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Dale Underwriting Partners Syndicate 1729

Syndicate Annual Report and Accounts
31 December 2015

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Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell (Chairman)*

G M J Erulin*

L Harfitt

A J Hubbard*

D J G Hunt

D F C Murphy*

S P A Norton

J W Ramage*

J M Tighe

Non Executive Directors*

Company Secretary

C Chow

Managing Agent's Registered Office

5th Floor
Camomile Court
23 Camomile Street
London
EC3A 7LL

Managing Agent's Registered Number

1918744

Active Underwriter

Duncan Dale

Bankers

Barclays Plc
Citibank NA
RBC Dexia

Registered Auditors

Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Active Underwriter's Report

Dale Underwriting Partners Syndicate 1729 was authorised to start underwriting in November 2013 with respect to business incepting from January 1st 2014.

We have completed our second year of trading and continue to specialise in three areas of business; Property Reinsurance, Property Insurance and Casualty. Market conditions continue to be extremely challenging in all lines and this is reflected in our premium volumes as we continue to prioritise underwriting profit over growth. We are however seeing some signs of distress in the market, following many years of deteriorating underwriting discipline with some carriers pulling out of lines of business, back year reserve additions and cost control initiatives. Countering that we still see a large number of positive results being recorded in the continued absence of material natural catastrophe losses.

Our strategy is to build a high quality underwriting business. We are concentrating on classes of business which we know well and are offering innovation and a high level of service to our brokers and clients. We strive for our capacity to be valued rather than seen merely as a commodity.

We have an incredibly talented and hardworking team, all of whom share the ethos and desire to build a high quality underwriting business and all of whom are remunerated on the bottom line results of the Syndicate. I am absolutely delighted with the quality of practitioners, across all functions, we now have in place.

The support from Lloyd's brokers, of all sizes, the willingness to show us their business and establish relationships with their clients has been outstanding. We now have an excellent base on which to build our portfolio at the right time.

2014 Year of account

I am pleased to report that our first year has developed satisfactorily over the past 12 months.

We have also taken steps to reduce the reserve risk from this year by commuting a significant casualty quota share contract at the booked loss ratio.

2015 Year of account.

The Syndicate obtained a better utilisation of capacity for this year, being the first year with all three underwriting teams in place for the whole year. However, our appetite for premium was materially tempered by our view of the prevailing margin. We now expect the premium base for the 2015 year of account to be between 25% and 30% below plan with Stamp Gross Premium of £47.1m (up 36% on 2014) being 63% of stamp capacity.

In total, 38.5% of our 2015 Stamp Gross Premium was new business to Lloyd's, including a reinsurance contract with a subsidiary of ProAssurance Corporation, our leading capital provider. It is also worth noting that Syndicate 1729 has led 24% of the 2015 premium written, excluding the contract mentioned above. Our expense base has been very carefully managed but is earned in a quicker pattern than the exposures and this materially worsens the result at this early stage.

As evidenced on the 2014 year of account, the result recorded after 12 months is expected to improve and it is worth noting that the experience with respect to natural catastrophes has remained benign.

We are extremely grateful for the support, guidance and advice from Asta, our Managing Agent and from Lloyd's.

We have made some significant strides in developing our business over the past 12 months whilst remaining patient and disciplined. This will, we believe, position us well for the future.

I would like to record my sincere thanks to the entire team for their tireless effort over the past year.

Managing agent's report

The Syndicate's Managing Agent is a company registered in England and Wales. The directors of the Managing Agent present their 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 ("Lloyd's Regulations 2008").

Results

The total recognised income for calendar year 2015 is a loss of £3.7m (2014: loss £4.7m).

This is the first year that the Syndicate has presented its results under FRS102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS102 was 1 January 2014. In accordance with FRS102, the Syndicate has identified its insurance contracts and accounted for them in accordance with FRS103. Further details are given in note 22 to the annual accounts.

Principal activity and review of the business

The Syndicate's principal activity continues to be the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate writes predominately casualty and property insurance primarily in the United Kingdom.

A full review is included in the Active Underwriter's Report.

Gross written premium income by class of business for the calendar year was as follows;

	2015	2014
	£'000	£'000
Casualty	31,457	24,778
Property Insurance	20,177	7,527
Property Reinsurance	14,506	7,918
	<hr/> 66,140	<hr/> 40,223

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

	2015	2014	Change
	£'000	£'000	%
Gross written premiums	66,140	40,223	60.8%
Loss for the financial year	(4,721)	(5,000)	5.5%
Total comprehensive income	(3,685)	(4,658)	20.9%
Combined ratio	109%	125%	16%

The return on capacity at 31 December 2015 is shown below with forecasts for the two open years of account.

