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ProSight Specialty Insurance

ProSight Specialty Managing Agency Limited

Syndicate 1110

Reports and accounts 2015

Contents

Company information

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Managing agent's report

The directors of ProSight Specialty Managing Agency Limited (PSMAL) present their report for the year ended 31 December 2015.

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

Both members of the 2013 year of account have agreed that no syndicate underwriting year of accounts shall be prepared.

Overview of business

The ProSight group is a US based specialist insurance provider, focusing exclusively on markets where it has unique expertise and with distributors who have a deep understanding of their clients' needs. Adhering to this focus, business volumes are expected to rise in the coming years, both from new ProSight initiatives and the momentum of the engineering and contractors books upon which the Syndicate 1110 (the Syndicate) was initially established.

PSMAL has been the managing agent of the Syndicate since 5 March 2015 when it assumed that role from Argenta Syndicate Management Limited (ASML). ProSight Specialty Underwriters Limited (PSUL) provides certain services to the Syndicate under a Third Party Syndicate Management Agreement.

For the 2013 year of account, the capacity of the Syndicate was increased from £80 million to £110 million. Whilst the focus of the portfolio for this year remained on the engineering short-tail and power sectors, a significant lawyers errors & omissions book, sourced from ProSight in the US, was introduced.

The capacity of the Syndicate was further increased for the 2014 and 2015 years of account to £180 million and £210 million respectively. During this period the Syndicate continued to diversify the overall business mix introducing a number of longer tail liability classes as well as non-marine property classes. The Syndicate, however, ceased underwriting power business.

For 2014 the Syndicate underwrote for the first time in the US marine and energy liability sectors and also introduced a substantial bars and taverns programme.

A significant element of the overall book of business continues to be sourced from ProSight in the US either under delegated underwriting authority arrangements or by way of the reinsurance of ProSight entities.

Review of underwriting activities for 2015

The annually accounted result for the 2015 calendar year is a loss of £3.2 million. This aggregate result for the calendar year is made up of a profit on the 2013 year of account of £1.1 million and losses on the 2014 and 2015 underwriting years of £1.6 million and £2.7 million respectively.

The table below summarises the capacity, premium volumes and performance of the Syndicate for 2015, with the comparative numbers for 2014. Other than in respect of capacity, the numbers shown are on an annually accounted basis. The table is followed firstly by further detailed comments in relation to each of the years on an annually accounted basis and then, secondly, on the underwriting year of account basis.

Managing agent's report *continued*

Review of underwriting activities for 2015 ***continued***

Key performance indicators	2015 £m	2014 £m
Capacity (underwriting year)	210.0	180.0
Gross premiums written	211.5	137.8
Net premiums earned	170.4	95.7
Loss for the year	(3.2)	(5.5)
Cash and investments including overseas deposits	186.4	114.4
Net claims ratio	64%	63%
Combined ratio	102%	107%

During 2015 the Syndicate continued to focus on niche areas of Film, Media & Contingency, Professions, Leisure & Sport, Construction & Contractors, Real Estate, Home Services, Accident & Health and Marine. The underwriting team was strengthened in 2014 and these additional skilled resources supported the on-boarding of new business during 2015 and provide a solid foundation for further growth in 2016.

During the year the Syndicate continued to source a significant volume of business from delegated underwriting facilities granted to, and reinsurance treaties with ProSight US group members, as well as third party delegated underwriting facilities.

Gross written premium increased by 54% reflecting the ongoing development of the business in niche sectors where differentiated value can be provided to policyholders. The substantially improved premium position has supported dilution of the expense base and resulted in a year on year improved combined operating ratio of 102%. While the combined ratio is improved from prior year, our business objective is to operate at sub-100% combined ratios.

2013 year of account

The ultimate result for the 2013 year of account is a loss of £10.8 million. This is equivalent to 9.8% of capacity, which is an improvement from the forecast ultimate loss range of 16.5% to 6.5% of capacity as at 31 December 2014, at which point a loss of £12.2 million had been recognised.

There have been a number of large claims which have contributed to this result. These include a loss of plant and equipment in a mining landslide, a contractor's liability claim and a number of power claims. The Syndicate discontinued writing power risks at the end of 2012 and purchased a quota share protection during 2013 to reduce the volatility of the power class. All of the exposure on the power risks had expired by the end of 2013.

The positive result in the calendar year is largely a result of additional earned premiums and favourable movements in outstanding case reserves for Engineering Short Tail and Non Marine Liability.

2014 year of account

The calendar year result for the 2014 year of account is a loss of £1.6 million and the forecast ultimate loss now sits in the range 5.0% to (5.0)% of capacity. This is driven largely by large losses, in particular US Marine Cargo as well as a decrease in expected recoveries across Contractors and Professions.

Managing agent's report *continued*

Review of underwriting activities for 2014 *continued*

2015 year of account

The result for the calendar year is a loss of £2.7 million reflecting the fact that at this point the earned premium is not large enough to offset the expenses incurred by the Syndicate. The expected gross written premium for the 2015 year of account is £221.2 million compared to £180.0 million for the 2014 year of account. This is the result of significant growth in specialty classes including Contractors, Home Services, Leisure & Sport, Marine and Liability both from US non-admitted programmes sourced through the ProSight network in the US and from a developing network of coverholders and distributors, particularly in the UK, Canada and Australia.

The result has also been impacted by large loss activity, particularly in the Contingency sector.

Trading conditions for 2015

Construction & Home Services

The Syndicate continued to focus on Construction all risks and Construction, Plant & Equipment business produced via established facilities. Major subscription underwritten Construction projects remained outside of appetite.

Real Estate

The Syndicate underwrote both package opportunities and specific risk managed property facility business through established intermediaries. The account is international in flavour and exposure but is not catastrophe focused. We do not underwrite direct and facultative property business or target typical non-niche UK based Small Medium Enterprise (SME) business where competition remains high and is subject to pricing pressures.

Contractors

This portfolio has been refocused towards the less price sensitive small to medium Contractors where we have a limited number of specialist distribution partners. Underwriting appetite is narrowly focused and we do not support risks that are either liability heavy or non-standard in nature.

Professions

The professional indemnity market continues to be competitive, particularly in the UK and Australia. The Syndicate is focusing on specific professions with limited distribution, rather than writing open market business.

Marine

The Marine book continues to see modest growth through sourcing and underwriting facility business. Whilst competition for London based open market business remains high we will continue to develop opportunities with regional distribution partners where we can differentiate our offering, develop new relationships and seek new facility opportunities.

Film, Media & Contingency

2015 has seen further expansion of this niche portfolio and growth in both the UK and International book. Our team is uniquely placed to provide our brokers' clients with cover on a worldwide basis. The Contingency, Live Media and Filmed Media books all grew in line with our plan whilst rating overall remained stable. Business is written via facility partners and on an open market basis.

