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STARSTONE

Part of the Enstar Group

StarStone Syndicate 1301

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2015

STARSTONE

Part of the Enstar Group

Syndicate 1301 Annual report and accounts 31 December 2015

Contents

STARSTONE

Directors and administration

Managing Agent:

StarStone Underwriting Limited

Directors

The directors named below held office for the period January 1st 2015 to December 31st 2015.

E Gilmour (Chairman and Non-Executive, appointed 19th February 2015)

D Smith (Chief Executive Officer, appointed 30th June 2015)

A Alecock

N Barton (Non-Executive)

D Message (appointed 14th July 2015)

P O'Shea

R Phinn (appointed 4th November 2015)

P Tiernan (appointed 15th June 2015)

D Truman (appointed 14th July 2015)

J Wardrop (Non-Executive, appointed 15th January 2015)

T Wilkes (Non-Executive, appointed 10th June 2015)

Former directors who served during the year

N Attwood (resigned 31st March 2015)

B Hurst-Bannister (resigned 24th March 2015)

D Kirby (resigned 31st March 2015)

Directors and administration (continued)

Managing agent's secretary

C Traxler

S Hextall

Managing agent's registered office

88 Leadenhall Street

London, EC3A 3BP

United Kingdom

Managing agent's registered number

08039754

Syndicate:

Active underwriter

D Message (appointed 14th July 2015)

Bankers

Citibank N.A.

Royal Bank of Canada

Barclays Bank Plc

Investment managers

Goldman Sachs

Registered auditor

KPMG LLP

Directors' interests

None of the Directors of the managing agent have any participation in the Syndicate's premium income capacity.

Report of the directors of the managing agent

The directors of the managing agent present their managing agent's report for the year ended 31 December 2015.

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.

Results

The result for year ended 31 December 2015 is a profit of £7.7 million (2014: £0.6 million). The Syndicate's key financial performance indicators during the year were as follows:

	2015 £m	2014 £m
Gross written premium	**169.5**	141.1
Gross premiums earned	**156.5**	136.4
Net premiums earned	**131.7**	116.5
Profit for the financial year	**7.7**	0.6
Claims ratio	**53.2%**	58.9%
Commission ratio	**24.4%**	23.7%
Expense ratio	**16.6%**	16.9%
Combined ratio	**94.2%**	99.5%

Foreign exchange gains and losses have been allocated to the expenses ratio. This is because administrative expenses are predominately charged in US dollars

Principal activities

The Syndicate's principal activity during the year continued to be the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. Syndicate 1301 underwrites a mixture of reinsurance and property business, as well as a range of specialty lines. Syndicate 1301 trades through the Lloyd's worldwide licenses and rating platform. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very Strong) rating from Fitch.

Business review

Against the backdrop of a very challenging market environment the continued progress that the Syndicate has made in improving its business was reflected in a profit of £7.7m. We continue to focus on underwriting and pricing for profitability rather than scale and are prepared to walk away from under-priced business and this resulted in a Claims Ratio of 53.2% compared with 58.9% in 2014. Despite a miss in GWP against plan we increased our GWP to £169.5m as a result of adding Power & Utility and Onshore Energy lines of business to the Syndicate with effect from 1st January 2015.

We also continue to focus on improvement in our expense management and achieved an improvement in our expense ratio of 0.3% taking the ratio to 16.6% for the year. This was partially offset by an increase in the acquisition cost ratio to 24.4% partly due to a change in business mix and partly due to increased pressure from brokers for increased remuneration.

We protect our capital from extreme downside risk and seek to manage our overall risk profile through the purchase of reinsurance and in 2015 we made further improvements to our reinsurance structure which gave us more and better value protection.

In 2015 we successfully completed all the steps required to implement Solvency II, the EU directive covering capital adequacy, risk management and regulatory reporting for insurers, in time for the coming into force date of 1st January, 2016 and with full approval for our own internal model.

Business profile

StarStone Syndicate 1301 is a global specialty underwriter focused on London Wholesale Market Business, European Retail Business and US Retail Business through both the Syndicate and StarStone's wholly owned service companies in Europe and the US.

We offer a broad range of property, casualty and specialty insurance products to both large multi-national and small and middle-market clients around the world. Our main product groupings are as follows:-

Casualty

This segment includes StarStone's excess casualty, global healthcare, and accident and health products. The reporting segment includes a book of high excess casualty written in the London wholesale market but focused on high excess layers for Fortune 500 companies. Our Healthcare product provides insurance for acute care centres, nursing homes, small hospitals, physician groups, senior living facilities, and others. The Accident and Health product provides protection for a broad range of groups and individuals, including air crew personal accident and loss of license, accidental death and permanent and temporary disability for individuals including for athletes and high net worth individuals.

Marine

This reporting segment offers a broad range of marine and specialty products including hull and machinery, marine and energy liabilities, cargo, war, transport, specie and fine art, and terrorism. These products are written through Lloyd's Syndicate 1301, directly, by our European branch network and by some of our U.S. based teams.

Property

This reporting segment includes all our property insurance lines. The construction portfolio, focuses on large, complex, infrastructure and contractor cover across all risk areas. The segment also includes our onshore, power, and upstream and offshore product offering written. Most lines are written on a full value, primary, excess of loss or quota share basis.

Aerospace

This segment serves a diverse client base within the General Aviation segment and some limited Airline and Products business. For 2016 we received permission from Lloyd's to move this book to be written directly on Lloyd's paper rather than through our Service Company.

During 2015 we continued to see pressure on rates across the board particularly in the London Wholesale business lines and we expect that to continue into 2016. The capacity for the 2016 underwriting year is £170m. Our Underwriters remain focused on maintaining rate adequacy rather than writing to hit GWP targets. We will continue to focus on expense and acquisition cost management.

The 2014 and 2015 underwriting years are currently forecast to be profitable.

Risk review

A description of the principal risks and uncertainties facing the Syndicate is set out in the notes to the financial statements (risk review).

Directors

Non of the Directors of the managing agent who served during the year ended 31 December 2015 were underwriting Names at Lloyd's for the 2013, 2014 or 2015 years of account.