	2014	2015
	YOA	YOA
	Open	Open
Capacity (£'000)	75,000	75,000
Forecast (£'000)	(488)	(5,057)
Return on capacity (%)	(0.6%)	(6.7%)

Principal risks and uncertainties

The Syndicate sets risk appetite annually, which is approved by the Agency as part of the Syndicate's business planning and Solvency Capital Requirement ('SCR') process. The Agency Risk Committee meets quarterly to oversee the risk management framework. The Syndicate Board reviews the risk profile and monitors performance against risk appetite using a series of key risk indicators. The principal risk and uncertainties facing the Syndicate are as follows:

Insurance Risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Syndicate Board manages insurance risk through the approved business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Syndicate Board then monitors performance against the business plan through the year. Reserve adequacy is monitored through quarterly review by the Syndicate actuary and the Reserving Committee. It is also reviewed by an independent firm of actuaries.

Credit Risk

The key aspect of credit risk is the risk of default by one or more of the Syndicate's reinsurers and intermediaries. The Syndicate Board's policy is that the Syndicate will only reinsure with approved reinsurers, supported by collateralisation, where required. The Agency Reinsurance Security Committee monitors reinsurer ratings and is required to approve all new reinsurers before business is placed with them.

Market Risk

Market risk exposure impacting the Syndicate relates to fluctuations in interest rates or exchange rates. The Syndicate is exposed to foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Agency's policy is to maintain received income or incurred expenditure in the core currencies in which they were received or paid. Any surplus or deficit in a core currency would be subject to review by the Syndicate Board, a sub-committee of the Agency Board.

Exposure to changes in interest rates comes from the Syndicate's investment portfolio. The Agency seeks to minimise this risk through investing in either fixed interest securities or high quality floating rate notes.

In addition, the Syndicate Board ensures that the Syndicate's investments are held in high quality instruments.

Liquidity Risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. To mitigate this risk the Syndicate Board reviews cash flow projections regularly and the Syndicate also has in place a line of credit with its largest capital provider.

Operational Risk

This is the risk that errors caused by people, processes, systems and external events lead to losses to the Syndicate. The Agency seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. Business continuity and disaster recovery plans are in place and are regularly updated and tested.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulatory Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. The Agency has a compliance officer who manages a team of three that monitor business activity and regulatory developments and assesses any effects on the Agency.

The Syndicate has no appetite for failing to treat customers fairly. The syndicate manages and monitors its conduct risk through a suite of risk indicators and reporting metrics as part of its documented conduct risk framework.

Group / Strategic

This is the risk of contagion that arises from being associated with key stakeholders and the impact that activities and events that occur within other connected or third parties has on the business.

Strategic risk covers the risks faced by the Syndicate due to changes in underlying strategy of the business or that of its key stakeholders (including strategic conflicts of interest).

Future Developments

The Syndicate will continue to transact the current classes of general direct insurance and reinsurance business. If opportunities arise to write new classes of business, these will be investigated at the appropriate time.

The capacity for the 2016 year of account is £90m (2015 year of account £75m)

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

Directors

Details of the Directors of the Managing Agent that served during the year and up to the date of signing of the syndicate annual accounts are provided on page 1. Changes to the directors were as follows:

Y A Lancaster (nee Bouman)

Resigned 12 February 2016

Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent at the date of approving the report is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's Auditors, each director has taken all the steps that he or she ought to have taken as a director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

The Managing Agent intends to reappoint Ernst & Young LLP as the Syndicate's auditors.

Syndicate Annual General Meeting

In accordance with the Syndicate Meetings (Amendment No 1) Byelaw (No 18 of 2000) the Managing Agent does not propose holding an annual meeting this year; objections to this proposal or the intention to reappoint the auditors for a further 12 months can be made by Syndicate members before 25 April 2016.