Managing agent's report *continued*

Trading conditions for 2015 ***continued***

Accident & Health
The Syndicate writes a non-accumulating portfolio of stand-alone scheme business but also has the ability to build covers into other syndicate products that we write. We write an element of travel and private medical.

Leisure & Sport
The focus of the account during 2015 shifted toward the sport and visitor attraction sectors and away from hospitality. The bulk of our business is sourced through both UK and international distribution partners with whom they have proven expertise in this sector. Emphasis is placed on those accounts which have risk mitigation procedures in place and have historically performed well.

US non admitted business
US non admitted business sourced from ProSight Group entities accounted for approximately £132.8 million of income in 2015. It is expected that this will continue to grow in 2016 as further US programmes which meet our risk appetite are converted onto the Syndicate's Lloyd's platform.

Risk management

The management recognises the critical importance of having efficient and effective risk management systems in place. PSMAL has established a risk management function for the Syndicate with clear terms of reference approved by the board of directors. The risk management framework is overseen by the Risk, Capital and Compliance Committee.

A syndicate policy framework has been put in place which sets out the risk profiles for the Syndicate, risk management control and business conduct standards.

As an underwriting business, the Syndicate is exposed to a variety of financial and non-financial risks. These risks, which shape the risk management strategy adopted by PSMAL, are integral to the capital setting process. ProSight has developed an internal model to be able to quantify and manage these risk exposures, as well as for determining its Solvency Capital Requirement (SCR) for Solvency II purposes. The Risk, Capital and Compliance Committee has oversight of the Internal Model and it is used as a core component of the risk management framework.

The Own Risk and Solvency Assessment undertaken in respect of the Syndicate, reflects the risk profile of the business as well as the business strategy. Risks are managed through the risk management framework in order to ensure that the risk profile of the business is fully understood and can be monitored against the agreed risk appetite.

PSMAL is committed to risk management as an integral part of management and governance best practice and has developed a risk management strategy to protect the material assets of the business and to minimise its losses and liabilities. The risks impacting the business are grouped under various categories, each of which is the subject of a risk policy which sets out PSMAL's approach to management of the risk in conjunction with the overarching risk management framework and risk strategy.

Managing agent's report *continued*

Risk management *continued*

PSMAL groups risk into the following key categories:

Insurance risk
Insurance risk is the principal risk the Syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The Syndicate needs to ensure that sufficient reserves are available to cover its liabilities as they fall due.

The underwriting profile of the Syndicate is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process. Other precautionary measures, in the form of internal controls, are used to preserve the Syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- Inadequate risk selection;
- Inadequate pricing;
- Inadequate exposure management;
- Adverse, large and attritional loss experience;
- Inadequate reinsurance covering the underwriting portfolio;
- Inappropriate reserve estimation; and
- Poor underwriting control.

PSMAL manages these risks against an agreed risk appetite. The framework of systems and controls is designed to reduce the likelihood of such risks occurring and to mitigate the impact on the overall business of the Syndicate.

Risk exposure is mitigated by diversification across a varied portfolio of insurance contracts and geographical areas.

PSMAL also manages underwriting risk through the purchase of reinsurance to mitigate the effect of catastrophes and unexpected concentrations of risk. Reinsurance of particular classes of business is purchased by PSMAL, other reinsurance is shared protection with reinsurance purchased at Group level. The scope and type of reinsurance protection includes excess of loss, quota share and stop loss. It may vary depending upon the extent and competiveness available in the market. Amounts recoverable from reinsurers are estimated in a manner consistent with outstanding claims provisions and are in accordance with the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is not dependant on a single reinsurer nor are operations dependant on any single reinsurance contract. The risk of the protection being inadequate or inappropriate is managed by the Reinsurance Committee and Underwriting & Claims Committee.

Managing agent's report *continued*

Risk management *continued*

Operational risk
Operational risk spans all risk categories and control procedures are used to proactively address the risks associated with PSMAL's business processes, systems, people and other resources, which might otherwise be detrimental to overall performance. Business continuity is considered key and PSMAL has developed a plan that provides for the Syndicate to be fully operational within a forty eight hour period in the event that its current infrastructure is no longer available.

As a regulated business, PSMAL is fully aware of its regulatory obligations to the UK Financial Conduct Authority, Prudential Regulation Authority, Lloyd's of London and relevant overseas regulators. The procedures adopted by PSMAL in this regard rigorously monitor compliance with the regulatory standards and, through continuous assessment, highlight any developments that might impact the business.

Capital risk
Capital risk is defined as the risk to the Syndicate of failing to secure adequate capital in terms of quality and quantity to support its strategic objectives. The Syndicate is supported by ProSight whose ongoing support is crucial to the Syndicate continuing to trade forward.

Liquidity risk
This is the risk that the Syndicate will not have sufficient available cash resources to be able to meet its liabilities as they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash payments and expected reinsurance recoveries. The Syndicate has policies and procedures in place to mitigate the exposure to liquidity risk.

The liquidity of the Syndicate is influenced by a number of factors that have the potential to arise from across the business. Management information is used to enable the effective monitoring of the liquidity risk framework in line with the agreed procedures and governance arrangements. Robust procedures are in place for the monitoring of cash flow and effective credit control. Claims activity is closely scrutinised and the movement of existing claims is reported at regular intervals. The Syndicate has the ability to make cash calls when required, as well as a highly liquid investment portfolio.

Credit risk
Credit risk is the risk that one party to a financial transaction will cause a financial loss to the other party by failing to discharge an obligation. The Syndicate has policies and procedures in place to mitigate the exposure to credit risk.

Credit risk is inherent to the business conducted with brokers, reinsurers and other counterparties. The potential for losses arising from a counterparty failing to fulfil its contracted payment obligations is managed by strict control procedures. Aged debt in respect of the payment of premiums and reinsurance recoveries is closely monitored and actively managed. The PSMAL Underwriting & Claims Committee approves the brokers, coverholders and reinsurers with whom the Syndicate may conduct its business.

There is no appetite to deal with counterparties who have not been approved.

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

Managing agent's report *continued*

Risk management *continued*

Goldman Sachs Asset Management (GSAM) is the Syndicate's appointed investment manager. Within the Syndicate market risk is managed by PSMAL through the Investment Committee using a predominantly fixed-income investment strategy designed to mitigate exposure to losses from movement in financial markets, interest rates or inflation. The business has a low appetite for market risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in US and Canadian dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Syndicate manages its exposure to equity price risk by setting and monitoring objectives and constraints on investments, diversification plans and limits on investments in each sector.

Emerging risk
In addition to monitoring the individual risk categories outlined above, PSMAL has in place an emerging risks process to review risks that may impact upon the business in the future, and to ensure that any such risks are understood and mitigated where possible.

