calculated on the basis of the information currently available to them, there is inherent uncertainty in relation to the ultimate liability which will vary as a result of subsequent information and events. Adjustments to the amounts of the claims provisions established in prior years are reflected in the profit and loss account for the period in which the adjustments are made.

e. Provision for unearned premiums

The proportion of written premiums that relate to unexpired terms of policies in force at the date of the statement of financial position is deferred as a provision for unearned premiums, generally calculated on a time apportioned basis. The movement in the provision is taken to the Technical Account in order that revenue is recognised over the period of the risk.

f. Unexpired risks provision

Provision is made for any deficiencies arising when unearned premiums, net of related deferred acquisition costs, are insufficient to meet expected claims and expenses after taking into account future investment return on the investments supporting the unearned premiums provision and unexpired risks provision. The expected claims are calculated having regard to events that are relevant to the provision at the balance sheet date.

Unexpired risk surpluses and deficits are offset where business classes are managed together and a provision is made if an aggregate deficit arises. At 31 December 2016 and 31 December 2015 the Syndicate did not have an unexpired risks provision.

g. Reinsurance

The Syndicate assumes and cedes reinsurance in the normal course of business. Premiums and claims on reinsurance assumed are recognised in the income statement along the same basis as direct business, taking into account the product classification. Reinsurance premiums ceded and reinsurance recoveries on claims incurred are included in the respective expense and income accounts. Reinsurance outwards premiums are earned according to the nature of the cover. ‘Losses occurring during’ policies are earned evenly over the policy period. ‘Risks attaching’ policies are expensed on the same basis as the inwards business being protected. Reinstatement premiums on both inwards and outwards business are accreted to the income statement on a pro rata basis over the term of the original policy to which they relate.

1 Accounting policies, statement of compliance and basis of preparation (continued)

Reinsurance assets include amounts recoverable from reinsurance companies for paid and unpaid losses and loss adjustment expenses, and ceded unearned premiums. Amounts recoverable from reinsurers are calculated with reference to the claims liability associated with the reinsured risks. Revenues and expenses arising from reinsurance agreements are therefore recognised with the underlying risk of the business reinsured.

Gains or losses on buying reinsurance are recognised immediately in the Technical Account and not subject to amortisation.

If a reinsurance asset is impaired the Syndicate reduces its carrying amount accordingly, and will immediately recognise the impairment loss in the Technical Account. A reinsurance asset will be deemed to be impaired if there is objective evidence, as a result of an event that occurred after initial recognition of that asset, that the Syndicate may not receive all amounts due to it under the terms of the contract, and that the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer.

h. Expenses

The Managing Agent has charged the Syndicate a fixed fee and has borne all the management expenses of the Syndicate, other than those related to the direct cost of underwriting and investment managing charges. Investment management charges are netted off against investment return, as disclosed in note 8. Any internal or external claims adjustment or settlement costs are included within gross claims paid.

1.4.2 Investments

a. Financial investments

The Syndicate has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). This is in accordance with the Syndicate's documented investment strategy and consistent with investment risk being assessed on a portfolio basis. Information relating to investments is provided internally to the directors of the Managing Agent and key managers on a fair value basis.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (which are the principal markets or the most advantageous markets that maximise the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability) are based on quoted market bid and ask price for both financial assets and financial liabilities respectively.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Syndicate uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs.

Gains and losses on investments designated as FVTPL are recognised through the income statement.

b. Investment return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price and are recognised when the sale transaction occurs. Unrealised gains and losses on investments represent the difference between the valuation at the date of the statement of financial position and their valuation at the previous statement of financial position, or purchase price if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

1 Accounting policies, statement of compliance and basis of preparation (continued)

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds except to the extent that investment income arises on Funds at Lloyd's retained at the Syndicate level; that income remains in the non-technical account.

1.4.3 Measurement of other financial assets and financial liabilities

Other financial assets and financial liabilities are initially recognised at transaction price and subsequently measured at amortised cost using the effective interest rate method.

1.4.4 Recognition and derecognition of financial assets and financial liabilities

Financial assets and financial liabilities are recognised when the Syndicate becomes a party to the contractual provisions of the contract. A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests.

A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

All 'regular way purchases and sales' of financial assets are recognised on the trade date, i.e. the date that the Syndicate commits to purchase or sell the asset. Regular way purchases and sales are purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

If the carrying value of an asset is impaired, it is reduced to the recoverable amount by an immediate charge to the profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

1.4.5 Derivatives

Derivative financial instruments typically include currency forward contracts, equity options, inflation options, futures, put options and interest rate swaps. Derivatives are initially and subsequently measured at their fair value with movements in the fair value being immediately recognised in the income statement. Fair values are obtained from quoted market prices, discounted cash flow models, risk models and option pricing models as appropriate. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

1.4.6 Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Member's balance'.

No provision has been made for any overseas tax payable by member on underwriting results.

1.4.7 Pension costs

Brit Group Services operates a defined contribution pension scheme on behalf of the Managing Agent. Contributions are charged to the Syndicate within the fixed fee.

1 Accounting policies, statement of compliance and basis of preparation (continued)

1.4.8 Foreign currencies

The annual accounts are presented in US dollars which is the Syndicate's functional currency. Items included in the annual accounts are measured using the functional currency which is the primary economic environment in which the Syndicate operates.

Transactions in foreign currencies other than Sterling, United States Dollars, Canadian Dollars and Euros are translated at the rate of exchange ruling at the date the transaction is processed. Unless otherwise stated, transactions in Sterling, Canadian Dollars and Euros are translated at the average rates of exchange for the period. Monetary assets and liabilities in currencies other than United States Dollars are translated at the rate of exchange ruling at 31 December of each year. Exchange profits or losses arising on the translation of foreign currency amounts relating to the Syndicate insurance operations are included within the Non-technical account as prescribed by FRS 103.

1.4.9 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously.

2 Critical accounting judgements and key sources of estimation uncertainty

2.1 Insurance contract liabilities

The estimation of the ultimate liability arising from claims made under insurance contracts is the Syndicates most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Syndicate will ultimately pay to settle such claims. Significant areas requiring estimation and judgement include:

- 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 inwards 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; and
- Estimates of the proportion of exposure which has expired in the period as represented by the earned proportion of premiums written.

The assumptions used and the manner in which these estimates and judgements are made are set out below, including the reserving process for the estimation of gross, and net of reinsurance, ultimate premiums and claims:

- Quarterly statistical data is produced in respect of gross and net premiums and claims (paid and incurred);
- Projections of ultimate premiums, reinstatement premiums and claims are produced by the actuarial department using standard actuarial projection techniques (e.g. Basic Chain Ladder, Bornhuetter-Ferguson, Initial Expected Loss Ratio). The Basic Chain Ladder and Bornhuetter-Ferguson projection methods are based on the key assumption that historical development of premiums and claims is representative of future development. Claims inflation is taken into account in the Initial Expected Loss Ratio selections but is otherwise assumed to be in line with historical inflation trends, unless explicit adjustments for other drivers of inflation such as legislative developments are deemed appropriate.
- Some classes of business have characteristics which do not necessarily lend themselves easily to statistical estimation techniques e.g. due to low data volumes. In such cases, for example, a policy-by-policy review may also be carried out to supplement statistical estimates;
- In the event of catastrophe losses, and prior to detailed claims information becoming available, claims provision estimates are compiled using a combination of output from specific recognised modelling software and detailed reviews of contracts exposed to the event in question;

2 Critical accounting judgements and key sources of estimation uncertainty (continued)

The estimates and judgements are applied in line with the overall reserving philosophy and seek to state the claims provisions on a best estimate, undiscounted basis. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position.

In addition to claims provisions, the reserve for future loss adjustment expenses is also subject to estimation with consideration being given to the level of internal and third party loss adjustment expenses incurred annually. The estimated loss adjustment expenses are expressed as a percentage of gross claims reserves and the reasonableness of the estimate is assessed through benchmarking. Further judgements are made as to the recoverability of amounts due from reinsurers. Provisions for bad debts are made specifically, based on the solvency of reinsurers, internal and external ratings, payment experience with them and any disputes of which the Syndicate is aware.

2.2 Estimation of future premiums

Written premiums include pipeline premium which represent future premiums receivable on in-force insurance contracts. Pipeline premium estimates are typically based on standard actuarial projection techniques (e.g. Basic Chain Ladder) on the key assumption that historical development of premiums is representative of future development.