On behalf of the Board



C Chow
Company Secretary
15 March 2016

Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

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

- Select suitable accounting policies and then apply them consistently 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 notes to the Syndicate accounts; and
- Prepare the Syndicate accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

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

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

Independent auditor's report

Independent auditor's report to the members of Dale Underwriting Partners Syndicate 1729

We have audited the syndicate annual accounts of Dale Underwriting Partners Syndicate 1729 for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 8 the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the 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, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

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

Matters on which we are required to report by exception

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

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

Andrew R. Blackmore

Andrew R. Blackmore (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
15 March 2016

Income Statement

Technical account - General business

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Gross premiums written	3	66,140	40,223
Outward reinsurance premiums		<u>(8,687)</u>	<u>(2,447)</u>
Net written premiums		57,453	37,776
Change in the provision for unearned premiums			
• Gross amount		(11,003)	(19,348)
• Reinsurers' share		<u>1,908</u>	<u>570</u>
Change in the net provision for unearned premiums	4	(9,095)	(18,778)
Earned premiums, net of reinsurance		48,358	18,998
Allocated investment return transferred from the non-technical account		26	4
Claims paid			
• Gross amount		(20,180)	(2,117)
• Reinsurers' share		<u>156</u>	<u>204</u>
		(20,024)	(1,913)
Changes in claims outstanding			
• Gross amount		(13,033)	(11,855)
• Reinsurers' share		<u>2,023</u>	<u>544</u>
Change in the net provision for claims	4	(11,010)	(11,311)
Claims incurred, net of reinsurance		(31,034)	(13,224)
Net operating expenses	5	<u>(22,175)</u>	<u>(10,692)</u>
Balance on technical account – general business		<u>(4,825)</u>	<u>(4,914)</u>

Income statement continued

Non-technical account - General business

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Balance on technical account – general business		(4,825)	(4,914)
Investment income	9	26	4
Allocated investment return transferred to the general business technical account		(26)	(4)
Exchange gains and losses		104	(86)
Loss for the financial year		<u>(4,721)</u>	<u>(5,000)</u>

All the amounts above are in respect of continuing operations. The notes on pages 16 to 41 form part of these financial statements.

Statement of comprehensive income

For the year ended 31 December 2015

	2015 £'000	2014 £'000
Loss for the financial year	(4,721)	(5,000)
OCI – Currency translation differences	1,036	342
Total comprehensive income for the year	<u>(3,685)</u>	<u>(4,658)</u>

Statement of changes in members' balances

For the year ended 31 December 2015

	2015 £'000	2014 £'000
At 1 January	(4,948)	-
Loss for the financial year	(3,685)	(4,658)
Members' agent's fees	<u>(266)</u>	<u>(290)</u>
At 31 December	<u>(8,899)</u>	<u>(4,948)</u>

Statement of financial position

As at 31 December 2015

	Notes	2015 £'000	2014 £'000
ASSETS			
<i>Investments</i>			
Financial investments	10	38,109	14,722
<i>Reinsurers' share of technical provisions</i>			
Provision for unearned premiums	4	2,567	628
Claims outstanding	4	2,710	576
		<u>5,277</u>	<u>1,204</u>
<i>Debtors</i>			
Debtors arising out of direct insurance operations	11	9,124	4,265
Debtors arising out of reinsurance operations	12	9,195	7,904
Other debtors		94	42
		<u>18,413</u>	<u>12,211</u>
<i>Cash and other assets</i>			
Cash at bank and in hand		560	974
Other assets	15	919	94
		<u>1,479</u>	<u>1,068</u>
<i>Prepayments and accrued income</i>			
Deferred acquisition costs	4	9,727	6,599
Other prepayments and accrued income		1,903	1,233
		<u>11,630</u>	<u>7,832</u>
<i>Total assets</i>		<u>74,908</u>	<u>37,037</u>

The notes of page 16 to 41 form part of these annual accounts.

Statement of financial position continued

As at 31 December 2015

	Notes	2015 £'000	2014 £'000
MEMBERS' BALANCE AND LIABILITIES			
<i>Capital and reserves</i>			
Members' balances		(8,899)	(4,948)
<i>Liabilities</i>			
<i>Technical provisions</i>			
Provision for unearned premiums	4	32,010	20,533
Claims outstanding	4	26,778	12,419
		<u>58,788</u>	<u>32,952</u>
<i>Creditors</i>			
Creditors arising out of direct insurance operations	13	331	12
Creditors arising out of reinsurance operations	14	14,567	1,908
Other creditors		<u>9,574</u>	<u>6,842</u>
		24,472	8,762
<i>Accruals and deferred income</i>		<u>547</u>	<u>271</u>
<i>Total liabilities</i>		<u>83,807</u>	<u>41,985</u>
<i>Total members' balances and liabilities</i>		<u>74,908</u>	<u>37,037</u>

The notes of page 16 to 41 form part of these annual accounts.