Investment manager and policy

GSAM manages the assets in the Syndicate's US dollar portfolios (LDTF, CRTF and SLTF) and the regulated LCTF US dollar and Canadian dollar assets.

Managing agent's report *continued*

Investment objectives *continued*

Investment objectives

The overall investment objective delegated to GSAM is to preserve capital whilst generating both a consistent income stream and a total return in excess of the benchmark for each portfolio whilst adhering to the Syndicate's investment risk appetites and specific counterparty and duration limits that are specified within the investment guidelines. The table below sets out the performance of the funds against the target benchmarks.

Gross returns as at 31 December 2015	*Year-to-date %*	*Inception date*	*Market value £000*
ProSight Syndicate 1110 LDTF Portfolio	1.81	01/02/2014	77,638
Benchmark 1	2.00		
Difference	(0.19)		
ProSight Syndicate 1110 - SLTF	1.61	10/07/2014	9,604
Benchmark 2	1.72		
Difference	(0.11)		
ProSight Syndicate 1110 - CRTF	1.60	10/07/2014	31,178
Benchmark 3	1.72		
Difference	(0.12)		
ProSight Syndicate 1110 - LCTF-USD	1.36	15/08/2014	2,006
Benchmark 4	1.29		
Difference	0.07		
ProSight Syndicate 1110 - LCTF-CAD	0.55	15/08/2014	3,732
Benchmark 4	0.55		
Difference	0.00		
		Total	124,158

Syndicate assets including the Australian Trust Fund (ATF), Canadian Margin Fund and other overseas deposits are managed centrally by Lloyd's Treasury. The Syndicate is obliged to maintain sufficient funds in the overseas deposits in these jurisdictions to enable it to trade in those regions. The funds are typically invested in fixed income securities with a duration of between one and three years. One of the Syndicate's larger overseas deposits is held in the ATF which returned 2.5% during 2015 against a benchmark return of 2.5%. The remaining balances of the Syndicate assets, are held in unitised liquidity funds and bank deposits to ensure sufficient funds are available at short notice to meet claims payments or syndicate expenses as they fall due. The liquidity funds are invested in short term high quality securities which have an average weighted duration of 60 days or less and offer daily liquidity.

Custodians

Citibank and Royal Bank of Canada Investor & Treasury Services have acted as the custodians in relation to the fixed income portfolios held with GSAM and Lloyd's Treasury.

The Syndicate's capital providers' investment risk appetite is for the Syndicate not to suffer an investment loss during a calendar year, in a 1 in 200 scenario, of an amount more than the equivalent of 5 percent of its economic capital requirement.

Managing agent's report *continued*

Funds for investment were primarily held in US dollars. The investment return for the year and the average funds available for investment were as follows:

	2015	*2014*
Average amount of syndicate funds available for investment during the year	000	000
US dollars	195,021	111,125
Sterling (including ATF)	10,587	10,488
Euros	2,097	2,150
Canadian dollars	10,704	9,048
Combined in sterling	145,061	84,542
Net aggregate investment return for the calendar year in sterling	965	533
Net calendar year investment yield		
US dollars	0.6%	0.3%
Sterling (including ATF)	1.4%	2.2%
Euros	Nil	0.1%
Canadian dollars	1.8%	1.3%
Combined in sterling	0.7%	0.6%

Directors

Details of the Directors of PSMAL who served during the year ended 31 December 2015 and up to the date of signing of the annual accounts are provided below:

Name	Role	Appointed	Resigned
Marcus James Bale	Active Underwriter	26/11/15	
Joseph John Beneducci	Non-Executive Director		
Paul Michael Cusition	Active Underwriter		24/04/15
David Victor Dunning	Finance Director		01/03/16
Michael Graham Furgueson	Managing Director	27/01/16	
Mary Edith Lancaster Goddard	Independent Non-Executive Director		
Peter John Goddard	Independent Non-Executive Director		
Mark James Hewett	Independent Non-Executive Director and Chairman		
Bernard Mageean	Managing Director		16/09/15
Bruce William Schnitzer	Non-Executive Director	05/02/16	
Ryan Richard Warren	Chief Risk Officer		31/03/15

Managing agent's report *continued*

Related party transactions

The Syndicate has not entered into material related party transactions on terms which are not normal commercial terms.

Off balance sheet arrangements

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

Statement as to disclosure of information to auditors

The directors of the managing agent at the date of this report have individually taken all the necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the Syndicate auditor is aware of that information. As far as the directors are aware, there is no relevant audit information of which the Syndicate auditor is unaware.

Auditors

Ernst & Young LLP continues to act as the auditor of the Syndicate's annual accounts. Lloyd's approval for this arrangement under the relevant provisions of the Audit Arrangements Byelaw (No. 7 of 1988) was granted following notification to the Syndicate members and their non-objection to the arrangement. Any such objection should be made in writing to the registered office of PSMAL, within 21 days of receipt of this statement.

Under the 2008 Regulations, the auditor is deemed reappointed in subsequent years if there is no objection. Ernst & Young LLP has signified its willingness to continue in office as the independent auditor to the Syndicate and it is proposed that the appointment remains in force.

Annual general meeting of the Syndicate members

In accordance with the provisions of the 2008 Regulations, it is not intended to hold an annual general meeting with the members of the Syndicate, unless objections to this proposal or to the deemed reappointment of the auditor are received from the Syndicate members. Any such objection should be made in writing to the registered office of the managing agent, PSMAL, within 21 days of receipt of this statement.

Michael G. Furgueson
Managing Director
Approved by the Board of ProSight Specialty Management Agency Limited

16 March 2016

ProSight. Specialty Insurance

ProSight Specialty Managing Agency Limited

Syndicate 1110

Annual accounts 2015

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 2008 Regulations 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 and of the profit or loss of the Syndicate for that year.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate annual accounts; and
- prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume 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 ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the company's 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 members of the Syndicate

We have audited the Syndicate annual accounts of the Syndicate for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flow and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Syndicate's members, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 14, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the Syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the 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 annual accounts. In addition, we read all the financial and non-financial information in the Syndicate Annual Report and Accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual accounts

In our opinion the annual accounts:

- give a true and fair view of the Syndicate's affairs as at 31 December 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

Independent auditor's report to the members of the Syndicate *continued*

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

Matters on which we are required to report by exception

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

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

Denise Larnder (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

16 March 2016

Income statement

for the year ended 31 December 2015

Technical account – general business	Notes	2015 £000	2015 £000	2014 £000	2014 £000
Earned premiums, net of reinsurance					
Gross premiums written	3	211,510		137,762	
Outward reinsurance premiums		(32,609)		(19,408)	
Change in the provision for unearned premiums					
Gross amount		(17,950)		(27,551)	
Reinsurers' share		9,472		4,938	
			170,423		95,741
Allocated investment return transferred from the non-technical account			965		533
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(54,194)		(23,353)	
Reinsurers' share		3,277		2,805	
		(50,917)		(20,548)	
Change in the provision for claims					
Gross amount		(64,993)		(39,669)	
Reinsurers' share		7,354		(416)	
		(57,639)		(40,085)	
			(108,556)		(60,633)
Net operating expenses	4		(65,610)		(41,380)
Balance on the technical account for general business			(2,778)		(5,739)

All items relate to continuing operations.