2.3 Fair value of financial assets determined using valuation techniques

Financial investments are carried in the statement of financial position at fair value. Determining the fair value of certain investments requires estimation techniques, using designated methodologies, estimations and assumptions.

The measurement basis for assets carried at fair value is categorised into a 'fair value hierarchy', details of these methods and assumptions are described in note 10.

3 Principal risks and uncertainties

3.1 Insurance risk

Insurance risk arises from the possibility of an adverse financial result due to actual experience being different from that expected when an insurance product was designed and priced. The actual performance of insurance contracts is subject to the inherent uncertainty in the occurrence, timing and amount of the final insurance liabilities. This is the principal risk the Syndicate is exposed to as its primary function is to underwrite insurance contracts. The risk arises due to the possibility of insurance contracts being under-priced, under-reserved or subject to unforeseen catastrophe claims.

The areas of insurance risk discussed below include: underwriting (including aggregate exposure management), reinsurance and reserving.

a. Underwriting risk

This is the risk that the insurance premiums will not be sufficient to cover the future losses and associated expenses. It arises from the fluctuations in the frequency and severity of financial losses incurred through the underwriting process by the Syndicate as a result of unpredictable events.

The Syndicate is also exposed to the risks resulting from its underwriters accepting risks for premiums which are insufficient to cover the ultimate claims which result from such policies. This risk is considered to be heightened in the current competitive underwriting environment which is resulting in significant downwards pressure on premium rates. This trend in premium rates has been factored into the Syndicate's pricing models and risk management tools and is continually monitored to assess whether any corrective action is required. Additional controls over the underwriting strategy are described in the section below.

The Syndicate writes all of its business through Lloyd's and therefore can take advantage of Lloyd's centralised infrastructure and service support. Lloyd's also has an established global distribution framework, with extensive licensing agreements providing the Syndicate access to over 200 territories. Exclusively using the Lloyd's platform subjects the Syndicate to a number of resulting underwriting risks.

3 Principal risks and uncertainties (continued)

(i) Controls over underwriting strategy

The Board sets the Syndicates' underwriting strategy for accepting and managing underwriting risk. The UK Underwriting Committee meets monthly to drive the underwriting strategy and to monitor performance against the plans. The assessment of underwriting performance is all-encompassing applying underwriting KPIs, technical pricing MI, premium monitoring, delegated underwriting operations and claims. The risks are managed by the committee in line with the underwriting risk policy and within the risk tolerance set by the Board. The underwriting risk policy also sets out a number of controls, which are summarised below.

The Syndicate carries out a detailed annual business planning process for each of its underwriting units. The resulting plans set out premium, territorial and aggregate limits and reinsurance protection thresholds for all classes of business and represent a key tool in managing concentration risk. Performance against the plans is monitored on a regular basis by the Underwriting Committee as well as by the Boards of the regulated entities. A dedicated exposure management team also performs Realistic Disaster Scenario (RDS) analysis on a regular basis to ensure that the Syndicate's net losses remain within its risk appetite.

The Syndicate has developed underwriting guidelines, limits of authority and business plans which are binding upon all staff authorised to underwrite. These are detailed and specific to underwriters and classes of business. Gross and net line size limits are in place for each class of business with additional restrictions in place on catastrophe exposed business.

A proportion of the Syndicate's insurance risks are written by third parties under delegated underwriting authorities, with the remaining being written through individual risk acceptances or through reinsurance treaties.

The third parties are closely vetted in advance and are subject to tight reporting requirements. In addition, the performance of these contracts is closely monitored by underwriters and regular audits are carried out.

The technical pricing framework ensures that the pricing process in the Syndicate is appropriate. It ensures pricing methodologies are demonstrable and transparent and that technical (or benchmark) prices are assessed for each risk. The underwriting and actuarial functions work together to maintain the pricing models and assess the difference between technical price and actual price. The framework also ensures that sufficient data is recorded and checked by underwriters to enable the Syndicate to maintain an effective rate monitoring process.

Compliance is checked through both a peer review process and, periodically, by the Syndicate's Internal Audit department which is entirely independent of the underwriting units.

In order to limit risk, the number of reinstatements per policy is limited, deductibles are imposed, policy exclusions are applied and whenever allowed by statute, maximum indemnity limits are put in place per insured event.

(ii) Underwriting risk profile

The core insurance portfolio of property, energy and casualty covers a variety of largely uncorrelated events and also provides some protection against the underwriting cycle as different classes are at different points in the underwriting cycle. The underwriting portfolio is managed to target top quartile underwriting performance and the mix of business is continually adjusted based on the current environment (including the current pricing strength of each class). This assessment is conducted as part of the business planning and strategy process which operates annually and uses inputs from the technical pricing framework. The business plan is approved by the BSL Board and is monitored monthly.

(iii) Geographical concentration of premium

The Syndicate enters into policies with policyholders from all over the world, with the underlying risk relating to premiums spread worldwide. This allows the Syndicate to benefit from a wide geographic diversification of risk. The three principal locations of the Syndicate's policyholders are the United States, UK and mainland Europe. The concentration of insurance premium before and after reinsurance by the location of the underlying risk is summarised below:

3 Principal risks and uncertainties (continued)

Premiums written	Gross	Net
2016	**US$m**	**US$m**
United States	**843.1**	**572.4**
United Kingdom	**106.7**	**68.5**
Europe (excluding UK)	**110.8**	**68.2**
Other (including worldwide)	**851.6**	**565.4**
Total	**1,912.2**	**1,274.5**
2015	**US$m**	**US$m**
United States	857.5	582.0
United Kingdom	120.3	91.6
Europe (excluding UK)	121.3	61.9
Other (including worldwide)	900.1	650.0
Total	**1,999.2**	**1,385.5**

(iv) Portfolio mix

The Syndicate's breakdown of gross premium written by principal categories is summarised below:

		2016		**2015**	
Gross premium written		**US$m**	**%**	**US$m**	**%**
Short tail direct insurance	Property, Marine, Energy, Accident & Health, BGSU, Aerospace, Terrorism and Political	**1,076.1**	**56**	1,141.8	57
Long tail direct insurance	Professional lines, Specialty lines, Specialist liability	**470.0**	**25**	492.1	24
Short tail reinsurance	Property Treaty	**153.2**	**8**	151.5	8
Long tail reinsurance	Casualty Treaty	**212.6**	**11**	213.6	11
Other	Other underwriting and other corporate	**0.3**	**0**	0.2	0
Total		**1,912.2**	**100**	1,999.2	100

The Syndicate underwrites a business mix of both insurance and reinsurance, long and short tailed business across a number of geographic areas which results in a diversification of the Syndicate's portfolio. The business mix is monitored on an ongoing basis with particular focus on the short tail vs. long tail split and the proportion of delegated underwriting business. Long tail business is currently 36% (2015: 35%) of the portfolio as at 31 December 2016 and delegated underwriting represents approximately 42% (2015: 40%).

(v) Aggregate exposure management

The Syndicate is exposed to the potential of large claims from natural catastrophe events. The Syndicate's catastrophe risk appetite is set by the Board who may adjust limits to reflect market conditions. Overall, the Syndicate has a catastrophe risk tolerance for major catastrophe events (such as a Florida Miami Windstorm) of 25% of the Brit Limited Group's net tangible assets (NTA). This equates to a maximum acceptable loss (after all reinsurance) of US$268.7m as at 31 December 2016.

The Syndicate closely monitors aggregation of exposure to natural catastrophe events against agreed risk appetites using stochastic catastrophe modelling tools, along with knowledge of the business, historical loss information, and geographical accumulations. Analysis and monitoring also measures the effectiveness of the Syndicate's reinsurance programmes. Stress and scenario tests are also run, such as Lloyd's and internally developed Realistic Disaster Scenarios (RDS).

3 Principal risks and uncertainties (continued)

Below are the key RDS losses to the Syndicate for all classes combined (in US$ millions) (Unaudited):

Lloyd's Prescribed RDS Event	Estimated Industry Loss	Modelled Syndicate Loss 2016(i)		Modelled Syndicate Loss 2015(i)	
		Gross	Net	Gross	Net
Gulf of Mexico Windstorm	113,500	829	153	813	139
Florida Miami Windstorm	128,250	654	134	601	119
US North East Windstorm	80,500	748	125	737	124
San Francisco Earthquake	87,750	716	226	716	178
Japan Earthquake	44,716	237	125	207	120
Japan Windstorm	13,329	92	46	79	41
European Windstorm	25,595	228	130	190	102

(i): At 31 December 2016 foreign exchange rates.