The financial statements on pages 11 to 41 were approved by board of directors on 8 March 2016 and were signed on its behalf by:



D J G Hunt
Director
15 March 2016

Statement of cash flows

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Cash flows from Operating activities			
<i>Loss on ordinary activities</i>		(4,721)	(5,000)
Increase in gross technical provisions		25,836	32,952
Increase in reinsurers' share of gross technical provisions		(4,073)	(1,204)
Increase in debtors		(6,202)	(12,211)
Increase in creditors		15,710	8,763
Movement in other asset/liabilities/foreign exchange		(4,117)	(7,313)
Investment Return		(26)	(4)
<i>Net cash inflows from operating activities</i>		22,407	15,983
Cash flows from Investing activities			
Purchase of financial investments		(79,185)	(10,816)
Sale of financial instruments		57,282	3,061
Investment income received		26	4
<i>Net cash outflows from investing activities</i>		(21,877)	(7,751)
Cash flows from Financing activities			
Members' agents fee advances		(266)	(290)
Other		350	447
<i>Net cash inflows from financing activities</i>		84	157
Net increase in cash and cash equivalents		614	8,389
Cash and cash equivalents at beginning of year	16	8,389	-
Cash and cash equivalents at end of year	16	9,003	8,389

Notes to the financial statements

For the year ended 31 December 2015

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 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 financial statements are prepared in GBP which is the reporting and presentational currency of the Syndicate and rounded to the nearest £'000. The functional currency of the Syndicate is US Dollars.

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 22.

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

2. Accounting Policies

Use of estimates

The preparation of the financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the accounts, and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. Significant items subject to such estimates and assumptions include:

- (i) provision for claims outstanding;
- (ii) estimates of future premium for binder contracts

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 annual accounts.

Gross Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the

Accounting policies continued

policy commences. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

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

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

Reinsurance Premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured.

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.

The provision for claims comprises amounts set aside for claims notified and claims incurred, but not yet reported (IBNR).

The amount included in respect of IBNR is based on statistical techniques of estimation applied by external consulting actuaries. These techniques 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. 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 the business accepted and assessments of underwriting conditions.

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 and the claims experience for the year. The Syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly, 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.

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.

Accounting policies continued

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.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

Unexpired risks

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 acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return.

At 31 December 2015 and 31 December 2014 the Syndicate did not have an unexpired risks provision.

Deferred acquisition costs

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

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

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims

Accounting policies continued

associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2015 or 2014.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are not recognised when the derecognition criteria for financial assets have been met.

Insurance payables

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

Foreign currencies

The Syndicate's functional currency is USD and the reporting currency and presentational currency is GBP.

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

Exchange differences are recorded in the non-technical account.

Accounting policies continued

The following balance sheet rates of exchange have been used in the preparation of these accounts:

	2015	2014
	Year End	Year End
USD	1.47	1.56
CAD	2.05	1.81
EUR	1.36	1.29

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 and, in the case of loans and borrowings, net of directly attributable transaction costs.

A financial liability is derecognised when the obligation under the liability is discharged or expires.

Financial Investments

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. 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.

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.

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.

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.

Accounting policies continued

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.

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.

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 the valuation at the 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.

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. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any other overseas tax payable by members 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'.

Profit commission

Profit commission is charged by the managing agent at a rate of 17.5% on the profit on a year of account basis. Such commission does not become payable until after the appropriate year of account closes normally at 36 months.

Pension costs

The Managing Agent operates a defined contribution scheme. Pension contributions to Syndicate staff are charged to the Syndicate and included within net operating expenses.

Accounting policies continued

Syndicate Operating Expenses

Where expenses are incurred by the Managing Agent or on behalf of the Managing Agent on the administration of managed Syndicates, these expenses are apportioned using various methods depending on the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicates are apportioned between the Managing Agent and the Syndicates depending on the amount of work performed, resources used and volume of business transacted.