Income statement

for the year ended 31 December 2015

Non-technical account	Notes	*2015* *£000*	*2014* *£000*
Balance on the general business technical account		(2,778)	(5,739)
Investment income	8	1,882	878
Unrealised gains on investments		218	14
Investment expenses and charges	8	(1,135)	(177)
Unrealised losses on investments		-	(182)
Allocated investment return transferred to the general business technical account		(965)	(533)
Exchange (losses)/gains		(467)	191
Loss for the financial year	17	(3,245)	(5,548)

Statement of changes in members' balances

For the year ended 31 December 2015

	Profit/(loss) accounts £000	Total Members' balance £000
As at 1 January 2015	360	360
Loss for the financial year	(3,245)	(3,245)
Members' agents fees	(18)	(18)
Payment of profits to members personal reserve funds	(10,140)	(10,140)
Cash calls paid by members	6,000	6,000
As at 31 December 2015	(7,043)	(7,043)

	Profit/(loss) accounts £000	Total Members' balance £000
As at 1 January 2014	(5,225)	(5,225)
Loss for the financial year	(5,548)	(5,548)
Members' agents fees	(18)	(18)
Payment of profits to members personal reserve funds	2,151	2,151
Cash calls paid by members	9,000	9,000
As at 31 December 2014	360	360

Statement of financial position

As at 31 December 2015

	Notes	2015 £000	2015 £000	2014 £000	2014 £000
ASSETS					
Investments					
Financial investments	9		172,092		106,432
Reinsurers' share of technical provisions					
Provision for unearned premiums	11	23,585		13,218	
Claims outstanding	12	18,650		10,496	
			42,235		23,714
Debtors					
Debtors arising out of direct insurance operations	13	32,228		15,563	
Debtors arising out of reinsurance operations	14	15,127		23,536	
Other debtors		97		70	
			47,452		39,169
Other assets					
Cash at bank and in hand		4,617		1,438	
Other	15	9,714		6,553	
			14,331		7,991
Prepayments and accrued income					
Deferred acquisition costs	16	28,963		24,318	
Other prepayments and accrued income		1,404		1,237	
			30,367		25,555
TOTAL ASSETS			306,477		202,861

Statement of financial position *continued*

as at 31 December 2015

	Notes	*2015* *£000*	*2015* *£000*	*2014* *£000*	*2014* *£000*
LIABILITIES					
Capital and reserves					
Members' balances	17		(7,043)		360
Technical provisions					
Provision for unearned premiums	11	106,260		84,295	
Claims outstanding	12	172,629		100,728	
			278,889		185,023
Creditors					
Creditors arising out of direct insurance operations	18	5,072		190	
Creditors arising out of reinsurance operations	19	26,854		14,428	
Other creditors	20	1,830		70	
			33,756		14,688
Accruals and deferred income			875		2,790
TOTAL LIABILITIES			306,477		202,861

The Syndicate annual accounts on pages 17 to 46 were approved by the Board of ProSight Specialty Managing Agency Limited on 16 March 2016 and were signed on its behalf by

Michael G. Furgueson
Managing Director

Statement of cash flows

for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Reconciliation of loss to net cash inflow from operating Activities			
Loss for the financial year		(3,245)	(5,548)
Investment return (including FX on cash and cash equivalents)		(1,710)	(3,339)
Increase/(decrease) in technical provisions		75,345	52,789
(Increase)/decrease in debtors		(8,283)	(12,312)
(Increase)/decrease in prepayments and accrued income		(4,812)	(9,305)
(Increase)/decrease in other assets		(3,161)	2,576
Increase/(decrease) in creditors		19,068	2,855
Increase/(decrease) in accruals and deferred income		(1,915)	1,239
Net cash inflow from operating activities		71,287	28,955
Investing activities:			
Investment income received		1,606	576
Purchases of debt and equity instruments		(119,774)	(117,082)
Sales of debt and equity instruments		59,763	40,140
		(58,405)	(76,366)
Financing activities:			
Net distribution		(10,140)	2,151
Cash calls received		6,000	9,000
Members' agents' fees		(18)	(18)
		(4,158)	11,133
(Decrease)/increase in cash and cash equivalents		8,724	(36,278)
Cash and cash equivalents at 1 January		23,326	57,032
Exchange difference on opening balance		808	2,572
Cash and cash equivalents at 31 December	21	32,858	23,326

Notes to the accounts

1. Basis of preparation

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

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

The Syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in Note 24.

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

Insurance contract technical provisions
For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Notes to the accounts *continued*

1. Basis of preparation *continued*

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Further details are given in Note 22.

Estimates of future premiums
For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

Fair value of financial assets determined using valuation techniques
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount rates.

2. Accounting policies

(a) Basis of accounting
The financial statements for the year ended 31 December 2015 were approved for issue by the Board of Directors on 16 March 2016.

The financial statements are prepared in sterling which is the functional and presentation currency of the Syndicate and rounded to the nearest thousand.

As permitted by FRS 103, the Syndicate continues to apply the existing accounting policies that applied prior to this standard for its insurance contracts.

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commissions and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) Premiums written
Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Notes to the accounts *continued*

2. Accounting policies *continued*

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

(iii) Reinsurance premium ceded
Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

(iv) Claims incurred
Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

(v) Claims provisions and related recoveries
The provision for claims comprises amounts set aside for claims notified and claims incurred but not reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's staff and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time, using suitable benchmarks where appropriate, to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The provision for claims includes amounts in respect of internal and external claims handling costs.

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

The two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

Notes to the accounts *continued*

2. Accounting policies *continued*

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

(b) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.

(c) Acquisition costs

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are determined on a successful efforts basis and are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

(d) Foreign currencies

The functional and presentational currency of the Syndicate is pounds sterling.

Transactions denominated in currencies other than the functional currency (US dollars, Canadian dollars and euros), are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at average rate of exchange where deemed appropriate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the rates of exchange ruling on the reporting date.

Exchange differences are recorded in the non-technical account.

Cash calls made in US dollars are translated at the rate of exchange ruling at the balance sheet date at which they are first declared. Amounts transferred to members in respect of the payment of closed year profits are translated at the rate of exchange ruling at the previous balance sheet date.