Actual results may differ materially from the losses above given the significant uncertainties within model assumptions, techniques and simulations applied to calculate these event loss estimates. There could also be unmodelled losses which result in actual losses exceeding these figures. Moreover, the portfolio of insured risks changes dynamically over time.

(vi) Sensitivity to changes in net claims ratio

The Syndicate profit on ordinary activities before tax is sensitive to an independent 1% change in the net claims ratio each class of business as follows:

Change in reported profit	2016		2015	
Category	**US$m**	**%**	**US$m**	**%**
Short tail direct insurance	7.2	59	7.6	58
Long tail direct insurance	2.5	20	3.0	23
Short tail reinsurance	0.6	5	0.6	5
Long tail reinsurance	1.7	14	1.7	13
Other	0.2	2	0.2	1
Total	12.2	100	13.1	100

The impact on member's balance would be the same as that on profit following a change in the net claims ratio.

b. Reinsurance risk

The Syndicate purchases reinsurance to manage exposure to individual risks and aggregation of risks arising from individual large claims and catastrophe events. This allows the Syndicate to mitigate exposure to insurance losses against the risk appetite, reduce volatility of reported results and protect capital.

Proportional quota share reinsurance is purchased to provide protection against claims arising either from individual large claims or aggregation of losses. Quota share reinsurance is also used to manage the Syndicate's net exposure to classes of business where the Syndicate's risk appetite is lower than the efficient operating scale of the class of business on a gross of reinsurance basis. These placements are reviewed on the basis of market conditions.

The Syndicate also has in place a comprehensive programme of excess of loss reinsurances to protect itself from severe size or frequency of losses:

3 Principal risks and uncertainties (continued)

(i) Facultative reinsurance is used to reduce risk relating to individual contracts. The amount of cover bought varies by class of business. Facultative reinsurance is also used as a tool to manage the net line size on individual risks to within tolerance.

(ii) Risk excess of loss reinsurance is used to protect a range of individual inwards contracts which could give rise to individual large claims. The optimal net retention per risk is assessed for each class of business given the Syndicate's risk appetite during the business planning exercise.

(iii) An aggregate catastrophe excess of loss cover is in place to protect the Syndicate against combined property claims from multiple policies resulting from catastrophe events. This is supplemented by specific covers for peril regions, catastrophe swaps and industry loss warranties where they are a cost-efficient means to ensure that the Syndicate remains within its catastrophe risk appetite.

Given the fundamental importance of reinsurance protection to the Syndicate's risk management, the Syndicate has in place internal controls and processes to ensure that the reinsurance arrangements provide appropriate protection of capital and maintain our ability to meet policyholder obligations. The Head of Outwards Reinsurance, the Chief Underwriting Officer and Chief Risk Officer propose external reinsurance arrangements with input from class underwriters for class level reinsurance. The Chief Underwriting Officer proposes reinsurance arrangements with Brit Insurance Gibraltar Ltd (BIG). All reinsurance purchases must be signed off by the Group's Underwriting Committee. The Head of Outwards Reinsurance monitors and reports on the placement of reinsurance protections.

The Syndicate remains exposed to a number of risks relating to its reinsurance programme:

- It is possible for extremely severe catastrophe losses to exhaust the reinsurance purchased. Any losses exceeding the reinsurance protection would be borne by the Syndicate.

- Some parts of the programme have limited reinstatements which limit the amount that may be recovered from second or subsequent claims. If the entirety of the cover is exhausted, it may not be possible to purchase additional reinsurance at a reasonable price.

- A dispute may arise with a reinsurer which may mean the recoveries received are lower than anticipated.

These risks are managed through a combination of techniques and controls including exposure management, capital modelling and internal actuarial review of outward reinsurance costs. The counterparty risk in relation to reinsurance purchased is managed by the Credit Committee. This is further discussed in the Credit risk section below.

c. Reserving risk

Reserving risk arises as the actual cost of losses for policyholder obligations incurred before 31 December 2016 from the established reserves due to inaccurate assumptions or unforeseen circumstances. This is a key risk for the Syndicate as the reserves for unpaid losses represent the largest component of the Syndicates' liabilities and are inherently uncertain. The Reserving Committee is responsible for the management of Syndicate's reserving risk.

The Syndicate has a rigorous process for the establishing reserves for insurance claim liabilities and a number of controls are used to mitigate reserving risk. The reserving process starts with controls over claims data which ensure complete and accurate recording of all paid and notified claims. Claims staff validate policy terms and conditions, adjust claims and investigate suspicious or disputed claims in accordance with the Syndicate's claims policy. Case reserves are set for notified claims using the experience of specialist claims staff, underwriters and external experts where necessary.

Whilst the case reserve is expected to be sufficient to meet the claims amount when it is settled, incurred but not reported (IBNR) claims require additional reserves. This is particularly the case for the longest tailed classes of business where the final settlement can occur several years after the claim occurred. Actuarial triangulation techniques are employed by the Syndicate's experienced actuaries to establish the IBNR reserve. These techniques project IBNR reserves based on historical development of paid and incurred claims by underwriting year. For the most uncertain claims, the triangulation techniques are supplemented by additional methods to ensure the established reserve is appropriate. The actuarial team work closely with other business functions such

3 Principal risks and uncertainties (continued)

as underwriting, claims and exposure management to ensure that they have a full understanding of the emerging claims experience across the Syndicate.

The Syndicate's reserving policy sets out the approach to estimating claims provisions and is designed to produce accurate and reliable estimates that are consistent over time and across classes of business. The actuarial best estimate set out in the policy is subject to sign-off by the Reserving Committee, as part of the formal governance arrangements for the Syndicate. The estimate agreed by the committees is used as a basis for the Syndicate financial statements. A management risk margin is also applied over and above the actuarial best estimate to allow for the inherent uncertainty within the best estimate reserve position and wider inherent uncertainty across the economic and insurance environment. This margin increases the reserves reflected in the Syndicate financial statements above the mean expectation. Finally, the reserves in the financial statements are presented to the Audit Committee for recommendation to the BSL Board who are responsible for the final sign-off. As part of their audit engagement, reserves are subject to external actuarial review by the Syndicate's auditors.

The reserves can be more or less than is required to meet the claims arising from earned business. The level of uncertainty varies significantly between the classes written by the Syndicate but typically is highest for those classes where there are significant delays in the settlement of the final claim amount. More specifically, the key areas of uncertainty within the Syndicate's reserves are considered to be claims from the casualty treaty and specialty liability classes. The issues contributing to this heightened uncertainty are common to all entities which write such business.

3.2 Liquidity risk

This is the risk the Syndicate may encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The predominant liquidity risk the Syndicate faces is the daily calls on its available cash resources in respect of claims arising from insurance contracts.

The Syndicate monitors the levels of cash and cash equivalents on a daily basis, ensuring adequate liquidity to meet the expected cash flow requirements due over the short-term.

The Syndicate also limits the amount of investment in illiquid securities in line with the liquidity policy set by the Board. This involves ensuring sufficient liquidity to withstand claim scenarios at the extreme end of business plan projections, by reference to modelled Realistic Disaster Scenarios. Contingent liquidity also exists in the form of the Group's revolving credit facility.

The tables below present the fair value of monetary assets and the undiscounted value of monetary liabilities of the Syndicate into their relevant maturing groups based on the remaining period at the end of the year to their contractual maturities or expected repayment dates.