3. Segmental analysis

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

2015	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
Direct insurance:						
Motor (third-party liability)	111	85	(29)	(36)	(7)	13
Motor (other classes)	5,871	3,955	(5,185)	(1,623)	(320)	(3,173)
Marine aviation and transport	3,195	1,936	(2,322)	(580)	(159)	(1,125)
Fire and other damage to property	11,739	8,341	(3,591)	(3,247)	(619)	884
Third-party liability	11,509	8,722	(2,328)	(3,576)	(706)	2,112
Miscellaneous	2,367	2,047	(748)	(1,159)	(163)	(23)
	34,792	25,086	(14,203)	(10,221)	(1,974)	(1,312)
<i>Reinsurance</i>	31,348	30,052	(19,011)	(11,817)	(2,763)	(3,539)
Total	66,140	55,138	(33,214)	(22,038)	(4,737)	(4,851)

2014	Gross written premiums	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
	£000	£000	£000	£000	£000	£000
Direct insurance:						
Motor (third-party liability)	51	26	(16)	(14)	(3)	(7)
Motor (other classes)	1,631	828	(1,550)	(465)	(98)	(1,285)
Marine aviation and transport	403	204	(391)	(115)	(24)	(326)
Fire and other damage to property	3,510	1,107	(618)	(693)	(132)	(336)
Third-party liability	4,865	2,440	(1,320)	(1,347)	(290)	(517)
Miscellaneous	1,537	769	(518)	(503)	(91)	(343)
	11,997	5,374	(4,413)	(3,137)	(638)	(2,814)
<i>Reinsurance</i>	28,225	15,501	(9,559)	(7,692)	(354)	(2,104)
Total	40,223	20,875	(13,972)	(10,829)	(992)	(4,918)

Commissions on direct insurance gross premiums earned during 2015 were £13.5m (2014: £3.4m).

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation.

All premiums were concluded in the UK.

Gross operating expenses are not the same as net operating expenses shown in the income statement, as commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2015.

4. Technical Provisions

	Gross provisions £'000	2015 Reinsurance assets £'000	Net £'000	Gross provisions £'000	2014 Reinsurance assets £'000	Net £'000
Claims outstanding						
Balance at 1 January	12,419	(576)	11,843	-	-	-
Change in claims outstanding	13,033	(2,023)	11,010	11,855	(544)	11,311
Effect of FX and other movements	1,326	(111)	1,215	564	(32)	532
Balance at 31 December	26,778	(2,710)	24,068	12,419	(576)	11,843
Claims notified	6,978	(319)	6,659	2,055	(33)	2,022
Claims incurred but not reported	19,800	(2,391)	17,409	10,364	(543)	9,821
Balance at 31 December	26,778	(2,710)	24,068	12,419	(576)	11,843
Unearned premiums						
Balance at 1 January	20,533	(628)	19,905	-	-	-
Change in unearned premiums	11,003	(1,908)	9,095	19,348	(570)	18,778
Effect of movements in exchange rates	474	(31)	443	1,185	(58)	1,127
Balance at 31 December	32,010	(2,567)	29,443	20,533	(628)	19,905
Deferred acquisition costs						
Balance at 1 January	6,599	-	6,599	-	-	-
Change in deferred acquisition costs	3,158	-	3,158	6,148	-	6,148
Effect of movements in exchange rates	(30)	-	(30)	451	-	451
Balance at 31 December	9,727	-	9,727	6,599	-	6,599

5. Net Operating Expenses

	2015	2014
	£000	£000
Acquisition costs	(18,720)	(12,562)
Change in deferred acquisition costs	3,158	6,148
Administration expenses	(6,476)	(4,415)
Reinsurance commissions and profit participation	(137)	137
Net operating expenses	<u>(22,175)</u>	<u>(10,692)</u>

Members' standard personal expenses amounting to £1.6m (2014: £1.5m) are included in administrative expenses. Members' standard personal expenses include Lloyd's subscriptions, New Central Fund contributions, managing agent's fees and profit commission.

6. Staff costs

	2015	2014
	£000	£000
Wages and salaries	(2,383)	(1,643)
Social security costs	(307)	(156)
Other pension costs	(263)	(236)
	<u>(2,953)</u>	<u>(2,035)</u>

The average number of employees working during the year for the syndicate were as follows:

	2015	2014
Administration and finance	7	3
Underwriting	11	6
Claims	1	1
	<u>19</u>	<u>10</u>

7. Auditor's remuneration

	2015	2014
	£000	£000
Audit of the Syndicate annual accounts	(19)	(15)
Other services supplied pursuant to such legislation	(55)	(35)
Other non-audit services	(20)	(15)
	<u>(94)</u>	<u>(65)</u>

Auditor's remuneration is included as part of the administrative expenses in note 5 to the financial statements.