(e) Investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 – Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial investments as financial assets at fair value through profit or loss. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

Notes to the accounts *continued*

2. Accounting policies *continued*

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis. The available for sale category is used only in cases when the investments are passively managed.

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

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception.

Investments typically bought with the intention to sell in the near future are classified as held for trading as are all derivatives, including embedded derivatives that are not designated as hedging instruments. For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

(f) Fair value of financial assets

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

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

See note 9 for details of financial instruments classified by fair value hierarchy.

Derecognition of financial assets

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or
- The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Notes to the accounts *continued*

2. Accounting policies *continued*

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

(g) Financial liabilities

The Syndicate's financial liabilities include trade and other payables, borrowings and insurance payables, where applicable. All financial liabilities are recognised initially at fair value, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in investment return in the profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective amounts is recognised in profit or loss.

(h) Investment return

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

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yields.

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

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.

Notes to the accounts *continued*

2. Accounting policies *continued*

(i) Cash and cash equivalents
Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less.

(j) 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

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

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 have been included in the balance sheet under the heading 'other debtors'.

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

(l) Pension costs
PSMAL operates a defined contribution pension scheme and its recharges to the Syndicate in respect of staff costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

(m) Operating lease rentals
Amounts recharged by PSMAL include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

(n) Profit commission
No profit commission is chargeable in respect of the 2013, 2014 and 2015 years of account.

Notes to the accounts *continued*

3. Particulars of business written

Type of business

An analysis of the technical account balance before investment return is set out below:

2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Re-insurance balance £000	Total £000
Direct insurance:						
Fire and other damage to property	48,561	42,559	(25,580)	(13,828)	(2,455)	696
Marine, aviation and transport	6,207	2,468	(2,403)	(1,788)	(183)	(1,906)
Third party liability	38,940	35,821	(17,246)	(10,892)	(3,243)	4,440
Other	9,600	5,626	(4,466)	(2,764)	(469)	(2,073)
	103,308	86,474	(49,695)	(29,272)	(6,350)	1,157
Reinsurance acceptances:						
Fire and other damage to property	20,881	22,730	(12,355)	(7,717)	(321)	2,337
Marine, aviation and transport	27,029	25,590	(16,349)	(8,681)	(1,297)	(737)
Casualty	60,292	58,766	(40,788)	(19,940)	(4,538)	(6,500)
	108,202	107,086	(69,492)	(36,338)	(6,156)	(4,900)
	211,510	193,560	(119,187)	(65,610)	(12,506)	(3,743)

2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Re-insurance balance £000	Total £000
Direct insurance:						
Fire and other damage to property	18,161	13,694	(5,677)	(4,887)	(2,538)	592
Marine, aviation and transport	119	234	14	13	(80)	181
Third party liability	26,007	18,965	(15,432)	(7,186)	(2,274)	(5,927)
Other	1,653	396	(641)	(447)	(75)	(767)
	45,940	33,289	(21,736)	(12,507)	(4,967)	(5,921)
Reinsurance acceptances:						
Fire and other damage to property	20,763	19,932	(12,937)	(7,482)	(2,350)	(2,837)
Marine, aviation and transport	10,026	1,760	(1,111)	(660)	(329)	(340)
Casualty	61,033	55,230	(27,238)	(20,731)	(4,435)	2,826
	91,822	76,922	(41,286)	(28,873	(7,114)	(351)
	137,762	110,211	(63,022)	(41,380)	(12,081)	(6,272)

All premiums were concluded in the United Kingdom.

Notes to the accounts *continued*

3. Particulars of business written *continued*

Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses.

Net assets are not managed by reference to the classes shown above. An allocation of net assets and net technical liabilities is shown in note 23.

	2015 Gross premiums written £000	*2015 Profit/(loss) £000*	*2014 Gross premiums written £000*	*2014 Profit/(loss) £000*
Direct	103,308	1,588	45,940	(5,758)
Reinsurance	108,202	(4,366)	91,822	19
	211,510	(2,778)	137,762	(5,739)

Geographical analysis by destination

	2015 Gross premiums written £000	*2014 Gross premiums written £000*
UK	71,432	18,958
EU	39	895
Other	140,039	117,909
	211,510	137,762

4. Net operating expenses

	2015 £000	*2014 £000*
Acquisition costs	57,434	41,785
Change in deferred acquisition costs	(3,663)	(8,176)
Administrative expenses	11,839	7,771
	65,610	41,380

Members' standard personal expenses amounting to £2,640,000 (2014: £1,984,000) are included in administrative expenses. Members' standard personal expenses include Lloyds' subscriptions, New Central Fund contributions and managing agent's fees.

Notes to the accounts *continued*

4. Net operating expenses *continued*

Administrative expenses include:

	2015	*2014*
	£000	*£000*
Auditor's remuneration:		
Audit of the Syndicate accounts	298	97
Other services pursuant to regulations and Lloyd's byelaws	10	40
Operating lease rentals		
Office equipment	-	6
Other	-	5
Standard personal expenses	2,640	1,984
Other remuneration paid to the auditor:		
Audit of the managing agent's annual accounts	20	21

Total commissions for direct insurance accounted for in the year amounted to £30.4 million (2014: £13.3 million).

5. Staff numbers and costs

Staff were employed by PSUL and ASML. The following amounts were recharged to the Syndicate in respect of staff costs:

	2015	*2014*
	£000	*£000*
Wages and salaries	3,907	5,004
Social security costs	625	679
Other pension costs	548	505
	5,080	6,188

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

	2015	*2014*
Underwriting	13	12
Underwriting support	7	7
Claims	3	2
Administration and finance	30	33
	53	54

Notes to the accounts *continued*

6. Directors emoluments

The managing agents charged the Syndicate the following amounts in respect of emoluments paid to its directors:

	2015	***2014***
	£000	***£000***
Emoluments	975	741

7. Active underwriter's emoluments

The following amounts were charged to the Syndicate in respect of persons acting in the role of active underwriter:

	2015	***2014***
	£000	***£000***
Emoluments	332	266

8. Investment return

	2015	***2014***
	£000	***£000***
Income from financial investments	1,851	811
Realised gains on investments	31	67
Investment income	1,882	878
Realised losses on investments	980	111
Investment expenses	155	66
Investment expenses and charges	1,135	177

Average amount of funds available for investment during the year

	2015	***2014***
	000	***000***
U.S. dollars	195,021	111,125
Sterling (including ATF)	10,587	10,488
Euro	2,097	2,150
Canadian dollars	10,704	9,048
Combined in sterling	145,061	84,542

Notes to the accounts *continued*

8. Investment return *continued*

Net calendar year investment yield

U.S. dollars	0.6%	0.3%
Sterling (including ATF)	1.4%	2.2%
Euro	Nil	0.1%
Canadian dollars	1.8%	1.3%
Combined in sterling	0.7%	0.6%

9. Financial investments

	2015	*2015*	*2014*	*2014*
	Cost	*Market value*	*Cost*	*Market value*
	£000	*£000*	*£000*	*£000*
Shares and other variable yield securities and units in unit trusts	28,241	28,241	21,888	21,888
Debt securities and other fixed income securities	121,089	120,560	68,462	68,307
Loans secured by mortgages	377	363	697	675
Other investments	22,928	22,928	15,562	15,562
	172,635	172,092	106,609	106,432

Other investments represent amounts deposited as collateral supporting a letter of credit facility.