As at 31 December 2016	**Balance Sheet**	**Up to a year**	**1-3 years**	**3-5 years**	**Over 5 years**	**Equities**	**Total**
Assets (fair values)	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Reinsurance assets	1,214.8	321.6	376.5	212.7	304.0	-	1,214.8
Financial investments	1,957.3	1,529.1	72.3	10.5	126.5	218.9	1,957.3
Derivative contracts	4.5	4.5	-	-	-	-	4.5
Insurance receivables	691.8	690.7	1.1	-	-	-	691.8
Cash at bank and in hand	165.1	165.1	-	-	-	-	165.1
Other	212.3	44.0	117.2	47.8	3.3	-	212.3
	4,245.8	2,755.0	567.1	271.0	433.8	218.9	4,245.8

3 Principal risks and uncertainties (continued)

Liabilities (undiscounted values)	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Insurance contract liabilities	**3,400.3**	**857.4**	**1,017.3**	**597.8**	**927.8**	**-**	**3,400.3**
Derivative contracts	**4.0**	**4.0**	**-**	**-**	**-**	**-**	**4.0**
Insurance & other payables	**394.3**	**394.2**	**0.1**	**-**	**-**	**-**	**394.3**
	3,798.6	**1,255.6**	**1,017.4**	**597.8**	**927.8**	**-**	**3,798.6**

As at 31 December 2015	Balance Sheet	Up to a year	1-3 years	3-5 years	Over 5 years	Equities	Total
Assets (fair values)	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**	**US$m**
Reinsurance assets	1,214.1	307.6	374.5	218.0	314.0	-	1,214.1
Financial investments	1,794.8	990.1	145.2	53.3	495.9	110.3	1,794.8
Derivative contracts	45.9	36.9	-	-	9.0	-	45.9
Insurance receivables	648.7	647.1	1.6	-	-	-	648.7
Cash at bank and in hand	279.4	279.4	-	-	-	-	279.4
Other	232.0	89.2	102.0	35.7	5.1	-	232.0
	4,214.9	2,350.3	623.3	307.0	824.0	110.3	4,214.9

Liabilities (undiscounted values)	US$m	US$m	US$m	US$m	US$m	US$m	US$m
Insurance contract liabilities	3,314.9	777.1	980.9	592.6	964.3	-	3,314.9
Derivative contracts	3.3	3.3	-	-	-	-	3.3
Insurance & other payables	379.8	379.6	0.2	-	-	-	379.8
	3,698.0	1,160.0	981.1	592.6	964.3	-	3,698.0

3.3 Credit risk

This is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The main sources of credit risk relate to:

- Reinsurers: through the failure to pay valid claims against a reinsurance contract held by the Syndicate.
- Brokers and coverholders: where counterparties fail to pass on premiums or claims collected or paid on behalf of the Syndicate.
- Investments, through the issuer default of all or part of the value of a financial instrument and derivative financial instrument.
- Cash and cash equivalents, through the default of the banks holding the cash and cash equivalents.

The insurance and non-insurance related counterparty credit risks are managed separately by the Syndicate.

3 Principal risks and uncertainties (continued)

a. Investments credit risk

(i) Investment credit risk management process

The Investment Committee chaired by Simon Lee, a Non-Executive Director of Brit Syndicates Limited, is responsible for the management of investment credit risk. The Investment Guidelines and Investment policy set out clear limits and controls around the level of investment credit risk. The Syndicate has established concentration guidelines that restrict the exposure to any individual counterparty. The investment guidelines further limit the type, credit quality and maturity profile of both the Syndicate's cash and investments. In addition, the investment risk framework further limits potential exposure to credit risk through monitoring of the aggregate investment risk limits.

(ii) Investment credit risk profile

The summary of the investment credit risk exposures for the Syndicate is set out in the tables below:

US$m	AAA	AA	A	P-1	P-2	BBB and below	Equities	Not Rated	Total
As at 31 December 2016									
Financial Investments	**146.1**	**1,456.3**	**28.7**	**-**	**-**	**45.4**	**218.9**	**61.9**	**1,957.3**
Derivative contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**4.5**	**4.5**
Cash at bank	**88.0**	**-**	**-**	**70.0**	**7.1**	**-**	**-**	**-**	**165.1**
Other	**132.4**	**32.7**	**28.3**	**-**	**-**	**18.9**	**-**	**-**	**212.3**
Total	**366.5**	**1,489.0**	**57.0**	**70.0**	**7.1**	**64.3**	**218.9**	**66.4**	**2,339.2**
As at 31 December 2015									
Financial Investments	224.2	762.1	560.3	-	-	48.8	110.3	89.1	1,794.8
Derivative contracts	-	-	-	-	-	-	-	45.9	45.9
Cash at bank	263.0	3.0	-	0.7	12.7	-	-	-	279.4
Other	110.4	52.5	53.6	-	-	9.4	-	6.1	232.0
Total	597.6	817.6	613.9	0.7	12.7	58.2	110.3	141.1	2,352.1

b. Insurance credit risk

(i) Insurance credit risk management process

The Credit Committee, chaired by the Group Chief Financial Officer, is responsible for the management of credit risk arising from insurance activities. Some responsibilities for reinsurance related credit decisions have been delegated to the Reinsurance Security Committee chaired by the Head of Group Financial Performance.

Reinsurer credit risk is managed by transacting only with reinsurance counterparties that satisfy a minimum level of financial strength or provide appropriate levels of collateral, and have been approved for use by the Reinsurance Security Committee. The reinsurer security list, which sets out the list of approved reinsurance counterparties, is reviewed at least annually and following any significant change in risk profile, which includes any changes to reinsurers' financial ratings. Credit risk appetite limits are set for reinsurance entities and groups to limit accumulations of risk. These positions are monitored quarterly against current balance sheet exposures and in relation to a number of extreme loss scenarios.

3 Principal risks and uncertainties (continued)

Reinsurance aged debt is monitored and managed against tolerance limits set by the Board. A bad debt provision is held against all non-rated reinsurers or any reinsurer where there is deemed to be a specific risk of non-payment.

Any breaches of credit risk appetite are reported to the Risk Oversight Committee and the Board on at least a quarterly basis.

(ii) Insurance credit risk profile

The summary of the insurance credit risk exposures for the Syndicate is set out in the tables below:

US$m	AAA	AA	A	Collateral	Not rated	Total
As at 31 December 2016						
Reinsurance on claims outstanding	**1.9**	**154.8**	**162.7**	**843.1**	**52.3**	**1,214.8**
Insurance and reinsurance receivables	**-**	**-**	**-**	**-**	**691.8**	**691.8**
Total	**1.9**	**154.8**	**162.7**	**843.1**	**744.1**	**1,906.6**
As at 31 December 2015						
Reinsurance on claims outstanding	1.2	314.0	211.8	631.3	55.8	1,214.1
Insurance and reinsurance receivables	-	-	-	-	648.7	648.7
Total	**1.2**	**314.0**	**211.8**	**631.3**	**704.5**	**1,862.8**

Insurance credit risk arises primarily from reinsurers (whereby reinsurers fail to pay recoveries due to the Syndicate in a timely manner) and brokers and coverholders (whereby intermediaries fail to pass on premiums due to the Syndicate in a timely manner).

Collateral of US$1,086.3m (2015: US$1,123.1m) is held in third party trust accounts or as a Letter of Credit (LOC) to guarantee Syndicate 2987 against reinsurance counterparties and is available for immediate drawdown in the event of a default. Of this amount, US$843.1m (2015: US$631.3m) had been drawn against reinsurance assets at 31 December 2016.

The following table shows movements in impairment provisions during the year:

US$m	Impairment Provision against Reinsurance Assets	Impairment Provision against Insurance Receivables
2016		
At 1 January 2016	**1.0**	**12.9**
Strengthening / (release) for the year	**-**	**(1.2)**
Net foreign exchange differences	**(0.3)**	**(0.1)**
At 31 December 2016	**0.7**	**11.6**
2015		
At 1 January 2015	0.9	13.7
Strengthening / (release) for the year	0.1	(1.5)
Net foreign exchange differences	-	0.7
At 31 December 2015	1.0	12.9

3 Principal risks and uncertainties (continued)

The following table shows the amount of insurance receivables that were past due but not impaired at the end of the year:

	2016 US$m	2015 US$m
0-3 months past due	14.7	22.4
4-6 months past due	1.9	2.1
7-9 months past due	1.6	1.5
10-12 months past due	1.7	2.0
More than 12 months past due	1.9	2.3
Total	21.8	30.3

3.4 Market risk

This is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Credit risk on financial investments and cash is covered in the credit risk section.

a. Currency risk

Currency risk is the risk that the fair value of assets and liabilities or future cash flows will fluctuate as a result of movements in the rates of foreign exchange. As the Syndicate functional currency is United States dollars, it is exposed to currency risk because it underwrites insurance business internationally, dealing in five main currencies: US dollars, Sterling, Canadian dollars, Euros and Australian dollars.

