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SYNDICATE 3334 UNDERWRITING YEAR REPORT AND ACCOUNTS

2013 YOA

As at 31st December 2015

HAMILTON UNDERWRITING LIMITED

MANAGING AGENT

Hamilton Underwriting Limited
Registered office at:
St Helen's, 1 Undershaft
London EC3P 3DQ
Registered in England number 06684157

Directors

Dermot O'Donohoe
Simon Barrett
Dominic Ford (Company Secretary)
Belinda Taylor
Robert Deutsch
Brian Duperreault
Peter Haynes
Malcolm Beane
Matthew Petzold

Run-off manager

Belinda Taylor

SYNDICATE

Syndicate auditors

Ernst & Young LLP, London, UK

Syndicate bankers

Barclays Bank PLC, London, UK
Citibank N.A., London, UK
Royal Trust Corporation of Canada, Ontario, Canada
Bank of Melbourne, Melbourne, Australia

Syndicate external actuaries

Willis Towers Watson Limited, Surrey, UK

HAMILTON UNDERWRITING LIMITED

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REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

The managing agent, Hamilton Underwriting Limited, presents its report on the 2013 year of account of Syndicate 3334 as placed in to run-off as at 31 December 2015.

Change of Control

On 1st January 2013 when the 2013 year of account commenced the managing agency was owned by Wild Goose Holdings Pty Ltd (WGH), a company registered in Australia. On 1st April 2015 the shareholding of the managing agency was sold by WGH to Hamilton UK Holdings Limited, a company registered in England and Wales. The company was renamed from Sportscover Underwriting Limited to Hamilton Underwriting Limited (HUL).

Statement of Managing Agent's Responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare run-off underwriting year accounts at 31st December in respect of any year that is in run-off.

In preparing the run-off underwriting year accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently, with the exception of changes arising on the adoption of new accounting standards in the year, and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of accounts, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
- take into account all income and charges relating to a run-off account without regard to the date of receipt or payment;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable UK accounting standards have been followed, subject to any material differences disclosed and explained in the notes to the syndicate underwriting accounts.

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

The managing agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the 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.

Status of 2013 year of account

At a board meeting on 4th December 2015 the Board of Directors voted to keep the 2013 year of account open and placed the year of account in to run-off due to uncertainties over the final loss arising from a combination of factors, the main factors being a potential tax rebate of £1.0m, not held on the balance sheet, and a continuing assessment of the reserving position due to historic volatility experienced particularly in the liability book. The prior underwriting year, 2012 year of account, was placed in run-off as at 31 December 2014. At the same meeting the Board of Directors voted to leave this year of account in run-off due to the same uncertainties, with a potential tax rebate of £2.8m being sought, and significant reserves still outstanding, this year of account having accepted the reinsurance to close from the prior underwriting year. As the capital providers on 2012 and 2013 and the subsequent years differ it is considered equitable to resolve the uncertainties on each year of account prior to close. The 2013 underwriting year of account has not accepted a reinsurance to close from any prior underwriting year of account.

Review of the business

Background

Syndicate 3334 was set up in 2006 as a specialist insurer of sports and leisure risks covering, for the 2013 year of account, personal accident, public liability, property, directors and officers, contingency, bloodstock and travel insurance risks.

Capacity/utilisation

The capacity for the 2013 year of account was £42.7m. The utilisation of this capacity was £39.2m using the 31 December 2015 balance sheet rates for conversion purposes.

Review of the underwriting year of account at 36 months

Overview

The results for the underwriting year of account are set out on pages 11 and 12. At 36 months the total recognised loss is £3,277,000. This is made up of a loss on the technical account of £1,086,000, which includes an investment return of £263,000, and exchange loss of £2,191,000 in the non-technical account (see further details on exchange on page 3).