The directors of the managing agent who held office during the year were as follows:

E Gilmour (Chairman and Non-Executive, appointed 19th February 2015)

D Smith (Chief Executive Officer, appointed 30th June 2015)

A Alecock

N Barton (Non-Executive)

D Message (appointed 14th July 2015)

P O'Shea

R Phinn (appointed 4th November 2015)

P Tiernan (appointed 15th June 2015)

D Truman (appointed 14th July 2015)

J Wardrop (Non-Executive, appointed 15th January 2015)

T Wilkes (Non-Executive, appointed 10th June 2015)

N Attwood (resigned 31st March 2015)

B Hurst-Bannister (resigned 24th March 2015)

D Kirby (resigned 31st March 2015)

Disclosure of information to auditors

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Auditors

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the board

D Smith
Chief Executive Officer
15 March 2016

Statement of managing agent's responsibilities

The managing agent is responsible for preparing the syndicate annual report and 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 financial statements at 31 December each year in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice). The syndicate financial statements 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 financial statements, the managing agent is required to:

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the syndicate financial statements; and
- prepare the syndicate financial statements 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 that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the syndicate financial statements 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 business website. Legislation in the UK governing the preparation and dissemination of syndicate financial statements may differ from legislation in other jurisdictions.

On behalf of the board

D Smith
Chief Executive Officer
15 March 2016

STARSTONE

Independent auditor's report to the members of Syndicate 1301

We have audited the financial statements of Syndicate 1301 for the year ended 31 December 2015, as set out on pages 10 to 42. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the members of the syndicate, 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 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 and 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 auditors

As explained more fully in the statement of managing agent's responsibilities set out on page 8 the managing agent is responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the syndicate's financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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

In our opinion the information given in the Report of the Directors of the Managing Agent for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP
15 Canada Square
London, E14 5GL

15 March 2016

Income Statement: Technical account – General Business

For the year ended 31 December 2015

	Note	2015 £000	£000	2014 £000	£000
Earned premiums, net of reinsurance					
Gross premiums written	*6*	**169,521**		141,149	
Outwards reinsurance premiums		**(26,786)**		(23,677)	
			142,735		117,472
Change in the provision for unearned premiums	*17*				
Gross amount		**(13,068)**		(4,762)	
Reinsurers' share		**2,056**		3,823	
			(11,012)		(939)
			131,723		116,533
Allocated investment return transferred from the non-technical account	*11*		**27**		17
Claims incurred, net of reinsurance	*6*				
Claims paid					
Gross amount		**(45,372)**		(60,455)	
Reinsurers' share		**2,979**		7,007	
			(42,393)		(53,448)
Change in the provision for claims	*17*				
Gross amount		**(36,305)**		(14,074)	
Reinsurers' share		**8,652**		(1,099)	
			(27,653)		(15,173)
Net operating expenses	*8*		**(50,930)**		(47,383)
Balance on the technical account – general business			**10,774**		546

The notes to the financial statements form an integral part of these annual accounts.

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Income Statement: Non-technical account

For the year ended 31 December 2015

	Note	2015 £000	2014 £000
Balance on the technical account – general business		**10,774**	546
Investment income	*11*	**197**	408
Unrealised gains on investments	*11*	**194**	-
Unrealised losses on investments	*11*	**(364)**	(391)
Allocated investment return transferred to technical account	*11*	**(27)**	(17)
Gain/(Loss) on foreign exchange		**(3,070)**	18
Profit for the financial year		**7,704**	564

All operations relate to continuing activities.

There are no recognised gains or losses in the accounting period other than those dealt with in the technical and non-technical accounts, therefore no statement of total recognised gains and losses has been presented.

The notes to the financial statements form an integral part of these annual accounts.

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Statement of Financial Position – Assets

For the year ended 31 December 2015

	Note	2015 £000	£000	2014 £000	£000
Investments					
Other financial investments	*12*		**80,883**		41,909
Reinsurers' share of technical provisions	*17*				
Provision for unearned premiums		**9,903**		7,458	
Claims outstanding		**21,067**		11,589	
			30,970		19,047
Debtors					
Debtors arising out of direct insurance operations	*13*	**61,741**		43,232	
Debtors arising out of reinsurance operations	*14*	**18,799**		15,228	
Other debtors		**67**		727	
			80,607		59,187
Other assets					
Cash at bank and in hand		**15,315**		25,599	
Overseas deposits	*19*	**4,190**		3,860	
			19,505		29,459
Prepayments and accrued income					
Accrued interest		**211**		-	
Deferred acquisition costs	*15*	**15,327**		11,885	
Other prepayments and accrued income		**603**		-	
			16,141		11,885
Total assets			**228,106**		161,487

The notes to the financial statements form an integral part of these annual accounts.

Statement of Financial Position – Liabilities

For the year ended 31 December 2015

	Note	2015 £000	£000	2014 £000	£000
Capital and reserves					
Members' balances			**(3,143)**		(10,479)
Technical provisions	*17*				
Provision for unearned premiums		**78,037**		60,833	
Claims outstanding		**136,846**		95,746	
			214,883		156,579
Creditors					
Creditors arising out of direct insurance operations		**2,981**		1,492	
Creditors arising out of reinsurance operations		**11,980**		7,787	
Other creditors		**949**		6,023	
	18		**15,910**		15,302
Accruals and deferred income			**456**		85
Total liabilities and equity			**228,106**		161,487

The notes to the financial statements form an integral part of these annual accounts.

The Syndicate financial statements were approved by the board of StarStone Underwriting Limited on 14 March 2016 and were signed on its behalf by

Angela Alecock
Finance Director

15 March 2016

STARSTONE
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Statement of Changes in Members' Balances

For the year ended 31 December 2015

	2015 £000	2014 £000
Members' balances brought forward at 1 January	**(10,479)**	(34,826)
Impact of change in accounting policy on adoption of FRS 102	**-**	2,874
Restated balance at 1 January	**(10,479)**	(31,952)
Profit for the year	**7,704**	564
Payments of profit to members' personal reserve fund	**(368)**	
Receipt of deficit from members' personal reserve fund		20,909
Members' balances carried forward at 31 December	**(3,143)**	(10,479)

Members participate on Syndicates by reference to years of account (YOA) 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.

Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 £000	£000	2014 £000	£000
Cash flows from operating activities					
Profit for the year		**7,704**		564	
Adjustments:					
Increase in technical provisions		**58,305**		22,736	
Increase in reinsurers share of technical provisions		**(11,924)**		(3,101)	
Increase in debtors, subrogation and salvage and prepayments		**(25,618)**		(561)	
Increase in creditors		**1,131**		(3,639)	
Net interest and dividends receivable		**(345)**		(186)	
Net cash inflow from operating activities			**29,253**		15,813
Cash flows from investing activities:					
Acquisitions of other financial instruments		**(49,122)**		-	
Interest received		**134**		186	
Net (gains)/losses on other financial instruments		**247**		-	
Net cash outflow from investing activities			**(48,741)**		186
Cash flow from financing activities:					
Transfer to members in respect of underwriting participations		**(368)**		20,909	
Net cash outflow from financing activities			**(368)**		20,909
Net (decrease)/increase in cash and cash equivalents			**(19,856)**		36,908
Cash and cash equivalents at 1 January			**71,368**		34,460
Cash and cash equivalents at 31 December			**51,512**		71,368

Notes

(forming part of the financial statements)

1. Basis of preparation

Syndicate 1301 ('The Syndicate') is a member of the Society of Lloyds that underwrites insurance business in the London Market. The address of the syndicate's managing agent is 88 Leadenhall Street, Street, London, EC3A 3BP.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 *Insurance Contracts* ("FRS 103") as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets which have been recorded at fair value through the statement of profit or loss.

The financial statements are presented in Pound Sterling ("GBP"), which is the syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. Change to accounting policies

These are the first set of financial statements prepared by the Syndicate in accordance with FRS 102. In its transition to FRS 102 from old UK GAAP, the Syndicate has made measurement adjustments. An explanation of how the transition to FRS 102 has affected the financial position and performance of the syndicate is provided in note 22.

3. Use of judgments and estimates

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. 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 business accepted and assessments of underwriting conditions.

In arriving at the level of claims provisions no margin is applied over and above the actuarial best estimate.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 5.

Notes (continued)

4. Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's financial statements.

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. They are disclosed gross of commissions and profit participations recoverable from reinsurers.

Unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Acquisition costs

Costs incurred in acquiring general insurance contracts are deferred. Acquisition costs include direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date.

Claims provisions and related recoveries

Claims incurred comprise claims and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses.

Outstanding claims include an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR). Anticipated salvage and subrogation and other recoveries are recognised as other assets.

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. A number of statistical techniques are used to assist in making these estimates.

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measurable impact on the amount that the Syndicate will receive from the reinsurer. Impairment losses are recognised in profit or loss in the period in which the impairment loss is recognised.

Unexpired risks provision

Provision is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

Notes (continued)

4. Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the statement of profit or loss and other comprehensive income. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

The Syndicate does not hold financial assets or financial liabilities for trading.

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

Measurement

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Notes (continued)

4. Accounting policies (continued)

Identification and measurement of impairment

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investment return

Investment income comprises interest income, dividends receivable and realised investment gains. Investment return comprises investment income and movements in unrealised gains and losses on financial instruments at fair value through profit or loss, less investment management expenses, interest payable, realised losses and impairment losses.

FRS 103 Glossary

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals in the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Notes (continued)

4. Accounting policies (continued)

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 (currently at 20%) 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.

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.

Pension costs

StarStone Group operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate as incurred and are included within net operating expenses.

Profit commission

The managing agent does charge profit commission to qualifying quota share participants.

Notes (continued)

5. Risk and capital management

Introduction and overview

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Syndicate's capital.

Risk management framework

The Board of Directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has established a Risk Committee to oversee the operation of the Syndicate's risk management framework and to review and monitor the management of the risks to which the Syndicate is exposed. The Risk Committee has delegated oversight of the management of aspects of insurance risks to the StarStone Underwriting and Reserving Committees, which are responsible for developing and monitoring insurance risk management policies, and the management of aspects of financial risks to the StarStone Investment Committee, which is responsible for developing and monitoring financial risk management policies.

The Risk Committee reports regularly to the Board of Directors on its activities. The StarStone Underwriting and Reserving Committees and the StarStone Investment Committee report regularly to the Risk Committee on their activities.

The risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Insurance Risk

Management of insurance risk

A key component of the management of underwriting risk for the Syndicate is a disciplined underwriting strategy that is focused on writing quality business and not writing for volume. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes underwriting limits on the Syndicate's total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well diversified book is maintained with no over exposure in any one geographical region.

Contracts can contain a number of features which help to manage the underwriting risk such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements)

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event, including excess of loss, stop loss and catastrophe reinsurance. Where an individual exposure is deemed surplus to the Syndicate's appetite additional facultative reinsurance is also purchased.

The StarStone Underwriting and Reserving Committees oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

The Syndicate Managing Agent's in house actuaries perform a reserving analysis on a annual basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is reviewed by external consulting actuaries.

The StarStone Underwriting and Reserving Committees perform a comprehensive review of the projections, both gross and net of reinsurance. Following this review the StarStone Underwriting and Reserving Committees make recommendations to the Risk Committee and the Managing Agent's Board of Directors of the amount of claims provisions to be established.

Notes (continued)

5. Risk and capital management (continued)

Insurance Risk (continued)

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its written premiums by class of business.

Year 2015	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total £000
UK	**(163)**	**(4)**	**988**	**15**	**176**	**167**	**1,179**
France	**219**	**20**	**1838**	**-**	**-**	**94**	**2,171**
Germany	**-**	**1**	**173**	**51**	**-**	**22**	**247**
Other Europe	**782**	**2,771**	**532**	**-**	**-**	**2,176**	**6,261**
US	**699**	**2,580**	**13,831**	**5,455**	**3**	**4,618**	**27,186**
Other	**4,146**	**41,786**	**32,673**	**5,946**	**672**	**47,254**	**132,477**
Total	**5,683**	**47,154**	**50,035**	**11,467**	**851**	**54,331**	**169,521**

Year 2014	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total £000
UK	12	128	487	-	-	107	734
France	0	9	1,781	-	-	256	2,046
Germany	6	1	106	-	-	48	161
Other Europe	270	2,830	928	-	-	1,891	5,919
US	3,710	1,349	10,149	-	-	3,637	18,845
Other	2,999	47,004	28,058	-	2,277	33,106	113,444
Total	6,997	51,321	41,509	-	2,277	39,045	141,149

Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be reasonably possible at the reporting date.