The split of assets and liabilities for each of the Syndicate's main currencies is set out in the tables below:

Converted US$m	UK £	US $	CAD $	EUR €	AUD $	Total
As at 31 December 2016						
Total assets	1,030.7	2,797.0	511.7	301.7	86.5	4,727.6
Total liabilities	(931.9)	(3,123.7)	(269.1)	(301.1)	-	(4,625.8)
Net assets	**98.8**	**(326.7)**	**242.6**	**0.6**	**86.5**	**101.8**
As at 31 December 2015						
Total assets	1,109.6	2,813.0	389.3	293.5	89.0	4,694.4
Total liabilities	(1,035.9)	(2,992.0)	(209.0)	(311.7)	-	(4,548.6)
Net assets	**73.7**	**(179.0)**	**180.3**	**(18.2)**	**89.0**	**145.8**

The non-US dollar denominated net assets of the Syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should US dollars strengthen against these currencies. Conversely, reported gains may arise should the US dollar weaken.

The Syndicate matches its assets relative to its liabilities in each of the main five currencies and the position is rebalanced periodically. Assets in excess of its liabilities are held in US$. Where mismatches occur these may lead to FX gains and losses reported through the income statement. Foreign currency contracts are used to achieve the desired exposure to each currency.

Foreign currency forward contracts may be used to achieve the desired exposure to each currency. From time to time the Syndicate may also choose to utilise options on foreign currency derivatives to mitigate the risk of reported losses due to changes in foreign exchange rates. The degree to which options are used is dependent on the prevailing cost versus the perceived benefit to shareholder value from reducing the chance of a reported

3 Principal risks and uncertainties (continued)

loss due to changes in foreign currency exchange rates. The details of all foreign currency derivatives contracts entered into are given in Note 11.

b. Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of the US Dollar against the value of the Sterling, Canadian dollar, Euro and Australian dollar simultaneously.

US$m	Impact on profit before tax and net assets	
	2016	**2015**
US Dollar weakens		
10% against other currencies	**(58.2)**	92.3
20% against other currencies	**(116.3)**	184.6
US Dollar strengthens		
10% against other currencies	**58.2**	(92.3)
20% against other currencies	**116.3**	(184.6)

c. Interest rate risk and price risk

Interest rate risk is the risk that the fair value and/or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Syndicate is exposed to interest rate risk through its investment portfolio, borrowings and cash and cash equivalents. The sensitivity of the price of these financial exposures is indicated by their respective durations. This is defined as the modified duration which is the change in the price of the security subject to a 100 basis points parallel shift in interest rates. The greater the duration of a security, the greater the possible price volatility.

The banded durations of the Syndicate's financial instruments and cash and cash equivalents sensitive to interest-rate risk are shown in the table below:

US$m As at 31 December 2016	1 year or less	1 to 3 years	3 to 5 years	Over 5 years	Equities	Total
Cash at bank and in hand	**165.1**	**-**	**-**	**-**	**-**	**165.1**
Financial investments	**1,529.1**	**72.3**	**10.5**	**126.5**	**218.9**	**1,957.3**
Derivatives	**4.5**	**-**	**-**	**-**	**-**	**4.5**
Other	**44.0**	**117.2**	**47.8**	**3.3**	**-**	**212.3**
Total	**1,742.7**	**189.5**	**58.3**	**129.8**	**218.9**	**2,339.2**
As at 31 December 2015						
Cash at bank and in hand	279.4	-	-	-	-	**279.4**
Financial investments	990.1	145.2	53.3	495.9	110.3	**1,794.8**
Derivatives	36.9	-	-	9.0	-	**45.9**
Other	89.2	102.0	35.7	5.1	-	**232.0**
Total	**1,395.6**	**247.2**	**89.0**	**510.0**	**110.3**	**2,352.1**

The Syndicate takes into account the duration of its required capital, targeting an investment portfolio duration that, under a variation in interest rates, preserves the solvency ratio of the Syndicate. The duration of the investment portfolio is then set within an allowable range relative to the targeted duration. This is achieved by the use of interest rate derivatives.

3 Principal risks and uncertainties (continued)

Insurance liabilities are measured on an undiscounted basis, the reported liabilities are not sensitive to changes in interest rates.

d. Sensitivity to changes in investment yields

The sensitivity of the profit and net assets to changes in the investment yields is set out in the table below.

	Impact on profit before tax	
US$m	**2016**	**2015**
Increase		
25 basis points	**(4.5)**	(31.7)
50 basis points	**(9.1)**	(63.3)
100 basis points	**(18.1)**	(126.7)
Decrease		
25 basis points	**4.5**	31.7
50 basis points	**9.1**	63.3
100 basis points	**18.1**	126.7

3.5 Capital risk management

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

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime. Although the capital regime has changed, this has not significantly impact the Solvency Capital Requirement of the Syndicate, since this has been previously calculated based on Solvency II principles, as described below.

The Lloyd's corporate member is required to procure capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities. FAL is determined by reference to a Syndicate Capital Requirement to Ultimate (SCR to Ultimate), which is a risk-based capital assessment based upon the Syndicate's specific circumstances. The SCR to Ultimate is prepared annually by the Managing Agent and agreed with Lloyd's. The SCR to Ultimate is subject to an uplift to ensure that Syndicates maintain capital commensurate with the Lloyd's S&P credit rating of A+ and results in an Economic Capital Assessment (ECA) for Syndicate 2987.

The SCR to Ultimate is calculated using a stochastic risk-based capital model developed by the Brit Group which allows the Board of the Managing Agent to identify an appropriate level of capital required. This capital requirement is specific to the actual reserving history, reinsurance programme and business profile of Syndicate 2987 rather than being based on company market averages. The Board of the Managing Agent reviews and approves all capital modelling submissions to Lloyd's.

The FAL provided by the Syndicate takes account of any estimated surpluses or expected losses in respect of open years. Consequently the actual FAL provided may be higher or lower than the ECA.

4 Analysis of underwriting result

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

Year ended 31 December 2016	**Gross written premiums US$m**	**Gross premiums earned US$m**	**Gross claims incurred US$m**	**Gross operating expenses US$m**	**Reinsurance balance US$m**	**Total US$m**
Direct Insurance:						
Accident and health	**25.3**	**24.0**	**(15.3)**	**(9.5)**	**(0.8)**	**(1.6)**
Motor (other classes)	**-**	**-**	**(1.1)**	**-**	**1.1**	**-**
Marine aviation and transport	**197.9**	**215.4**	**(107.3)**	**(64.3)**	**(25.6)**	**18.2**
Fire and other damage to property	**411.9**	**413.3**	**(208.2)**	**(142.5)**	**(74.4)**	**(11.8)**
Third party liability	**407.7**	**406.7**	**(329.1)**	**(121.5)**	**(0.2)**	**(44.1)**
Miscellaneous	**116.5**	**109.6**	**(51.2)**	**(52.0)**	**(7.9)**	**(1.5)**
	1,159.3	**1,169.0**	**(712.2)**	**(389.8)**	**(107.8)**	**(40.8)**
Reinsurance	**752.9**	**740.8**	**(371.2)**	**(249.4)**	**(72.4)**	**47.8**
Total	**1,912.2**	**1,909.8**	**(1,083.4)**	**(639.2)**	**(180.2)**	**7.0**

Year ended 31 December 2015	Gross written premiums US$m	Gross premiums earned US$m	Gross claims incurred US$m	Gross operating expenses US$m	Reinsurance balance US$m	Total US$m
Direct Insurance:						
Accident and health	25.2	25.3	(14.0)	(10.0)	(1.0)	**0.3**
Motor (other classes)	-	-	-	-	-	**-**
Marine aviation and transport	230.7	245.8	(142.0)	(75.0)	(8.2)	**20.6**
Fire and other damage to property	422.4	416.7	(165.1)	(147.2)	(68.3)	**36.1**
Third party liability	413.5	424.6	(329.4)	(127.1)	26.8	**(5.1)**
Miscellaneous	130.7	120.5	(53.6)	(58.1)	(7.0)	**1.8**
	1,222.5	**1,232.9**	**(704.1)**	**(417.4)**	**(57.7)**	**53.7**
Reinsurance	776.7	774.3	(374.8)	(227.7)	(105.4)	**66.4**
Total	**1,999.2**	**2,007.2**	**(1,078.9)**	**(645.1)**	**(163.1)**	**120.1**

Commissions on direct insurance gross premiums written during 2016 were US$313.5m (2015: US$325.7m).

All premiums were concluded in the UK.