8. Emoluments of the directors of Asta Managing Agency Ltd

The aggregate emoluments of the Directors and staff of the Managing Agency are met by Asta Managing Agency Ltd and are disclosed within the financial statements of that company, with the exception of J. M. Tighe, S.P.A. Norton, D.J.G. Hunt and L Harfitt. J.M. Tighe and S.P.A Norton's remuneration is disclosed in the financial statements of Asta Capital Ltd and the remuneration of D.J.G. Hunt and L Harfitt is disclosed in the financial statements of Asta Insurance Markets Ltd and were all charged in the accounts of Asta Managing Agency Ltd.

No emoluments of the Directors or staff of Asta Managing Agency Ltd were directly charged to the Syndicate.

No other compensation was payable to key management personnel.

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

	2015	2014
	£'000	£'000
Active Underwriter's emoluments	418	423

9. Investment return

	2015	2014
	£000	£000
Net gains on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	26	4
<i>Total investment return</i>	<u>26</u>	<u>4</u>

10. Financial investments

	2015	
	Carrying value	Purchase price
	£000	£000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	8,443	8,443
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	29,666	29,662
	<u>38,109</u>	<u>38,105</u>

	2014	
	Carrying value	Purchase price
	£000	£000
Shares and other variable yield securities and units in unit trusts		
- Designated at fair value through profit or loss	7,415	7,415
Debt securities and other fixed income securities		
- Designated at fair value through profit or loss	7,307	7,307
	<u>14,722</u>	<u>14,722</u>

Amounts included within Shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These have the attributes of a cash instrument with the carrying value and purchase price being the same.

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

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
31 December 2015				
Shares and other variable yield securities and units in unit trusts	-	8,443	-	8,443
Debt securities and other fixed income securities	-	29,666	-	29,666
Other assets	821	98	-	919
Total	821	38,207	-	39,028

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
31 December 2014				
Shares and other variable yield securities and units in unit trusts	-	7,415	-	7,415
Debt securities and other fixed income securities	-	7,307	-	7,307
Other assets	73	21	-	94
Total	73	14,743	-	14,816

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data.

11. Debtors arising out of direct insurance operations

	2015	2014
	£000	£000
Due from intermediaries (within one year)	9,124	4,265
	<u>9,124</u>	<u>4,265</u>

12. Debtors arising out of reinsurance operations

	2015	2014
	£000	£000
Due from intermediaries (within one year)	9,195	7,864
Due from intermediaries (after one year)	-	40
	<u>9,195</u>	<u>7,904</u>

13. Creditors arising out of direct insurance operations

	2015	2014
	£000	£000
Due to intermediaries (within one year)	331	12
	<u>331</u>	<u>12</u>

14. Creditors arising out of reinsurance operations

	2015	2014
	£000	£000
Due to intermediaries:		
Reinsurance accepted (within one year)	13,711	1,675
Reinsurance ceded (within one year)	856	233
	<u>14,567</u>	<u>1,908</u>

15. Other assets

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

16. Cash and cash equivalents

	2015	2014
	£000	£000
Cash at bank and in hand	560	974
Short-term deposits with financial institutions	8,443	7,415
	<u>9,003</u>	<u>8,389</u>

17. Related parties

Asta provides service and support to Syndicate 1729 in its capacity as Managing Agent. Managing agent's fees of £0.8m (2014: £0.8m) and service charges of £2.4m (2014: £1.8m) were recharged by Asta to the Syndicate during 2015. As at 31 December 2015 an amount of £0.5m (2014: £0.2m) was owed to Asta in respect of services provided.

The amount of premium written with Podiatry Insurance Company of America, another subsidiary of ProAssurance in the period was £11.9m (2014: £15.6m). The amount of reinsurance purchased from ProAssurance was £nil (2014: £nil). At 31 December 2015, the amount receivable was £2.4m (2014: £2.27m).

ProAssurance Corporate Capital Limited is a significant but not fully aligned 100% capital provider. ProAssurance Corporate Capital Limited is a subsidiary of ProAssurance Corporation a public company based in Alabama, USA. The syndicate set up a GBP Sterling loan facility with ProAssurance Corporation which was entered into at appropriate commercial rates of interest. The amount outstanding on this loan facility at 31 December 2015 was £9.2m (2014: £6.8m).

From time to time, syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Byelaw provisions.