A five percent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

Year 2015	2015 5 per cent increase	2015 5 per cent decrease	2014 5 per cent increase	2014 5 per cent decrease
Accident and health	**(181)**	**181**	(167)	167
Marine, aviation and transport	**(3,621)**	**3,621**	(2,236)	2,236
Fire and other damage to property	**(1,396)**	**1,396**	(1,580)	1,580
Third party liability	**(565)**	**565**	(182)	182
Miscellaneous	**(26)**	**26**	(43)	43
Total	**(5,789)**	**5,789**	(4,208)	4,208

Notes (continued)

5. Risk and capital management (continued)

Financial risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- debt securities;
- reinsurers' share of insurance liabilities;
- amounts due from intermediaries;
- amounts due from reinsurers in respect of settled claims;
- cash and cash equivalents; and
- other debtors and accrued interest.

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's. The Syndicate has a policy of investing mainly in government issued and government backed debts. The Syndicate does not currently invest new monies in speculative grade assets (i.e. those rated below BBB).

The Syndicate limits the amount of cash and cash equivalents that can be deposited with a single counterparty, and maintains an authorised list of acceptable cash counterparties.

The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored by the individual business units as part of their credit control processes.

All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed and managed accordingly.

Exposure to credit risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

Notes (continued)

5. Risk and capital management (continued)

Credit risk (continued)

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

Year 2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
Shares and other variable yield securities and units in unit trusts			**22,227**		**8,864**	**31,091**
Debt securities and other fixed income securities	**2,252**	**38,692**	**3,607**	**4,325**	**-**	**48,876**
Deposits with credit institutions	**-**	**-**	**916**	**-**	**-**	**916**
Overseas deposits as investments	**2,243**	**762**	**465**	**700**	**20**	**4,190**
	4,495	**39,454**	**27,215**	**5,025**	**8,884**	**85,073**
Reinsurers' share of technical provisions	**-**	**262**	**20,437**	**-**	**10,271**	**30,970**
Debtors arising out of direct insurance operations	**-**	**-**	**-**	**-**	**45,816**	**45,816**
Debtors arising out of reinsurance operations	**-**	**510**	**12,769**	**3,641**	**159**	**17,079**
Cash at bank and in hand	**-**	**-**	**15,315**	**-**	**-**	**15,315**
Other debtors and accrued interest	**-**	**-**	**-**	**-**	**278**	**278**
Total	**4,495**	**40,226**	**75,736**	**8,666**	**65,408**	**194,531**

Year 2014	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
Financial investments						
Shares and other variable yield securities and units in unit trusts			35,767		6,142	41,909
Debt securities and other fixed income securities	-	-	-	-	-	-
Deposits with credit institutions	-	-	-	-	-	-
Overseas deposits as investments	1,856	1,145	689	116	54	3,860
	1,856	1,145	36,456	116	6,196	45,769
Reinsurers' share of technical provisions	-	1,584	8,822	20	8,621	19,047
Debtors arising out of direct insurance operations	-	-	-	-	37,935	37,935
Debtors arising out of reinsurance operations	-	557	9,049	2,690	178	12,474
Cash at bank and in hand	-	-	25,599	-	-	25,599
Other debtors and accrued interest	-	-	-	-	727	727
Total	1,856	3,286	79,926	2,826	53,657	141,551

At 31 December 2015, the largest concentration of credit risk in the Syndicate's debt security portfolio was in governments and government agencies. At 31 December 2015, the Syndicate's credit risk exposure to government agencies and financial institutions amounted to £44.4 million (2014: NIL).

The Syndicate has concentrations in its debt securities portfolio through its holdings of structured securities (including mortgage backed securities). The syndicate does not have any investments with exposure to peripheral Eurozone countries.

The not rated balances within shares and other variable yield securities and units in unit trusts represent the Canadian regulated Short Term Blended accounts which are not rated by Standard and Poor's. The current year total of £8.9m is split between USD (£4.4m) and CAD (£4.5m) trust funds.

STARSTONE

Notes (continued)

5. Risk and capital management (continued)

Credit risk (continued)

Financial assets that are past due or impaired

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date.

These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties.

An analysis of the carrying amounts of past due or impaired debtors is presented in the table below.

Year 2015	Debtors arising from direct insurance operations £000	Debtors arising from reinsurance operations £000
Past due but not impaired financial assets:		
Past due by:		
1 to 90 days	**5,637**	**1,452**
91 to 180 days	**3,811**	**142**
181 to 365 days	**4,841**	**13**
More than 365 days	**1,636**	**113**
Past due but not impaired financial assets	**15,925**	**1,720**
Impaired financial assets	**-**	**-**
Gross value of past due and impaired financial assets	**15,925**	**1,720**
Less: individually assessed impairment allowances	**-**	**-**
Net carrying value of past due and impaired financial assets	**15,925**	**1,720**
Neither past due nor impaired financial assets	**45,816**	**17,079**
Net carrying value	**61,741**	**18,799**

Year 2014	Debtors arising from direct insurance operations £000	Debtors arising from reinsurance operations £000
Past due but not impaired financial assets:		
Past due by:		
1 to 90 days	1,718	2,606
91 to 180 days	1,566	-
181 to 365 days	1,714	38
More than 365 days	299	110
Past due but not impaired financial assets	5,297	2,754
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	5,297	2,754
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	5,297	2,754
Neither past due nor impaired financial assets	37,935	12,474
Net carrying value	43,232	15,228

Notes (continued)

5. Risk and capital management (continued)

Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

The syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts;
- The Syndicate regularly reviews its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

The maturity analysis presented in the table below shows the remaining contractual maturities for the Syndicate's insurance contracts and financial instruments. For insurance contracts, the contractual maturity is the estimated date when the gross undiscounted contractually required cash flows will occur. For financial assets and liabilities it is the earliest date on which the gross undiscounted cash flows (including contractual interest payments) could be paid assuming conditions are consistent with those at the reporting date. The actual timing of future settlement cash flows may differ materially from the disclosure below.