4 Analysis of underwriting result (continued)

The geographical analysis of premiums by the location of the underlying risk is as follows:

	2016 US$m	2015 US$m
United Kingdom	106.7	120.3
Europe (excluding UK)	110.8	121.3
United States	843.1	857.5
Other (including worldwide)	851.6	900.1
Total	**1,912.2**	**1,999.2**

The analysis of technical result by Brit segment is as follows:

Year ended 31 December 2016	**Brit Global Specialty Direct US$m**	**Brit Global Speciality Reinsurance US$m**	**Other Underwriting US$m**	**Total US$m**
Gross premiums written	1,546.6	365.8	(0.2)	1,912.2
Net premiums written	1,027.0	247.7	(0.2)	1,274.5
Net premiums earned	1,061.5	244.8	(0.2)	1,306.1
Claims incurred, net of reinsurance	(601.6)	(103.4)	(0.7)	(705.7)
Net operating expenses	(509.4)	(84.1)	0.1	(593.4)
Underwriting result	(49.5)	57.3	(0.8)	7.0
Investment return	102.6	39.1	-	141.7
Balance on technical account	53.1	96.4	(0.8)	148.7

Year ended 31 December 2015	**Brit Global Specialty Direct US$m**	**Brit Global Speciality Reinsurance US$m**	**Other Underwriting US$m**	**Total US$m**
Gross premiums written	1,634.0	365.1	0.1	1,999.2
Net premiums written	1,139.3	243.9	2.3	1,385.5
Net premiums earned	1,151.0	247.5	2.3	1,400.8
Claims incurred, net of reinsurance	(576.6)	(102.0)	(0.9)	(679.5)
Net operating expenses	(512.9)	(88.3)	-	(601.2)
Underwriting result	**61.5**	**57.2**	**1.4**	**120.1**
Investment return	23.6	9.3	0.1	33.0
Balance on technical account	**85.1**	**66.5**	**1.5**	**153.1**

5 Net operating expenses

	2016 US$m	2015 US$m
Acquisition costs	467.5	486.5
Change in deferred acquisition costs	(7.4)	(11.7)
Administrative expenses	179.1	170.3
	639.2	645.1
Reinsurance commissions receivable	(45.8)	(43.9)
	593.4	601.2

The auditors' remuneration and audit services charged to the Syndicate within the fixed fee charged by the Managing Agent and the auditors' remuneration borne by another group company are as follows:

	2016 US$'000	2015 US$'000
Audit of the Syndicate annual accounts	454	318
Other services pursuant to Regulations and Lloyd's Byelaws	190	110
	644	428

Member's standard personal expenses of US$15.2m (2015: US$14.9m) are included within administrative expenses.

6 Staff numbers and costs

All staff in the UK are employed by the Group services company, Brit Group Services Limited, and the full staff cost disclosures are included in the notes to those accounts. Amounts are recharged to the Syndicate as part of the fixed fee charged by the Managing Agent.

7 Remuneration of the Directors of Brit Syndicates Limited

No remuneration of the Directors of Brit Syndicates Limited have been charged to the Syndicate for the 2016 and 2015 calendar years.

The active underwriters received the following remuneration charged to the Syndicate and included within the fixed fee charged by the Managing Agent:

	2016 US$m	2015 US$m
Aggregate remuneration	2.5	3.5
Pension contributions	0.1	0.1
	2.6	3.6

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

8 Investment return

The investment income retained in the non-technical account relates to investment income on Funds in Syndicate (see note 20).

	2016 US$m	2015 US$m
Income from investments	44.1	40.8
Gains on investments	264.0	106.0
Losses on investments	(159.6)	(113.3)
Investment management charges	(6.8)	-
	141.7	33.5
Allocated investment return transferred to the general business technical account	(141.7)	(33.0)
Net investment return included in the non-technical account	-	0.5
Total investment return	141.7	**33.5**

9 Claims development

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The amounts are reported on an earned basis, which leads to a large increase in incurred claims in the second year, due to the premium earning pattern.

The cumulative claims estimates and cumulative payments are translated into USD at the period end rate as at 31 December 2016.

The claims development information disclosed is being increased from five years to ten years over the period 2016 - 2020.

Estimate of cumulative gross incurred claims

US$m **Underwriting year**	2010 & prior	2011	2012	2013	2014	2015	2016
At end of underwriting year		431.9	467.1	432.5	467.6	445.5	523.9
One year later		817.3	878.4	929.3	1,072.5	990.1	
Two years later		863.0	942.2	975.4	1,121.1		
Three years later		861.1	919.4	969.2			
Four years later		865.6	952.9				
Five years later		846.5					
Current estimate of cumulative claims incurred		846.5	952.9	969.2	1,121.1	990.1	523.9
Cumulative payments to date		646.9	615.2	550.4	486.8	250.4	66.1
Gross outstanding claims provision at 31 December 2016	612.4	199.6	337.7	418.8	634.3	739.7	457.8

9 Claims development (continued)

Estimate of cumulative net incurred claims

US$m Underwriting year	2010 & prior	2011	2012	2013	2014	2015	2016
At end of underwriting year		306.9	325.1	294.7	329.3	306.3	336.3
One year later		585.8	618.2	637.3	728.5	689.5	
Two years later		611.2	653.4	668.6	762.6		
Three years later		598.5	639.0	666.9			
Four years later		598.7	646.9				
Five years later		585.2					
Current estimate of cumulative claims incurred		585.2	646.9	666.9	762.6	689.5	336.3
Cumulative payments to date		454.1	430.2	386.0	357.4	188.7	56.1
Net outstanding claims provision at 31 December 2016	370.6	131.1	216.7	280.9	405.2	500.8	280.2

10 Financial investments

	Market Value		Cost	
	2016 US$m	2015 US$m	2016 US$m	2015 US$m
Shares and other variable yield securities and units in unit trusts	458.9	478.6	482.5	487.7
Debt securities and other fixed income securities	1,460.7	1,295.8	1,531.5	1,430.8
Derivative contracts	4.5	45.9	16.8	20.1
Other investments	37.7	20.4	44.1	38.0
	1,961.8	1,840.7	2,074.9	1,976.6

“Other investments” relates to loan instrument securities including senior secured and second lien debt.

US$293.6m (2015: US$421.0m) of “Shares and other variable yield securities and units in unit trusts” and “Debt securities and other fixed income securities” are listed. These comprise 15.0% (2015: 22.9%) of the total market value of investments.

All financial investments have been designated as held at fair value through profit or loss.

10 Financial investments (continued)

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

Year ended 31 December 2016	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	**47.1**	**68.1**	**103.7**	**218.9**
Debt securities	**1,150.1**	**297.4**	**13.2**	**1,460.7**
Loan instrument securities	**-**	**37.7**	**-**	**37.7**
Derivatives	**0.7**	**-**	**3.8**	**4.5**
Specialised investment funds	**-**	**230.2**	**9.8**	**240.0**
	1,197.9	**633.4**	**130.5**	**1,961.8**

Year ended 31 December 2015	Level 1 US$m	Level 2 US$m	Level 3 US$m	Total US$m
Equity securities	92.8	-	17.5	110.3
Debt securities	565.3	698.3	32.3	1,295.9
Loan instrument securities	-	20.4	-	20.4
Derivatives	-	36.9	9.0	45.9
Specialised investment funds	368.2	-	-	368.2
	1,026.3	755.6	58.8	1,840.7

a. Basis for determining the fair value hierarchy of financial instruments

The Syndicate has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

(i) Level one - quoted prices (unadjusted) in active markets for identical assets;
(ii) Level two - inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
(iii) Level three - inputs for the assets that are not based on observable market data (unobservable inputs).

Assets are categorised as level one where fair values determined in whole directly by reference to an active market relate to prices which are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis, i.e. the market is still active.

For assets and liabilities that are recognised at fair value on a recurring basis, the Syndicate determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Fair values for level two and level three assets include:

- Values provided at the request of the Syndicate by pricing services and which are not publicly available or values provided by external parties which are readily available but relate to assets for which the market is not always active; and
- Assets measured on the basis of valuation techniques including a varying degree of assumptions supported by market transactions and observable data.

10 Financial investments (continued)

For all assets not quoted in an active market or for which there is no active market, the availability of financial data can vary and is affected by a wide variety of factors, including the type of financial instrument, whether it is new and not yet established in the marketplace, and other characteristics specific to each transaction. To the extent that valuation is based on the models or inputs that are unobservable in the market, the determination of fair value requires more judgement. Accordingly, the degree of judgement exercised is higher for instruments classified in level three and the classification between level two and level three depends highly on the proportion of assumptions used, supported by market transactions and observable data.

b. Valuation techniques

Level one

Inputs represent unadjusted quoted prices for identical instruments exchanged in active markets (where transactions occur with sufficient frequency and volume). The fair values of securities sold short and the majority of the company’s equities are based on published quotes in active markets. These also include government bonds and treasury bills issued in Canada and in the US.