18. Disclosure of Interests

Managing Agent's interest

Asta is currently the Managing Agent for nine Lloyd's Syndicates. Syndicates 1686, 1729, 1897, 1910, 2357, 2525, 4242, 6123 and 6117 are managed on behalf of third party capital providers.

On 1 April 2015, Syndicate 2526 migrated to AmTrust at Lloyd's Limited. In 2016, Asta took on management of Syndicate 2786 and Syndicate 6126.

The agency also provides administrative services to Syndicates and undertakes a number of ancillary roles for clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

19. 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. Refer to note 21 for further details.

20. Off-balance sheet items

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

21. Risk management

a) Governance framework

The Syndicate's risk and financial management framework aims to protect the Syndicate's members capital from events that might otherwise prevent the Syndicate from meeting its policyholder obligations, while maximising the returns to its members. The directors recognise the critical importance of having efficient and effective risk management systems in place.

Asta maintains a risk management function for the Syndicate with clear terms of reference from the Syndicate Board, its committees and sub committees. Asta supplements this with a clear organisational structure with documented delegated authorities and responsibilities from the main Asta managing agency board to the Syndicate who perform the underwriting activities. Lastly, the Syndicate policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the Syndicate.

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

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Dale Underwriting Partners Syndicate 1729 is not disclosed in these financial statements.

Lloyd's capital setting process

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

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

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly, the ending members balances reported on the statement of financial position on page 14, represent resources available to meet members' and Lloyd's capital requirements.

c) Insurance risk

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

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to single risk and

catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

Sub committees of the Syndicate board oversee the management of reserving risk. The use of standardised and internal modelling techniques, as well as benchmarking and the review of claims development are key in mitigating reserving risk.

The purpose of these underwriting, reinsurance and reserving strategies is to limit exposure to catastrophes or large losses based on the Syndicate's risk appetite as decided by the Syndicate board.

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising out of the RDS on the Syndicates in-force exposure at 31 December 2015.

	Estimated Gross loss £'000	Estimated Net loss £'000
Terrorism – Exchange Place	(19,879)	(17,221)
Terrorism – Rockefeller Centre	(19,879)	(17,221)
Florida & Caribbean Clash WS	(45,249)	(15,066)
Florida Windstorm – Miami Dade	(37,331)	(11,359)
Gulf of Mexico Windstorm – Major Hurricane landing in Galveston, Texas	(31,193)	(10,938)
Florida Windstorm – Pinellas	(37,229)	(10,895)

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming, economic conditions, as well as, internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' balances.

	2015	2014
	£'000	£'000
Gross	1,339	621
Five percent increase	(1,339)	(621)
Five percent decrease		
Net		
Five percent increase	1,202	592
Five percent decrease	(1,202)	(592)

The method used for deriving sensitivity information and significant assumptions did not change from the previous period.

Claims development table

The tables below show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

The Syndicate has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined by the balance sheet date.

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

Underwriting year	2014	2015
	£'000	£'000
Estimate of cumulative gross claims incurred:		
At end of underwriting year	15,409	21,762
One year later	28,157	
Less cumulative gross paid	(19,161)	(3,980)
Liability for gross outstanding claims	8,996	17,782

Total gross outstanding claims all years		<u>26,778</u>
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Underwriting year	2014	2015
	£'000	£'000
Estimate of cumulative net claims incurred:		
At End of underwriting year	14,582	19,584
One year later	27,250	
Less cumulative net paid	(18,818)	(3,948)
Liability for net outstanding claims (2011 to 2015)	8,432	15,636

Total net outstanding claims all years		<u>24,068</u>
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The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for future experience potentially being more adverse than assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus. In 2015, there has been an overall surplus of £1.2m on prior year reserves. This has been primarily generated by better than expected claims experience on casualty reinsurance and property reinsurance classes of business.

d) Financial risk

1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to honour their obligation to the Syndicate.

The following policy and procedure is in place to mitigate the exposure to credit risk.

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sort to mitigate any risk. This is monitored by the Reinsurance Security Committee, a sub committee of the Syndicate Board.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements and the use of credit derivatives.