Breakdown of investments by currency

	US dollar	*Canadian dollar*	*Other*	*Total*
	US$000	*Can$000*	*£000*	*£000*
Year ended 31 December 2015				
Shares and other variable yield securities and units in unit trusts	29,561	3,522	6,413	28,241
Debt securities and other fixed income securities	172,398	6,729	-	120,560
Loans secured by mortgages	534	-	-	363
Other investments	33,704	-	-	22,928
	236,197	10,251	6,413	172,092
Year ended 31 December 2014				
Shares and other variable yield securities and units in unit trusts	23,409	790	6,445	21,888
Debt securities and other fixed income securities	101,089	6,348	-	63,307
Loans secured by mortgages	1,053	-	-	675
Other investments	24,277	-	-	15,562
	149,828	7,138	6,445	106,432

Notes to the accounts *continued*

9. Financial investments *continued*

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

	Level 1 *£000*	*Level 2* *£000*	*Level 3* *£000*	*Total* *£000*
Year ended 31 December 2015				
Shares and other variable yield securities and units in unit trusts	28,241	-	-	28,241
Debt securities and other fixed income securities	83,579	36,981	-	120,560
Total	111,820	36,981	-	148,801
Year ended 31 December 2014				
Shares and other variable yield securities and units in unit trusts	21,888	-	-	21,888
Debt securities and other fixed income securities	47,355	20,952	-	68,307
Total	69,243	20,952	-	90,195

The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

Level 1 – fair values measured using unadjusted quoted prices in active markets for identical instruments.

Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data.

Level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data.

10. Funds at Lloyd's

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

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

Notes to the accounts *continued*

11. Provision for unearned premiums

2015	*Gross* £000	*Reinsurers share* £000	*Net* £000
At 1 January 2015	84,295	(13,218)	71,077
Premiums written in the year	211,510	(32,609)	178,901
Premiums earned in the year	(193,560)	23,137	(170,423)
Foreign exchange	4,015	(895)	3,120
At 31 December 2015	106,260	(23,585)	82,675

2014	*Gross* £000	*Reinsurers share* £000	*Net* £000
At 1 January 2014	53,161	(7,742)	45,419
Premiums written in the year	137,762	(19,408)	118,354
Premiums earned in the year	(110,211)	14,470	(95,741)
Foreign exchange	3,583	(538)	3,831
At 31 December 2014	84,295	(13,218)	71,077

12. Claims outstanding

2015	*Gross* £000	*Reinsurers share* £000	*Net* £000
At 1 January 2015	100,728	(10,496)	90,232
Claims incurred in current underwriting year	42,349	(3,927)	38,422
Claims incurred in prior underwriting years	76,838	(6,704)	70,134
Claims paid during the year	(54,194)	3,277	(50,916)
Foreign exchange	6,908	(800)	6,107
At 31 December 2015	172,629	(18,650)	153,979

Notes to the accounts *continued*

12. Claims outstanding *continued*

2014	Gross £000	Reinsurers share £000	Net £000
At 1 January 2014	72,176	(9,074)	63,102
Claims incurred in current underwriting year	31,212	(2,432)	28,780
Claims incurred in prior underwriting years	31,809	(44)	31,765
Claims paid during the year	(23,353)	2,805	(20,548)
Foreign exchange	(11,116)	(1,837)	(12,867)
At 31 December 2014	100,728	(10,496)	90,232

A surplus/(deficit) run-off deviation of (£3.0) million was experienced in 2015 (2014: £1.3 million surplus). This was made up of a surplus on the prior year claims provisions of £4.7 million on direct business (2014: £2.0 million surplus) and a £7.7 million deficit on reinsurance accepted business (2014: £0.7 million deficit).

13. Debtors arising out of direct insurance operations

	2015 £000	2014 £000
Amounts falling due within one year – intermediaries	32,228	15,563

14. Debtors arising out of reinsurance operations

	2015 £000	2014 £000
Amounts falling due within one year	15,127	23,536

15. Other assets – other

	2015 £000	2014 £000
Amounts advanced in Australia and other countries as a condition of carrying on business there	9,714	6,553

16. Deferred acquisition costs

	2015 £000	2014 £000
At 1 January	24,318	15,228
Change in deferred acquisition costs	3,663	8,176
Foreign exchange	982	914
At 31 December	28,963	24,318

Notes to the accounts *continued*

17. Reconciliation of members' balances

	2015	*2014*
	£000	*£000*
Members' balances brought forward at 1 January	360	(5,225)
Closed year result	10,360	10,151
Cash calls made	(20,500)	(8,000)
	(10,140)	2,151
Loss for the financial year	(3,245)	(5,548)
Members' agents' fees	(18)	(18)
Cash calls paid by members	6,000	9,000
Members' balances carried forward at 31 December	(7,043)	360

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year. Cash calls paid in the calendar year relate to the 2012 year of account: £nil (2014: £4.5 million); 2013 year of account: £6.0 million (2014: £4.5m).

18. Creditors arising out of direct insurance operations

	2015	*2014*
	£000	*£000*
Amounts falling due within one year	5,072	190

19. Creditors arising out of reinsurance operations

	2015	*2014*
	£000	*£000*
Amounts falling due within one year	26,854	14,428

20. Other creditors

	2015	*2014*
	£000	*£000*
Other	1,830	70

Notes to the accounts *continued*

21. Cash and cash equivalents

	2015	*2014*
	£000	*£000*
Cash at bank and in hand	4,617	1,438
Short-term deposits with financial institutions	28,241	21,888
	32,858	23,326

There was a bank overdraft facility in place to facilitate working capital requirements and was repayable on demand. The maximum amount outstanding during the year was £nil (2014: £6.3 million). This facility was cancelled on 11th June 2015.

22. Risk management

a) Capital management objectives, policies and approach

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

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

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements.

Lloyd's capital setting process
In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. The amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements, The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

Each underwriting member of Lloyd's is liable for its own share of underwriting liabilities. Accordingly the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR is determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Members can attract credits for diversification of underwriting. Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members
Each member provides capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's) held within and managed within a syndicate (funds in syndicate) or as a member's share of the members balances on each syndicate on which it participates.