Level two

Inputs include directly or indirectly observable inputs (other than Level one inputs) such as quoted prices for similar financial instruments exchanged in active markets, quoted prices for identical or similar financial instruments exchanged in inactive markets and other market observable inputs.

Level two securities contain certain investments in US and non-US government agency securities, US and non-US Corporate debt securities and specialised investment funds. US government agency securities are priced using valuations from independent pricing vendors who use discounted cash flow models supplemented with market and credit research to gather specific information. Market observable inputs for these investments may include broker-dealer quotes, reported trades, issuer spreads and available bids. Non US government agency securities are priced with OTC quotes or broker-dealer quotes. Other market observable inputs include benchmark yields and reported trades. Issuer spreads are also available for these types of investments.

US and non-US corporate debt securities are investment grade and the information collected during pricing of these instruments includes credit data as well as other observations from the market and the particular sector. Prices for all these securities are based on a limited number of transactions (OTC prices/broker-dealer quotes) so they are derived indirectly using inputs that can be corroborated by observable market data. These also include certain private placement corporate debt securities which are valued with the use of discounted cash flow models.

Level two specialised investment funds contain credit opportunities funds that are valued based on the underlying assets in the fund on a security by security basis. A number of direct and indirect inputs such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates and anticipated timing of principal repayments are considered during their valuation.

Level three

Level three securities contain certain investments in asset backed securities (ABS), residential mortgage backed securities (RMBS), investments in private equity/limited partnerships where the fund’s underlying investments are not traded/quoted in an active market. Level three ABS include mostly investment-grade debt securities backed by pools of loans with a variety of underlying collateral. Level three RMBS include non-agency RMBS backed by non-conforming residential mortgages. Pricing models factor in interest rates, bond or credit swap spreads and volatility.

Level three specialised investment funds include securities that are valued using techniques appropriate to each specific investment. The valuation techniques include fair value by reference to net asset values (NAVs) adjusted and issued by fund managers based on their knowledge of underlying investments and credit spreads of counterparties. In some instances, certain investment funds are classified as Level three because they may require at least three months’ notice to liquidate.

10 Financial investments (continued)

Level three equities include investments in limited partnerships where the fund's underlying investments are not traded/quoted in an active market. In some instances, limited partnerships are classified as level three because they may require at least three months of notice to liquidate.

11 Derivative contracts

The Syndicate purchases derivative financial instruments:

i) to hedge its foreign currency exposure on future commitments;

ii) as part of its investment management strategy.

	Fair value	
	2016	**2015**
Assets	**US$m**	**US$m**
Foreign exchange forward contract assets	**0.7**	29.0
Equity options	**-**	7.9
Non-currency based inflation options	**3.8**	9.0
Other financial investments – derivatives	**4.5**	45.9
Foreign exchange forward contracts liabilities	**(4.0)**	(3.3)
Net value of derivatives at 31 December	**0.5**	**42.6**

The derivatives contracts Fair Value Hierarchy disclosure is shown as part of note 10 above.

12 Provision for unearned premium

	Gross US$m	Reinsurers' share US$m	Net US$m
Balance at 1 January 2016	**850.6**	**(244.4)**	**606.2**
Premiums written in the year	**1,912.2**	**(637.7)**	**1,274.5**
Premiums earned in the year	**(1,909.8)**	**603.7**	**(1,306.1)**
Effect of movement in exchange rates	**(25.8)**	**21.6**	**(4.2)**
Balance at 31 December 2016	**827.2**	**(256.8)**	**570.4**

	Gross US$m	Reinsurers' share US$m	Net US$m
Balance at 1 January 2015	878.1	(246.2)	631.9
Premiums written in the year	1,999.2	(613.7)	1,385.5
Premiums earned in the year	(2,007.2)	606.4	(1,400.8)
Effect of movement in exchange rates	(19.5)	9.1	(10.4)
Balance at 31 December 2015	**850.6**	**(244.4)**	**606.2**

13 Claims outstanding

	Gross US$m	Reinsurers' share US$m	Net US$m
Balance at 1 January 2016	**3,314.9**	**(1,214.1)**	**2,100.8**
Claims incurred in current underwriting year	**1,118.3**	**(373.2)**	**745.1**
Claims incurred in prior underwriting years	**(34.9)**	**(4.5)**	**(39.4)**
Claims paid in the year	**(876.4)**	**261.8**	**(614.6)**
Effect of movement in exchange rates	**(121.6)**	**115.2**	**(6.4)**
Balance at 31 December 2016	**3,400.3**	**(1,214.8)**	**2,185.5**

	Gross US$m	Reinsurers' share US$m	Net US$m
Balance at 1 January 2015	3,213.5	(1,200.6)	2,012.9
Claims incurred in current underwriting year	1,080.3	(365.7)	714.6
Claims incurred in prior underwriting years	(1.4)	(33.7)	(35.1)
Claims paid in the year	(871.3)	331.0	(540.3)
Effect of movement in exchange rates	(106.2)	54.9	(51.3)
Balance at 31 December 2015	**3,314.9**	**(1,214.1)**	**2,100.8**

14 Cash and cash equivalents

	2016 US$m	2015 US$m
Cash at bank and in hand	165.1	279.4
Short-term deposits	378.4	0.4
	543.5	279.8

15 Other assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

16 Deferred acquisition costs

	2016 US$m	2015 US$m
Balance at 1 January	222.9	217.2
Change in deferred acquisition costs	7.4	11.7
Effect of movement in exchange rates	(11.2)	(6.0)
Balance at 31 December	219.1	222.9

17 Creditors arising out of direct insurance operations

	2016 US$m	2015 US$m
Due to intermediaries within one year	12.3	3.3
Due to intermediaries after one year	-	0.1
	12.3	3.4

18 Related parties

(i) Group companies

All trading with companies within the Brit Limited Group has been carried out on an arm's length basis.

(a) Fairfax Financial Holdings Limited ('FFHL')

On 5 June 2015, the parent company of the Managing Agent was acquired by FFHL Group Limited, a subsidiary of FFHL. The Syndicate has historically entered into various reinsurance arrangements with affiliates of FFHL. In respect of insurance and ceded outwards reinsurance activity, the amounts included in the income statement relating to trading with affiliates of FFHL in the period from 1 January 2016 to 31 December 2016 were as follows:

18 Related parties (continued)

	2016 US$m	Period from 5 June to 31 December 2015 US$m
Gross premiums written	7.9	6.8
Less premiums ceded to reinsurers	(2.1)	(3.5)
Premiums written, net of reinsurance	5.8	3.3
Gross amount of change in provision for unearned premiums	(0.5)	3.1
Reinsurers' share of change in provision for unearned premiums	(2.5)	(4.7)
Net change in provision for unearned premiums	(3.0)	(1.6)
Earned premiums, net of reinsurance	2.8	1.7
Gross claims paid	(5.0)	(6.9)
Reinsurers' share of claims paid	5.1	10.5
Claims paid, net of reinsurance	0.1	3.6
Gross change in the provision for claims	-	2.8
Reinsurers' share of change in the provision for claims	(8.2)	(9.1)
Net change in the provision for claims	(8.2)	(6.3)
Commission income	1.8	2.3
Commission expense	(1.2)	(1.2)

The amounts included in the statement of financial position outstanding with affiliates of FFHL and its affiliates as at 31 December 2016 were as follows:

	2016 US$m	2015 US$m
Debtors arising out of direct insurance and reinsurance operations:		
Insurance premium receivable	3.6	5.9
Recoverable from reinsurers	50.7	59.6
Creditors arising out of direct insurance and reinsurance operations:		
Payable to reinsurers	(2.4)	(4.1)
Unpaid claims liabilities	(44.8)	(45.9)
Deferred acquisition costs	0.9	1.0
Gross unearned premiums	(5.6)	(5.2)
Unearned premium recoverable from reinsurers	1.0	3.5

18 Related parties (continued)

(ii) Brit UW Limited

Brit UW Limited, the corporate member subsidiary of the Group, provided capacity for the following years of account on the Syndicate:

Year of account	£m
2014	**1,075.0**
2015	**1,075.0**
2016	**1,075.0**

In order to do this, it has provided Funds at Lloyd's. As at 31 December 2016, the Funds at Lloyd's requirement amounted to US$794.6m (2015: US$806.5m). For further information, refer to note 19.