			Undiscounted net cash flows			
Year 2015	Carrying amount £000	Total cash flows £000	Less than 1 year £000	l-2 years £000	2-5 years £000	More than 5 years £000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	**31,091**	**31,091**	**31,091**	**-**	**-**	**-**
Debt securities	**48,876**	**48,876**	**1,169**	**8,697**	**36,945**	**2,065**
Deposits with credit institutions	**916**	**916**	**916**	**-**	**-**	**-**
Derivative financial assets	**-**	**-**	**-**	**-**	**-**	**-**
Reinsurers share of technical provisions	**30,970**	**30,970**	**5,443**	**5,127**	**13,028**	**7,372**
Debtors and accrued interest	**80,818**	**80,818**	**80,627**	**191**	**-**	**-**
Cash at bank and in hand	**19,505**	**19,505**	**19,505**	**-**	**-**	**-**
Total assets	**212,176**	**212,176**	**138,751**	**14,015**	**49,973**	**9,437**
Technical provisions	**214,883**	**214,883**	**48,969**	**54,673**	**87,746**	**23,495**
Creditors	**15,910**	**15,910**	**15,910**	**-**	**-**	**-**
Total liabilities	**230,793**	**230,793**	**64,879**	**54,673**	**87,746**	**23,495**

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Notes (continued)

5. Risk and capital management (continued)

Liquidity risk (continued)

Year 2014	Carrying amount £000	Total cash flows £000	Undiscounted net cash flows: Less than 1 year £000	1-2 years £000	2-5 years £000	More than 5 years £000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	41,909	41,909	41,909	-	-	-
Debt securities	-	-	-	-	-	-
Deposits with credit institutions	-	-	-	-	-	-
Derivative financial assets	-	-	-	-	-	-
Reinsurers share of technical provisions	19,047	19,047	5,022	4,122	7,443	2,460
Debtors and accrued interest	59,187	59,187	59,172	15	-	-
Cash at bank and in hand	29,459	29,459	29,459	-	-	-
Total assets	149,602	149,602	135,562	4,137	7,443	2,460
Technical provisions	156,579	156,579	44,257	45,818	54,824	11,680
Creditors	15,302	15,302	15,302	-	-	-
Total liabilities	171,881	171,881	59,559	45,818	54,824	11,680

In the above tables, the majority of debt securities, are included in the '2-5 years' column. In practice cash could be realised through the sale of the syndicate's investments in debt securities. The disclosure does not take account of premiums received from new business written which can be used to pay claims arising.

Market risk

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

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risks

For each of the major components of market risk the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the Syndicate at the reporting date to each major risk are addressed below.

Notes (continued)

5. Risk and capital management (continued)

Market risk (continued)

Interest rate risk

Interest rate risk arises primarily from the syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The StarStone Investment Committee monitors the duration of these assets on a regular basis.

Currency risk

The Syndicate writes business primarily in Sterling, Euro and US dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled.

The table below summarises the carrying value of the syndicate's assets and liabilities, at the reporting date:

Year 2015	GBP £000	EUR £000	USD £000	CAD £000	Total £000
Financial investments					
Shares and other variable yield securities and units in unit trusts	95	-	26,487	4,509	31,091
Debt securities and other fixed income securities	9,819	-	39,057	-	48,876
Deposits with credit institutions	-	-	916	-	916
Derivative financial assets	-	-	-	-	-
	9,914	-	66,460	4,509	80,883
Reinsurers' share of technical provisions	5,840	468	24,469	193	30,970
Debtors	1,924	9,193	68,899	591	80,607
Other assets	4,771	12,314	972	1,448	19,505
Prepayments and accrued income	2,165	1,984	11,380	612	16,141
Total assets	24,614	23,959	172,180	7,353	228,106
Technical provisions	29,977	22,384	156,587	5,935	214,883
Creditors	2,761	36	13,027	86	15,910
Accruals and deferred income	456	-	-	-	456
Total liabilities	33,194	22,420	169,614	6,021	231,249
Net assets	(8,580)	1,539	2,566	1,332	(3,143)

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Notes (continued)

5. Risk and capital management (continued)

Market risk (continued)

Currency risk (continued)

Year 2014	GBP £000	EUR £000	USD £000	CAD £000	Total £000
Financial investments					
Shares and other variable yield securities and units in unit trusts	-	-	37,446	4,463	41,909
Debt securities and other fixed income securities	-	-	-	-	-
Deposits with credit institutions	-	-	-	-	-
Derivative financial assets	-	-	-	-	-
	-	-	37,446	4,463	41,909
Reinsurers' share of technical provisions	6,062	72	12,875	38	19,047
Debtors	(228)	7,136	52,247	32	59,187
Other assets	14,850	8,535	5,259	815	29,459
Prepayments and accrued income	1,645	2,151	7,570	519	11,885
Total assets	22,329	17,894	115,397	5,867	161,487
Technical provisions	32,250	15,599	104,816	3,914	156,579
Creditors	3,872	49	11,273	108	15,302
Accruals and deferred income	20,912	-	(21,516)	689	85
Total liabilities	57,034	15,648	94,573	4,711	171,966
Net assets	(34,705)	2,246	20,824	1,156	(10,479)

Notes (continued)

5. Risk and capital management (continued)

Market risk (continued)

Sensitivity analysis to market risks

An analysis of the syndicate's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

	2015 Profit or loss for the year £000	2014 Profit or loss for the year £000
Interest rate risk		
+ 100 basis points shift in yield curves	**1,433**	-
- 50 basis points shift in yield curves	**(716)**	-
Currency risk		
10 percent increase in GBP/EUR exchange rate	**(140)**	(204)
10 percent decrease in GBP/EUR exchange rate	**171**	250
10 percent increase in GBP/US dollar exchange rate	**(233)**	(1,893)
10 percent decrease in GBP/US dollar exchange rate	**285**	2,314
Market price risk		
5 percent increase in market prices	**1,953**	-
5 percent decrease in market prices	**(1,953)**	-

The impact of the reasonably possible changes in the risk variables on Members' balances would be the same, since the Syndicate recognises all changes in recognised assets and liabilities in profit or loss.

A 10% increase (or decrease) in exchange rates on net assets, a 5% increase (or decrease) in investment market prices, a 100 basis point increase in yield curves and an 50 basis point decrease in yield curves have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Syndicate's financial investments are actively managed. Additionally, the sensitivity analysis is based on the Syndicate's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, action would be taken which would alter the Syndicate's position.

Notes (continued)

5. Risk and capital management (continued)

Capital management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level, Accordingly, the capital requirement in respect of Syndicate 1301 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the proportion of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 14, represent resources available to meet members' and Lloyd's capital requirements.