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

The key performance indicators for the underwriting year are set out below. Ultimate forecasts are as reported to Lloyd's in the year end returns and are based on information available to the Board of Directors as at the date of signing this report. Comparisons to the lodged Syndicate Business Forecast (SBF) are shown against the ratios quoted:

- Gross written premiums £78.3m
- Acquisition cost ratio 41.5% (SBF: 46.1%)
- Cumulative loss to date £3.3m; forecast loss to ultimate £3.4m
- Ultimate loss forecast £3.4m with a loss range of £1.8m (best case) to £4.7m (worst case)
- Gross claims ratio: 89% as % of gross written premiums less acquisition costs (SBF: 72%)
- Net claims ratio: 94% as above, net of reinsurance premiums (SBF: 75%)
- Combined ratio: 106% (SBF: 96%)

Of the total gross written premium 76% was generated from Australasia, of which Australia is the predominant country of business. This has led primarily to the exchange loss shown in the accounts with the Australian dollar rate averaging A\$1.83:£1 over the 36 month underwriting period and the period end rate being A\$2.03:£1 as at 31 December 2015. This is almost exclusively an unrealised exchange loss arising from 36 months funded adjustments imposed in the retranslation of the technical results from average to period end rates; prior to these adjustments the exchange loss was £0.2m.

Claims performance

The key statistics above show an adverse claims performance against plan. The gross loss ratio by class of business is set out below:

| Class of business | Gross Loss Ratio % | | | % split of claims reserves |
|-------------------|--------------------|------|--------|----------------------------|
| | Actual | Plan | Change | |
| PL | 72% | 50% | (22%) | 78% |
| Property | 92% | 75% | (17%) | 10% |
| PA | 83% | 75% | (8%) | 5% |
| D&O | 49% | 50% | 1% | 1% |
| Contingency | 80% | 75% | (5%) | 3% |
| Travel | 93% | 79% | (15%) | 3% |
| Bloodstock | 163% | 85% | (78%) | 0% |
| | 89% | 72% | (17%) | 100% |

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

Following the extensive actuarial investigations in to the performance of the liability book, the ultimate gross loss ratio has been booked at 72%. Of the claims to ultimate for this class of business 36% sits in claims incurred (13% paid). This year of account is therefore still in a very early stage in the development cycle of liability claims but no severe injuries have yet been reported. This is lower than the claims ratio for the prior year liability book, but this year has experienced a large claims event. It is also expected that the Jackson reforms will help reduce the costs of UK liability claims. This coupled with a reduction of service company costs from the 2012 year of account binder renewal date onwards has helped to negate some of the effect of the claims inflation experienced in the last couple of years in the Australian liability book. The service companies have also actively managed the non-renewal or ejection of business in to the 2013 year of account where they have been unable to secure remedial rate increases. This also impacts on the performance of the accident loss ratio.

Whilst there have been a number of weather related issues, mainly arising in 2014, these were somewhat limited in severity compared to prior calendar years and therefore the Australian property book avoided any large scale hits from catastrophe events. The UK property book has been subject to a reinsurance recovery arising from UK storms in February 2014, impacting on a number of properties. The remaining reserves relate to outstanding claim estimates and IBNER allowances on claims already notified.

The performance of the travel book has been adversely impacted by a number of large claims. This book is largely run-off and outstanding claims reserves are only £0.2m.

Bloodstock has had a poor underwriting year with three reinsurance recovery events taking place relating to mortality of horses. The claims are very close to being run-off. Due to the soft market premiums written were lower than forecast with actual of £1.1m gross premiums, net of acquisition costs compared to plan of £2.3m. This class of business was put in to run-off after the 2013 underwriting year.

Principal risks and uncertainties

The Managing Agent has established a risk management function for the syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

The Board sets risk appetite annually as part of the syndicate's business planning and capital setting process. The risk management function is also responsible for reviewing the syndicate's Own Risk and Solvency Assessment (ORSA), recommending the assessment to the Board for approval.

The principal risks facing the run-off of the 2013 underwriting year of account are set out in Note 14.

Uncertainties over results are considered below.

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

A key feature of earlier years of account has been volatility experienced on the liability book. Following change of control on 1st April 2015 the managing agency commissioned the external signing actuaries to review the Q2/15 reserves for the liability class of business, which has been the class showing the most volatility in the later period of the underwriting year of account cycle. The public liability loss ratio was recalibrated at 72% to cater for development patterns informed from prior years of account.