Notes to the accounts *continued*

22. Risk management *continued*

b) Insurance risk

Insurance risk is the principal risk the Syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The Syndicate needs to ensure that sufficient reserves are available to cover its liabilities as they fall due.

The underwriting profile of the Syndicate is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process. Other precautionary measures, in the form of internal controls, are used to preserve the Syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- Inadequate risk selection;
- Inadequate pricing;
- Inadequate exposure management;
- Adverse, large and attritional loss experience;
- Inadequate reinsurance covering the underwriting portfolio;
- Inappropriate reserve estimation; and
- Poor underwriting control.

PSMAL manages these risks against an agreed risk appetite. The framework of systems and controls is designed to reduce the likelihood of such risks occurring and to mitigate the impact on the overall business of the Syndicate.

Risk exposure is mitigated by diversification across a varied portfolio of insurance contracts and geographical areas.

PSMAL also manages underwriting risk through the purchase of reinsurance to mitigate the effect of catastrophes and unexpected concentrations of risk.

The following table is a guide to the level of catastrophe exposure written by the Syndicate and shows hypothetical claims arising from various realistic disaster scenarios based on the Syndicate's average risk exposures during 2015.

RDS (£m)	*Industry loss* *£000*	*Estimated gross claims* *£000*	*Estimated net claims* *£000*
Two events – South Carolina Windstorm	22,930	736	733
Florida Windstorm – Miami-Dade	79,618	763	746
Florida Windstorm - Pinellas	79,618	822	807
Gulf of Mexico Windstorm - Onshore	68,153	2,714	2,713
California Earthquake – Los Angeles	49,682	3,803	3,400
California Earthquake – San Francisco	49,682	11,616	5,853
New Madrid Earthquake	29,936	430	428

Notes to the accounts *continued*

22. Risk management *continued*

The table below sets out the concentration of outstanding claims liabilities by type of contract

	31 December 2015 Gross liabilities £000	31 December 2015 Re-insurance assets £000	31 December 2015 Net liabilities £000	31 December 2014 Gross liabilities £000	31 December 2014 Re-insurance assets £000	31 December 2014 Net liabilities £000
Property	28,922	(3,850)	25,072	17,082	(2,401)	14,681
Marine	8,161	(1,952)	6,209	998	(89)	909
Liability	130,459	(12,463)	117,996	79,380	(7,619)	71,761
Other	5,087	(385)	4,702	3,268	(387)	2,881
Total	172,629	(18,650)	153,979	100,728	(10,496)	90,232

Geographical concentration of outstanding claim liabilities is based on settlement currency which is noted in the table below.

	31 December 2015 Gross liabilities 000	31 December 2015 Re-insurance assets 000	31 December 2015 Net liabilities 000	31 December 2014 Gross liabilities 000	31 December 2014 Re-insurance assets 000	31 December 2014 Net liabilities 000
GBP	22,118	(1,491)	20,627	13,519	(876)	12,643
USD	214,883	(24,802)	190,082	128,934	(14,227)	114,707
CAD	5,944	(460)	5,484	5,457	(528)	4,929
EUR	1,948	(68)	1,881	1,991	(186)	1,805
Converted GBP	172,629	(18,650)	153,979	100,728	(10,496)	90,232

The claims liabilities are sensitive to the key assumptions that follow. The sensitivity analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant.

31 December 2015	*Change in assumptions*	*Impact on gross liabilities*	*Impact on net liabilities*	*Impact on result*	*Impact on members' balance*
Increase / (decrease) apriori loss ratio	+ / - 10%	19,248	15,540	(15,540)	(15,540)
(Increase) / decrease claim settlement development pattern	+ / - 10%	(26,119)	(23,305)	23,305	23,305

Notes to the accounts *continued*

22. Risk management *continued*

The claims liabilities are sensitive to the key assumptions that follow. The sensitivity analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant.

31 December 2015	*Change in assumptions*	*Impact on gross liabilities*	*Impact on net liabilities*	*Impact on result*	*Impact on members' balance*
Increase / (decrease) apriori loss ratio	+ / - 10%	19,248	15,540	(15,540)	(15,540)
(Increase) / decrease claim settlement development pattern	+ / - 10%	(26,119)	(23,305)	23,305	23,305

31 December 2014	*Change in assumptions*	*Impact on gross liabilities*	*Impact on net liabilities*	*Impact on result*	*Impact on members' balance*
Increase / (decrease) apriori loss ratio	+ / - 10%	11,406	8,957	(8,957)	(8,957)
(Increase) / decrease claim settlement development pattern	+ / - 10%	(14,201)	(12,449)	12,449	12,449

Claims development table

The following table shows the estimates of cumulative incurred claims for each successive underwriting year at each reporting date, together with cumulative payments to date.

Claims development triangle – whole account as at 31 December 2015

Pure underwriting year	***2012 £000***	***2013 £000***	***2014 £000***	***2015 £000***	***Total £000***
Estimate of cumulative net claims incurred					
After one year	20,538	25,208	31,681	39,731	
After two years	40,430	62,329	101,808		
After three years	37,747	63,807			
After four years	36,722				
As at 31 December 2015	36,722	63,807	101,808	39,731	242,068
Less cumulative net claims paid	26,265	24,266	30,513	7,045	88,089
Net reserves	10,457	39,541	71,295	32,686	153,979
Total all underwriting years					
Net reserves recognised	10,457	39,541	71,295	32,686	153,979
Amounts recoverable from reinsurers	6,812	2,864	6,074	2,900	18,650
Gross reserves included in the balance sheet	17,269	42,405	77,369	35,586	172,629

Notes to the accounts *continued*

22. Risk management *continued*

c) Financial risk

Credit risk

The following table shows credit risk exposure of the Syndicate's financial assets.