Notes (continued)

6. Analysis of underwriting result

An analysis of the underwriting result before investment return and profit/(loss) on foreign exchange is presented in the table below:

Year 2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance						
Accident and health	**5,683**	**4,022**	**(1,903)**	**(2,453)**	**(713)**	**(1,047)**
Marine, aviation and transport	**47,154**	**43,990**	**(19,239)**	**(14,534)**	**(3,773)**	**6,444**
Fire and other damage to property	**50,035**	**48,930**	**(25,065)**	**(14,689)**	**(4,546)**	**4,630**
Third party liability	**11,467**	**11,129**	**(5,787)**	**(2,382)**	**(1,857)**	**1,103**
Miscellaneous	**851**	**948**	**(257)**	**(211)**	**(68)**	**412**
	115,190	**109,019**	**(52,251)**	**(34,269)**	**(10,957)**	**11,542**
Reinsurance	**54,331**	**47,434**	**(29,426)**	**(16,661)**	**(2,142)**	**(795)**
Total	**169,521**	**156,453**	**(81,677)**	**(50,930)**	**(13,099)**	**10,747**

Year 2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance						
Accident and health	6,997	5,198	(1,982)	(2,258)	(870)	88
Marine, aviation and transport	51,321	50,750	(32,390)	(16,090)	(2,559)	(289)
Fire and other damage to property	41,509	41,209	(23,109)	(16,878)	(4,673)	(3,451)
Third party liability	-	-	-	-	-	-
Miscellaneous	2,277	2,299	(903)	(784)	(601)	11
	102,104	99,456	(58,384)	(36,010)	(8,703)	(3,641)
Reinsurance	39,045	36,931	(16,145)	(11,373)	(5,243)	4,170
Total	141,149	136,387	(74,529)	(47,383)	(13,946)	529

No gains or losses were recognised in profit or loss during the year on buying reinsurance (2014: nil).

The gross premiums written for direct insurance by business origin is presented in the table below :

	2015 £000	2014 £000
United Kingdom	**1,013**	627
Other European Union Member States	**5,091**	5,455
US	**22,569**	15,208
Other countries	**86,517**	80,814
Total gross premiums written	**115,190**	102,104

Notes (continued)

7. Claims

Favourable movements of £13.7 million, (2014: £8.6 million), in the past year's provision for claims outstanding, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance. These arose in respect of the following classes of business:

	2015 £000	2014 £000
Accident and health	**537**	344
Marine, aviation and transport	**1,900**	1,371
Fire and other damage to property	**7,797**	4,448
Third party liability	**(807)**	-
Miscellaneous	**164**	154
Reinsurance	**4,094**	2,304
	13,685	8,621

8. Net operating expenses

	2015 £000	2014 £000
Acquisition costs:		
Brokerage and commissions	**36,903**	28,612
Other acquisition costs	**(812)**	(648)
	36,091	27,964
Change in deferred acquisition costs	**(2,267)**	2,031
Administrative expenses	**15,938**	16,434
Members' standard personal expenses	**2,814**	3,328
Reinsurance commissions and profit participation	**(1,646)**	(2,374)
Net operating expenses	**50,930**	47,383

Total written commissions for direct insurance business for the year amounted to £26.7million (2014: £21.7million).

Administrative expenses include:

	2015 £000	2014 £000
Auditors' remuneration:		
- fees payable to the Syndicate's auditor for the audit of these financial statements	**10**	10
- fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	**196**	177

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Notes (continued)

9. Key management personnel compensation

The directors of StarStone Underwriting Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2015 £000	2014 £000
Directors' emoluments	**1,248**	1,549
Fees	-	-

No other compensation was payable to key management personnel.

The active underwriter received the following aggregate remuneration charged to the Syndicate and included within directors' emoluments above.

	2015 £000	2014 £000
Emoluments	**436**	245

10. Staff numbers and costs

All staff are employed by StarStone Insurance Services Limited. The average number of persons employed by the managing agency, but working for the Syndicate during the year, analysed by category, was as follows:

	Number of employees	
	2015 £000	2014 £000
Administration and finance	**12**	17
Underwriting	**20**	21
Claims	**1**	3
Investments	-	-
	33	41

The following amounts were recharged by the managing agency to the Syndicate in respect of payroll costs:

	2015 £000	2014 £000
Wages and salaries	**8,138**	9,135
Social security costs	**953**	1,117
Other pension costs	**732**	974
Other costs	**91**	1,388
	9,914	12,614

Notes (continued)

11. Investment return

The investment return transferred from the technical account to the non-technical account comprises the following:

	2015 £000	2014 £000
Investment income:		
Interest and dividend income	**329**	186
Realised gains	**3**	222
Unrealised gains on investments	**194**	-
Investment expenses and charges:		
Investment management expenses, including interest	-	-
Losses on the realisation of investments	**(135)**	-
Unrealised losses on investments	**(364)**	(391)
Investment return transferred to the technical account from the non-technical account	**27**	17
Impairment losses on debtors recognised in administrative expenses in technical account	-	-
Total investment return	**27**	17

The investment return in 2015 is £27k which reflects the fact that most investments were held as cash until Quarter 4 when the syndicate entered into an investment management agreement with Goldman Sachs, thereby setting up Sterling and US Dollar investment portfolios. In a difficult quarter for fixed income securities, these portfolios produced an investment loss of £201k.

In a challenging investment environment where the syndicate's focus is on liquidity and the preservation of capital, the investment policy is to invest predominantly in high quality, short dated bonds. The maturity profile of the portfolio reflects the short tail nature of the underwriting commitments, the currency mix is matched to that of the net liabilities and there is no exposure to equities.