2015	£'000			Total
	Neither past due or impaired	Past due	Impaired	
Shares and other variable yield securities	8,443	-	-	8,443
Debt Securities	29,666	-	-	29,666
Overseas Deposits	919	-	-	919
Reinsurers share of claims outstanding	2,710	-	-	2,710
Debtors arising out of direct insurance operations	9,124	-	-	9,124
Debtors arising out of reinsurance insurance operations	359	-	-	359
Other debtors	94	-	-	94
Cash and cash equivalents	560	-	-	560
Total	51,875	-	-	51,875

2014	£'000			Total
	Neither past due or impaired	Past due	Impaired	
Shares and other variable yield securities	7,415	-	-	7,415
Debt Securities	7,307	-	-	7,307
Overseas Deposits	94	-	-	94
Reinsurers share of claims outstanding	576	-	-	576
Debtors arising out of direct insurance operations	4,265	-	-	4,265
Debtors arising out of reinsurance insurance operations	205	-	-	205
Other debtors	42	-	-	42
Cash and cash equivalents	974	-	-	974
Total	20,878	-	-	20,878

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2015 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated, Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2015	£'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	8,443	-	-	-	8,443
Debt Securities	29,666	-	-	-	-	-	29,666
Overseas Deposits	664	100	132	22	-	1	919
Reinsurers share of claims outstanding	-	1,334	88	-	-	1,288	2,710
Debtors arising out of reinsurance insurance operations	-	-	252	-	-	107	359
Cash and cash equivalents	-	-	560	-	-	-	560
Total	30,330	1,434	9,475	22	-	1,396	42,657

2014	£'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	7,415	-	-	-	7,415
Debt Securities	7,307	-	-	-	-	-	7,307
Overseas Deposits	58	20	13	-	-	3	94
Reinsurers share of claims outstanding	-	28	120	-	-	428	576
Debtors arising out of reinsurance insurance operations	-	-	205	-	-	-	205
Cash and cash equivalents	-	-	974	-	-	-	974
Total	7,365	48	8,727	-	-	431	16,571

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

2) Liquidity risk

Liquidity risk is the risk that the Syndicate may not have enough cash to pay insurance claims and other liabilities. The Syndicate tries to reduce this risk by reviewing its expected

cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations.

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable. Repayments which are subject to notice are treated as if notice were to be given immediately.

2015	£'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
Creditors	14,898	-	9,575	-	-	24,473
Total	14,898	-	9,575	-	-	24,473

2014	£'000					Total
	No stated maturity	0-1 Year	1-3 Years	3-5 Years	More than 5 years	
Creditors	1,903	-	6,842	-	-	8,745
Total	1,903	-	6,842	-	-	8,745

3) Market risk

a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is US Dollars and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP 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.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

2015	£'000				
	GBP	USD	EUR	CAD	Total
Total Assets	4,919	67,835	469	1,685	74,908
Total Liabilities	(11,911)	(70,029)	(856)	(1,011)	(83,807)
Net Assets	(6,992)	(2,194)	(387)	674	(8,899)

2014	£'000				
	GBP	USD	EUR	CAD	Total
Total Assets	3,988	32,171	276	602	37,037
Total Liabilities	(8,326)	(32,965)	(229)	(465)	(41,985)
Net Assets	(4,338)	(794)	47	137	(4,948)

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates.

Sensitivity to changes in foreign exchange rates

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

	Impact on profit and member's balance	
	2015	2014
	£'000	£'000
Sterling weakens		
10% against other currencies	(191)	(61)
20% against other currencies	(381)	(122)
Sterling strengthens		
10% against other currencies	191	61
20% against other currencies	381	122

b) Interest rate risk

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.

Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

	2015	2014
	£'000	£'000
Interest Rate Risk		
Impact of 50 basis point increase on result	10	5
Impact of 50 basis point decrease on result	(10)	(5)
Impact of 50 basis point increase on net assets	10	5
Impact of 50 basis point decrease on net assets	(10)	(5)

The method used for deriving sensitivity information and significant variables did not change from the previous period.

22. Transition to FRS 102 and FRS 103

The Syndicate transitioned to FRS 102 and FRS 103 from previously extant UK GAAP as at 1 January 2014.

The syndicate adopted USD as its functional currency, this selection was driven by the high volume of USD business transacted through the syndicate along with the preferred funding and distribution option of its corporate members.

The syndicate's profit and loss account is now translated using transactional rates of exchange as opposed to a blanket average rate of exchange for the period. However there was no change to the members balances as the syndicate held no financial instruments that required revaluation and the balance sheet was already valued at monetary rates of exchange. All translation differences within the income statement on a line by line basis were purely FX related and were transferred to the non technical account and OCI.

23. Post Balance Sheet Events

There are no post balance sheet events to be taken into account in the financial statements.