As at 31 December 2015	*Neither past due nor impaired £000*	*Past due £000*	*Impaired £000*	*2015 Total £000*
Shares and other variable yield	28,241	-	-	28,241
Debt securities	120,560	-	-	120,560
Loans with credit institutions	363	-	-	363
Overseas deposits	9,714	-	-	9,714
Other investments	22,928	-	-	22,928
Reinsurer's share of claims	18,650	-	-	18,650
Reinsurance debtors	747	-	-	747
Cash at bank	4,617	-	-	4,617
Insurance debtors	42,815	3,794	-	46,609
Other debtors	97	-	-	97
Total	248,732	3,794	-	252,526

As at 31 December 2014	*Neither past due nor impaired £000*	*Past due £000*	*Impaired £000*	*2014 Total £000*
Shares and other variable yield	21,888	-	-	21,888
Debt securities	68,307	-	-	68,307
Loans with credit institutions	675	-	-	675
Overseas deposits	6,553	-	-	6,553
Other investments	15,562	-	-	15,562
Reinsurer's share of claims	10,496	-	-	10,496
Reinsurance debtors	404	-	-	404
Cash at bank	1,438	-	-	1,438
Insurance debtors	38,695	-	-	38,695
Other debtors	71	-	-	71
Total	164,089	-	-	164,089

Notes to the accounts *continued*

22. Risk management *continued*

The following tables analyse the Syndicate's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating at 31 December 2015

At 31 December 2015	*AAA* *£000*	*AA* *£000*	*A* *£000*	*Other/ non rated* *£000*	*Total* *£000*
Debt securities and other fixed income securities (including derivative contracts)	44,757	10,038	33,951	31,814	120,560
Reinsurers share of outstanding claims	-	4,311	14,337	2	18,650
Cash at bank and in hand	-	-	-	4,617	4,617
Overseas deposits	-	-	1,197	8,517	9,714
Total	44,757	14,349	49,485	44,950	153,541
Amounts attributable to largest single counterparty	-	-	25,437	-	25,437

At 31 December 2014	*AAA* *£000*	*AA* *£000*	*A* *£000*	*Other/ non rated* *£000*	*Total* *£000*
Debt securities and other fixed income securities (including derivative contracts)	2,461	3,179	15,210	47,457	68,307
Reinsurers share of outstanding claims	-	2,106	7,534	856	10,496
Cash at bank and in hand	-	-	-	1,438	1,438
Overseas deposits	-	-	-	6,553	6,553
Total	2,461	5,285	22,744	56,304	86,794
Amounts attributable to largest single counterparty.	-	-	16,230	-	16,230

Notes to the accounts *continued*

22. Risk management *continued*

Liquidity risk

The following tables summarises the maturity profile of the Syndicate's financial liabilities.

As at 31 December 2015	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	Total £000
Outstanding claims liabilities	38,133	31,880	61,896	40,720	172,629
Deposits received from reinsurers	-	-	-	-	-
Other creditors	1,830	-	-	-	1,830

As at 31 December 2014	Within one year £000	Between one and two years £000	Between two and five years £000	Over five years £000	Total £000
Outstanding claims liabilities	23,801	19,787	36,977	20,163	100,728
Deposits received from reinsurers	-	-	-	-	-
Other creditors	70	-	-	-	70

Market risk

The following tables summarise the Syndicate's exposure to foreign currency exchange risk.

At 31 December 2015	Sterling £000	US Dollar £000	Euro £000	CAD £000	Total £000
Total assets	45,606	249,347	3,278	8,246	306,477
Total liabilities	54,691	249,497	3,487	5,845	313,520
Net assets	(9,085)	(150)	(209)	2,401	(7,043)

At 31 December 2014	Sterling £000	US Dollar £000	Euro £000	CAD £000	Total £000
Total assets	32,819	161,143	2,004	6,895	202,861
Total liabilities	34,324	159,590	2,444	6,143	202,501
Net assets	(1,505)	1,553	(440)	752	360

Notes to the accounts *continued*

22. Risk management *continued*

Sensitivity to changes in foreign exchange rates

The following table gives an indication of the impact on profit of a percentage change in the relative strength of sterling against the value of the US and Canadian dollar and Euro. The analysis is based on the information as at 31 December 2015.

	Impact on profit and members' balances	
	2015	***2014***
	£000	***£000***
Sterling weakens		
10% against other currencies	(0.2)	(0.2)
20% against other currencies	(0.3)	(0.3)
Sterling strengthens		
10% against other currencies	0.2	0.2
20% against other currencies	0.5	0.5

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

Changes in variables	***Impact on profit/(loss)***	***Impact on net assets***
	£000	***£000***
31 December 2015		
+50 basis points	243	243
-50 basis points	(243)	(243)
31 December 2014		
+50 basis points	256	256
-50 basis points	(256)	(256)

The analysis below is performed for possible movements in market indices on financial investments with all other variables held constant, showing the impact on profit

		31 December 2015		***31 December 2014***	
Change in variable	***Change in variables***	***Impact on profit/(loss) £000***	***Impact on net assets £000***	***Impact on profit/(loss) £000***	***Impact on net assets £000***
Market indices	+ 5 %	163	163	122	122
Market indices	-5 %	(163)	(163)	(122)	(122)

Notes to the accounts *continued*

23. Related parties

ProSight Specialty Managing Agency Limited (PSMAL) is a wholly owned subsidiary of ProSight Specialty European Holdings Limited (PSEHL), a company registered in Bermuda. PSEHL owns 100% of the voting and economic rights of PSMAL.

The ultimate parent company of PSMAL is ProSight Specialty Global Holdings Limited (PSGHL), a company registered in Bermuda.

ProSight Specialty Underwriters Limited (PSUL) provides underwriting, administrative, accounting, human resource and information technology services to PSMAL. These services are provided on a non-profit making basis by way of intra-group cross charges and direct salary charges.

Prosight Specialty (TSMC) Limited and ProSight Specialty (ECUCM) Limited allocate the total capacity to the Syndicate for the 2013 to 2015 years of account.

PSGHL is the ultimate parent of certain US domiciled companies which produce business to the Syndicate: New York Marine and General Insurance Company (NYMAGIC), Gotham Insurance Company and Southwest Marine and General Insurance Company. There are a number of recurring programme related reinsurance transactions where the Syndicate assumes 100% cession for certain US programmes, and 90% quota share for Ocean Marine. These transactions between regulated entities are at normal commercial terms.

In 2015 the affiliated US companies produced premiums to the value of USD 203.2m (62.8% of total gross written premium) to the Syndicate. Corresponding 2014 figures are USD 148.5m and 65.3%.

In 2015 the Syndicate entered into a £4m whole account aggregate stop loss contract for the 2015 year of account with NYMAGIC. External advisors were consulted to price the contract and it is at normal commercial terms. The contract has been renewed for the 2016 year of account.

24. Transition to FRS 102/FRS 103

These Financial Statements for the year-ended 31 December 2015 are the first financial statements that comply with FRS 102 and 103. The date of transition is 1 January 2014 and the comparative figures have been restated accordingly.

The main impact of the change has been the translation of non-monetary assets and liabilities to closing rate. In the income statement the exchange (loss)/profit of (£0.467m) (2014 0.191m) are shown within the Non-technical Account; previously these were disclosed as Net operating expenses within the Technical account.

The financial effect of restating the prior year amounts for the changes in accounting policy is as follows:

	£000
Opening members' balances at 1 January 2014 effect	1,634
Result for the year ended 31 December 2014 effect	(3,728)
Closing members' balances at 31 December 2014 effect	(2,094)