The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2015 £000	2014 £000
Financial assets at fair value through profit or loss	**(302)**	(169)
Financial assets at amortised cost:		
Interest income	**329**	186
Impairment losses on debtors	-	-
Financial liabilities at amortised cost:		
Interest expense	-	-
Investment management expenses, excluding interest	-	-
Total investment return	**27**	17

Notes (continued)

11. Investment return (continued)

The table below presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

	2015 £000	2014 £000
Average amount of syndicate funds available for investment during the year		
Sterling	**14,768**	12,185
Euro	**10,424**	8,535
US dollar	**39,980**	20,461
Canadian dollar	**1,300**	1,082
Total funds available for investment, in sterling	**66,472**	42,263
Total investment return	**27**	17
Annual investment yield		
Sterling	**0.77%**	-0.32%
Euro	**0.02%**	-
US dollar	**-0.33%**	0.06%
Canadian dollar	**3.27%**	4.07%
Total annual investment yield, in sterling	**0.04%**	0.04%

12. Financial investments

	Carrying value		Cost	
	2015 £000	2014 £000	2015 £000	2014 £000
Shares and other variable yield securities and units in unit trusts	**31,091**	41,909	**31,091**	41,909
Debt securities and other fixed income securities	**48,876**	-	**49,122**	-
Government and supranational securities	***40,296***	-	***40,447***	-
Asset backed securities	-	-	-	-
Mortgage backed instruments	***256***	-	***259***	-
Corporate bonds	***8,324***	-	***8,416***	-
Deposits with credit institutions	**916**	-	**916**	-
Derivative financial assets	-	-	-	-
Total financial investments	**80,883**	41,909	**81,129**	41,909

The amount ascribable to listed investments is £48.9 million (2014: £NIL).

The table below presents an analysis of financial investments by their measurement classification.

	2015 £000	2014 £000
Financial assets measured at fair value through profit or loss	**48,876**	-
Financial assets measured at amortised cost	**32,007**	41,909
Total financial investments	**80,883**	41,909

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Notes (continued)

12. Financial investments (continued)

The Syndicate classifies its financial instruments held at fair value in its balance sheet using a fair value hierarchy, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Prices based on recent transactions in identical assets (either unadjusted or adjusted)
- Level 3 – Prices determined using a valuation technique

The table below analyses financial instruments held at fair value in the Syndicate's balance sheet at the reporting date by its level in the fair value hierarchy.

2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	**1,436**	**29,655**	**-**	**31,091**
Debt securities and other fixed income securities	**40,296**	**8,580**	**-**	**48,876**
Loans and deposits with credit institutions	**3,494**	**1,612**	**-**	**5,106**
Total	**45,226**	**39,847**	**-**	**85,073**

2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Shares and other variable yield securities and units in unit trusts	-	41,909	-	41,909
Debt securities and other fixed income securities	-	-	-	-
Loans and deposits with credit institutions	2,738	1,122	-	3,860
Total	2,738	43,031	-	45,769

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Debt securities are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

Notes (continued)

12. Financial investments (continued)

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Corporate bonds, including asset backed securities, that are not listed on a recognised exchange or are traded in an established over-the-counter market are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

The fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. Enstar Group record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to:

(i) comparison of prices against alternative pricing sources;

(ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark);

(iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing;

(iv) comparing the price to Enstar Group's knowledge of the current investment market.

Enstar Group have on-going due diligence processes with respect to the other investments carried at fair value and their managers. These processes are designed to assist in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, Enstar Group obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values.

At the reporting date all debt instruments were valued using valuation techniques based on observable market data.

13. Debtors arising out of direct insurance operations

	2015 £000	2014 £000
Amounts due from intermediaries:		
Due within one year	**61,576**	43,217
Due after one year	**165**	15
	61,741	43,232

14. Debtors arising out of reinsurance operations

	2015 £000	2014 £000
Amounts due within one year	**18,773**	15,228
Amounts due after one year	**26**	-
	18,799	15,228

Notes (continued)

15. Deferred acquisition costs

The table below shows changes in deferred acquisition costs assets from the beginning of the period to the end of the period.

	2015 £000	2014 £000
Balance at 1 January	**11,885**	12,920
Incurred costs deferred	**34,445**	25,590
Amortisation	**(32,178)**	(27,621)
Effect of movements in exchange rates	**1,175**	996
Balance at 31 December	**15,327**	11,885

16. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2015 in all cases.

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
Estimate of ultimate gross claims						
at end of underwriting year	65.8	57.7	82.5	87.3	102.7	
one year later	61.5	50.2	81.3	81.9		
two years later	61.4	50.2	76.9			
three years later	56.2	49.0				
four years later	56.0					
Less gross claims paid	54.3	46.6	51.4	28.9	4.0	
Gross ultimate claims reserve	1.7	2.4	25.5	53.0	98.7	181.3
Gross ultimate claims reserve for 2010 and prior years						6.1
Gross unearned portion of ultimate claims						(50.6)
Gross claims reserves						136.8

Pure underwriting year	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	Total £m
Estimate of ultimate net claims						
at end of underwriting year	58.5	54.9	74.3	78.6	89.3	
one year later	54.8	48.8	73.6	74.4		
two years later	55.1	49.4	67.9			
three years later	50.0	48.2				
four years later	49.7					
Less net claims paid	48.3	45.9	46.8	28.6	4.0	
Net ultimate claims reserve	1.4	2.3	21.1	45.8	85.3	155.9
Net ultimate claims reserve for 2010 and prior years						3.1
Net unearned portion of ultimate claims						(43.3)
Net claims reserves						115.7

Notes (continued)

17. Technical provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	2015 Gross provisions £000	2015 Reinsurance assets £000	2015 Net £000	2014 Gross provisions £000	2014 Reinsurance assets £000	2014 Net £000
Incurred claims outstanding:						
Claims notified	42,441	(6,527)	35,914	43,634	(8,862)	34,772
Claims incurred but not reported	53,305	(5,062)	48,243	35,473	(3,588)	31,885
Balance at 1 January	95,746	(11,589)	84,157	79,107	(12,450)	66,657
Change in prior year provisions	(13,638)	(47)	(13,685)	(11,503)	2,882	(8,621)
Expected cost of current year claims	95,315	(11,584)	83,731	86,032	(8,790)	77,242
Claims paid during the year	(45,372)	2,979	(42,393)	(60,455)	7,007	(53,448)
Effect of movements in exchange rates	4,795	(826)	3,969	2,565	(238)	2,327
Balance at 31 December	**136,846**	**(21,067)**	**115,779**	95,746	(11,589)	84,157
Claims notified	70,341	(9,065)	61,276	42,441	(6,527)	35,914
Claims incurred but not reported	66,505	(12,002)	54,503	53,305	(5,062)	48,243
Balance at 31 December	**136,846**	**(21,067)**	**115,779**	95,746	(11,589)	84,157
Unearned premiums						
Balance at 1 January	60,833	(7,458)	53,375	54,737	(3,496)	51,241
Premiums written during the year	169,521	(26,786)	142,735	141,149	(23,678)	117,471
Premiums earned during the year	(156,453)	24,730	(131,723)	(136,387)	19,853	(116,534)
Effect of movements in exchange rate	4,136	(389)	3,747	1,334	(137)	1,197
Balance at 31 December	**78,037**	**(9,903)**	**68,134**	60,833	(7,458)	53,375

18. Financial liabilities at amortised cost

	2015 £000	2014 £000
Creditors arising out of direct insurance operations	**2,981**	1,492
Creditors arising out of reinsurance operations	**11,980**	7,787
Amounts owed to credit institutions	-	-
Other creditors	**949**	6,023
Total financial liabilities at amortised cost	**15,910**	15,302

Creditors arising out of reinsurance operations include £1.0m (2014: NIL) due to related undertakings.