(iii) Brit Syndicates Limited

During the year, the Syndicate has paid fees to Brit Syndicates Limited, the Managing Agent subsidiary of the Group, amounting to US$134.7m (2015: US$147.9m). As at 31 December 2016, no amounts were outstanding (2015: US$nil).

(iv) Brit Insurance (Gibraltar) PCC Limited

During the year, the Syndicate has ceded reinsurance premiums to Brit Insurance (Gibraltar) PCC Limited, a (re)insurance company in the Group, amounting to US$211.0m (2015: US$247.4m). As at 31 December 2016, the Syndicate owed US$60.8m of premiums to Brit Insurance (Gibraltar) PCC Limited (2015: US$75.4m). The collateral disclosed in note 3 that is available for immediate drawdown in the event of a default includes collateral for Brit Insurance (Gibraltar) PCC Limited of up to US$690.4m (2015: US$685.6m).

(v) Brit Insurance Services USA, Inc.

During the year, the Syndicate has paid commissions to Brit Insurance Services USA, Inc., a coverholder subsidiary of the Group, amounting to US$19.8m (2015: US$18.0m). As at 31 December 2016, no amounts of commission were outstanding (2015: US$nil). As at 31 December 2016, Brit Insurance Services USA, Inc. owed US$47.5m of premiums to the Syndicate (2015: US$41.0m).

(vi) BGS Services (Bermuda) Limited

During the year, the Syndicate has paid commissions to BGS Services (Bermuda) Limited, a coverholder subsidiary of the Group, amounting to US$5.8m (2015: US$5.8m). As at 31 December 2016, no amounts of commission were outstanding (2015: US$nil). As at 31 December 2016, BGS Services (Bermuda) Limited owed US$27.0m of premiums to the Syndicate (2015: US$35.8m).

b. Brit Space Consortium

The Syndicate participates and leads in the Brit Space Consortium which underwrites space/satellite risks.

The risks are allocated between the members of the consortium on the basis of their percentage line on the consortium underwriting agreement.

During the period under review the Syndicate paid no management fee (2015: US$nil) and no technical adviser fees or profit commission.

c. Diamond Processing Consortium

In November 2016, Brit announced the launch of a Lloyd's consortium for diamond processing. The consortium, led by the Syndicate, brings additional capacity of up to US$50m to the London market, is Lloyd's first dedicated to diamond processing and affirms Brit's position as market leader in this class of business.

18 Related parties (continued)

The diamond processing consortium further demonstrates Brit's market leading capability in this specialty sub-class, providing it with a strong strategic position to take advantage of recent improvements in diamond cutting technology and risk assessment techniques.

d. Aviation Consortium

In March 2016, Brit successfully launched a Lloyd's consortium for commercial general aviation, the only Lloyd's consortium for commercial general aviation. The consortium, which the Syndicate leads, writes hull risks of up to US$10.0m and provides liabilities cover of up to US$150.0m. The commercial general aviation class covers a wide range of specialty business, from firefighting helicopters to regional airlines. Formed in response to market demands for increasing efficiency, the facility allows brokers to bind fully through just one underwriter. It demonstrates not only our strong capabilities within aviation, but also our willingness to work with the market to develop offerings that truly add value in a changing and competitive landscape.

e. Singapore office

In February 2016, Brit announced the opening of an office in Singapore. The new office, which operates on the Lloyd's Singapore platform, began operations on 1 March 2016, after receiving approval from both Lloyd's and MAS (Monetary Authority of Singapore).

We believe that local markets such as Singapore are becoming increasingly important as we see both capacity and insurance penetration continue to grow. By opening an office in Singapore Brit will be able to offer both on the ground expertise and local access to decision makers.

f. Directors of Brit Syndicates Limited

For information relating to the remuneration of the directors of Brit Syndicates Limited, refer to note 7.

There are no related party director disclosures to note for the year ended 31 December 2016.

During 2015, a non-executive director also held office with a coverholder, The Medical Professional Liability Company ('MPLC') that provided business to the Syndicate. All business has been carried out on an arm's length basis. The amount of gross written premium transacted with MPLC during 2015 was US$3.2m.

g. Associated undertakings - Ambridge Partners LLC

On 8 December 2015, the Group acquired 50% of the member's interests of Ambridge Partners LLC and also entered into a call and a put option to purchase the remaining 50% in 2019. Ambridge Partners LLC is a managing general underwriter of transactional insurance products, writing business on behalf of a range of insurers including Brit.

Trading with Ambridge Partners LLC is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Ambridge Partners LLC for the year to 31 December 2016 included commission for introducing insurance business of US$4.3m (period from 8 December 2015 to 31 December 2015: US$0.4m.)

The amount of premiums net of commission in the statement of financial position outstanding from Ambridge Partners LLC as at 31 December 2016 was US$7.4m (2015: US$6.4m).

The amount of fees in the statement of financial position payable to Ambridge Partners LLC as at 31 December 2016 was US$0.2m (2015: US$0.2m).

18 Related parties (continued)

h. Associated undertakings – Camargue Underwriting Managers Proprietary Limited

On 30 August 2016, the Group acquired 50% of the share capital of the South African company, Camargue Underwriting Managers Proprietary Limited (Camargue) and also entered into a call and a put option to purchase the remaining 50% in 2021. Camargue is a leading managing general underwriter of a range of specialised insurance products and specialist liability solutions in South Africa and is an important trading partner for Brit.

Trading with Camargue is undertaken on an arm's-length basis and is settled in cash. The amounts in the income statement relating to trading with Camargue for the period from 30 August to 31 December 2016 included commission for introducing insurance business of US$0.2m.

Amounts recorded in the statement of financial position in respect of premium net of commissions due from, and fees payable to, Camargue as at 31 December 2016 were not material.

i. Key Management personnel compensation

For the purposes of FRS 102, the active underwriters are deemed to be the key management personnel. Compensation, including share-based payments, incurred by the key management personnel in 2016 was US$3.1m (2015: US$4.3m).

19 Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on the UK Prudential Regulation Authority (PRA) requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Secured instruments and assets supporting the underwriting at Lloyd's at 31 December 2016 are US$794.6m (2015: US$806.5m). The Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

20 Funds in Syndicate

As at 31 December 2016, the Syndicate held US$nil (2015: US$54.7m) of undistributed profit. The investment return for the calendar year was US$nil (2015: US$0.5m). For 2015 these amounts are included in the Statement of Financial Position under 'Financial Investments' and the income is in the non-technical account.

21 Subsequent events

On 23 February 2017, the Government announced a change in the Ogden rate which would affect the discounting of certain technical liabilities. An assessment was performed to determine whether the post balance sheet adjusting event would result in a change in the reserves for the Syndicate. It was concluded that the Syndicate's reserves were sufficient and therefore no adjustment required.

22 Ultimate holding company

The Managing Agent is a wholly owned subsidiary of Brit Insurance Holdings Limited, a company registered in the United Kingdom. The intermediate holding company, in which the Managing Agent's result is consolidated, is Brit Limited (Brit), a company registered in the United Kingdom. Copies of Brit's consolidated accounts can be obtained by writing to The Leadenhall Building, 122 Leadenhall street, London EC3V 4AB.

The ultimate parent undertaking at the year-end is Fairfax Financial Holdings Limited (Fairfax), a company registered in Toronto. Copies of Fairfax consolidated accounts can be obtained by writing to 95 Wellington Street West, Suite 800, Toronto, Ontario, Canada, M5J 2N7 or from the website www.fairfax.ca.

Directors of the Managing Agent

Executive
Mark Andrew Allan
Mark Bertrand Cloutier (resigned 31 December 2016)
Nigel Sinclair Meyer
Steven Derek Robson (resigned 30 September 2016)
Matthew Dominic Wilson

Non-Executive
Ipe Jacob
Bijan Khosrowshahi (resigned 31 December 2016)
Anthony John Medniuk
Dr Richard Churchill Ward
Simon Philip Guy Lee (appointed 19 January 2016)

Secretary
Tim James Harmer

Active Underwriter
Christiern Dart
Matthew Dominic Wilson (resigned as active underwriter on 31 December 2016)

Registered Office
The Leadenhall Building
122 Leadenhall Street
London
EC3V 4AB

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London, Riverside
London
SE1 2RT