Other creditors include £0.9m (2014: £6.0m) due to related undertakings.

Notes (continued)

19. Cash and cash equivalents

	2015 £000	2014 £000
Short term deposits with credit institutions	**32,007**	41,909
Cash at bank and in hand	**15,315**	25,599
Overseas deposits	**4,190**	3,860
Total cash and cash equivalents	**51,512**	71,368

Only deposits with credit institutions with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders in overseas markets and enable the Syndicate to operate in those markets. The access to those funds is restricted and the Syndicate cannot influence the investment strategy.

20. Related parties

StarStone Insurance Holdings Limited, a company incorporated in Bermuda, is the immediate parent company. Enstar Group Limited, a company incorporated in Bermuda, is the ultimate parent company and ultimate controlling party. Copies of the consolidated financial statements of Enstar Group Limited can be obtained from The Secretary, Enstar Group Limited, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM 11 Bermuda.

StarStone Corporate Capital 1 Limited is a corporate member within the StarStone Group which owns capacity in various years of account of the Syndicate.

The Syndicate has a quota share agreement with StarStone Insurance Europe. Included within outwards written reinsurance premium of £26.8m are premiums of £0.9m which has been written under this contract. The 2015 year end balance payable to StarStone Insurance Europe is £0.7m.

StarStone Insurance Services Limited is a service company which employs all UK StarStone Group staff including underwriters, claims and reinsurance staff.

The Syndicate has coverholder agreements with StarStone Insurance Services Limited and StarStone US Intermediaries Inc. who are approved Lloyd's coverholders. Included in the gross written premiums of £169.5m are premiums of £27.9m and £2.3m respectively, which have been written under the terms of this contract. In total, 18% of the gross written premiums for the year related directly to these coverholder agreements.

The 2015 year end balance sheet has a pipeline debtor of £25.1m due from StarStone Insurance Services Limited and £0.1m due from StarStone US Intermediaries Inc. The balances are not overdue.

StarStone Underwriting Limited recharges the Syndicate for expenses incurred during the calendar year. The expenses recharged totalled £22.2m and at the year end the balance sheet has a creditor due of £0.8m.

In March 2015, B Hurst-Bannister resigned as a non-executive director of StarStone Underwriting Limited. B Hurst-Bannister is a non-executive director of Price Forbes & Partners Ltd ("Price Forbes") and The Standard Club Limited. During the year the Syndicate wrote £0.5m of premiums placed by Price Forbes and paid commissions of £0.1m on this business. The Syndicate wrote £2.2m of premiums placed by The Standard Club and paid commissions of £0.4m on this business.

The Syndicate is supported by StarStone Corporate Capital 1 Limited, Arig Capital Limited, Treimco Limited and SGLNo.1 Limited who provided 39.29%, 5.0%, 5.71% and 50.0%, respectively, of its underwriting capacity for the 2015 underwriting year of account. (2014: StarStone Corporate Capital 1 Limited provided 78.89%, Arig Capital Limited 10.0%, Treimco Limited 11.11%).

During the year transactions have been entered into between the Syndicate and the managed Syndicate within Enstar Group companies (Atrium managed Syndicate 609). Any such related party transactions are entered into by the Syndicate on a commercial basis.

Notes (continued)

21. Foreign exchange rates

The following currency exchange rates have been used for principal foreign currency transactions:

	2015		2014	
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	**1.36**	**1.38**	1.29	1.24
US dollar	**1.47**	**1.53**	1.56	1.65
Canadian dollar	**2.04**	**1.96**	1.81	1.82

22. Explanation of transition to FRS 102 from old UK GAAP

As stated in note 2, these are the Company's first financial statements prepared in accordance with FRS 102.

The accounting policies set out in note 4 have been applied consistently in preparing the financial statements for the year ended 31 December 2015 and the comparative information presented in these financial statements for the year ended 31 December 2014.

In preparing its FRS 102 balance sheet, the Syndicate has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (old UK GAAP). An explanation of how the transition from old UK GAAP to FRS 102 has affected the Syndicate's financial position and financial performance is set out in the table below and the narrative that accompanies the table.

Reconciliation of profit and equity from old UK GAAP to FRS 102	Profit for the year ended 31 December 2014 £000	Equity as at 31 December 2014 £000	Equity as at 1 January 2014 £000
Amount under old UK GAAP	1,531	(12,386)	(34,826)
Provision for unearned premiums retranslated at the closing rate	(1,197)	1,014	2,211
Deferred Acquisition Costs retranslated at the closing rate	230	893	663
Amount under FRS 102	**564**	**(10,479)**	**(31,952)**

Previously, under old UK GAAP, both Deferred Acquisition Costs (DAC) and Unearned Premium Reserve (UPR) were treated as non-monetary items. Therefore DAC and UPR balances denominated in currencies other than the functional currency (GBP) were translated at the date of the transaction. These balances were not retranslated at the closing rate at the end of the accounting period and there were therefore no currency gains or losses arising from these balances.

Under FRS 102, UPR and DAC are treated as if they were monetary assets. At 1 January 2014 and 31 December 2014, UPR and DAC denominated in foreign currencies have been retranslated into the closing rates applying on those dates. The resulting gain at 1 January 2014 has been recognised as an adjustment to Members' Balances in accordance with FRS 102.35.8, while for the year ended 31 December 2014, the currency gain arising in the year is included in 'loss on foreign exchange' in the non-technical account.

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