As at 31 December 2015 all live exposure had expired for the 2013 year of account. However, as some policies had only just finished earning out in the month of December 2015 the claims development of a portion of the book is still at an immature stage. Uncertainty surrounds the ultimate claims loss ratios due to the late earning of the risks, particularly the liability book which has the longest tail of the classes of business written and has seen a volatile pattern in preceding years, and the Board of Directors determined that any closure at this current year-end would likely result in a significant risk margin to reflect the level of uncertainty. The liability class accounts for 78% of the claims reserves carried forward as at 31 December 2015.

In determining the decision to place the year of account in to run-off the managing agency also took in to account uncertainty over a possible beneficial factor to be attributed to this year of account. A material Australian coverholder is looking to secure a rebate of Australian non-resident insurer taxes already paid and expensed in the 2013 year of account results to date. A set of reopened tax returns were lodged in November 2015 for which a forecast rebate of £1m is sought in respect of this year of account. As at the date of signing the underwriting report and accounts a determination from the Australian tax office is still awaited. The taxes are not recognised as an asset in the balance sheet, as the Board did not consider it prudent to do so.

Future developments

2012-2014 years of account

As already disclosed the 2012 year of account was placed in run-off as at 31 December 2014 and remains in run-off as at 31 December 2015. HUL will report regularly during 2016 to the Lloyd's Open Years Management team on developments on the tax and reserving issues which impact both the 2012 and 2013 years of account.

The 2014 year of account has a reported GAAP loss of £6.9m as at 31 December 2015, the year having been adversely impacted by a number of large claims. There is still significant uncertainty in year three of this underwriting year of account due to 26% of the sports and leisure portfolio still being unearned. The progress towards closing this year of account will be carefully monitored during 2016.

A cash call was made on the 2012 year of account in February 2016 and an interim cash call has been made on the 2014 year of account to be collected from members' personal reserves in June 2016. Details of a cash call on the 2013 year of account are disclosed in Post Balance Sheet Events.

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

2016 year of account

The 2016 business plan has a forecast gross written premium of £69.5m. This business is a well-diversified book of business, across five main Lloyd's specialty classes where Hamilton has secured the knowledge of highly experienced underwriting teams. The Hamilton Group has provided the Funds at Lloyd's for the 2016 year of account.

With the exception of a small open market contingency book of business and business written via the Lloyd's China reinsurance platform, all of the previously written sports and leisure business was placed in run-off during 2015. The Hamilton Group has also provided the Funds at Lloyd's for the 2015 year of account.

Post balance sheet events

Post balance sheet events are discussed in Note 13 to the accounts.

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

Historical summary of results

Syndicate 3334 commenced operations in August 2006. The 2013 year of account is the eighth year of account to reach the 36 month mark. The results for the 2013 run-off year of account is compared to the results for the prior six years going back to 2007 year of account below:

| Year of account, including run-off years from 2007 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|--|------------|------------|------------|------------|------------|------------|------------|
| Syndicate Allocated Capacity | 15,000,000 | 15,000,000 | 20,000,000 | 25,000,000 | 35,000,000 | 44,929,003 | 42,738,388 |
| Number of Underwriting Members | 71 | 193 | 196 | 200 | 154 | 103 | 5 |
| Aggregate Net Premiums | 14,517,547 | 27,555,885 | 35,370,227 | 45,291,276 | 59,605,042 | 74,440,985 | 74,002,370 |
| Results for an illustrative share of £10,000 | | | | | | | |
| Gross premiums | 10,451 | 19,589 | 18,675 | 19,063 | 18,254 | 17,510 | 18,322 |
| Net premiums | 9,678 | 18,371 | 17,685 | 18,117 | 17,030 | 16,569 | 17,315 |
| Reinsurance to close from an earlier account | | | | | | | |
| Net claims paid | -3,362 | -6,388 | -7,624 | -8,935 | -8,457 | -9,489 | -7,009 |
| Reinsurance to close* | -1,726 | -3,236 | -3,487 | -5,194 | -3,865 | -1,076 | -1,700 |
| * Amount retained to meet net outstanding liabilities | | | | | | | |
| Net operating expenses (excluding personal expenses) | -5,093 | -11,128 | -9,814 | -10,917 | -9,629 | -8,783 | -9,254 |
| Balance on technical account before investment return and illustrative personal expenses | 725 | -655 | -814 | -4,140 | -1,211 | -2,779 | -648 |
| Net investment return | 79 | 164 | 264 | 191 | 154 | 176 | 62 |
| Profit before illustrative personal expenses | 804 | -491 | -549 | -3,949 | -1,057 | -2,603 | -586 |
| Illustrative personal expenses | | | | | | | |
| Managing agent's fee | 150 | 150 | 150 | 75 | 75 | 75 | 75 |
| Profit commission | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other personal expenses | 285 | 180 | 130 | 130 | 99 | 75 | 106 |
| | 435 | 330 | 280 | 205 | 174 | 150 | 181 |
| Profit/loss after illustrative managing agent's fee and profit commission and illustrative personal expenses | 369 | -822 | -829 | -4,154 | -1,231 | -2,753 | -767 |
| Capacity utilised | 63.05% | 100.98% | 99.46% | 98.58% | 100.15% | 100.62% | 106.13% |
| Net capacity utilised | 55.32% | 88.79% | 89.57% | 89.12% | 87.92% | 91.21% | 96.06% |
| Balance on technical account as % of gross premiums | 6.94% | -3.34% | -4.36% | -21.72% | -6.63% | -15.87% | -3.53% |

REPORT OF THE MANAGING AGENT ON THE 2013 RUN-OFF YEAR OF ACCOUNT

Dominic Ford

Director & Company Secretary

Approved by the board of Hamilton Underwriting Limited on 23rd March 2016

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SYNDICATE 3334

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SYNDICATE 3334

We have audited the syndicate underwriting year accounts for the 2013 run-off year of account of syndicate 3334 (the syndicate) for the three years ended 31 December 2015, which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows, the related notes 1 to 14 and the Statement of Managing Agent's Responsibilities. The financial reporting framework that has been applied in their preparation is applicable law, the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) and applicable United Kingdom Accounting Standards, 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 Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005). 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 1, the managing agent is responsible for the preparation of the syndicate underwriting year accounts in accordance with the financial reporting framework described above. Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with the applicable legal and regulatory requirements 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 underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year 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 underwriting year accounts. In addition, we read all the financial and non-financial information in the Syndicate Underwriting Year Report and Accounts to identify material inconsistencies with the audited syndicate underwriting year 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.

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF SYNDICATE 3334

Opinion on the syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts for the 2013 run-off year of account have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Emphasis of matter – uncertainty over reinsurance to close

In forming our opinion on the Syndicate's underwriting accounts, which is not modified, we have considered the adequacy of the disclosures made by the managing agent in the Report of the Managing Agent, relating to the uncertainty regarding the ultimate cost of a reinsurance to close which has resulted in the managing agent deciding to not close the 2013 run-off year of account. The ultimate estimate of the reinsurance to close is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the underwriting accounts.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) 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 underwriting year accounts are not in agreement with the accounting records.

Angus Millar

(Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

23rd March 2016

INCOME STATEMENT – 2013 RUN-OFF YEAR OF ACCOUNT

TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 36 MONTHS ENDED 31ST DECEMBER 2015

Technical Account – General business

| 2013 RUN-OFF YEAR OF ACCOUNT | | | |
|---|-------|----------------|-----------------------|
| | NOTES | £'000 | £'000 |
| Syndicate allocated capacity | | | <u>42,738</u> |
| <i>Earned premiums, net of reinsurance</i> | | | |
| Gross premiums written and earned | 2 | 78,305 | |
| Outward reinsurance premiums | | <u>(4,303)</u> | 74,002 |
| Allocated investment return, transferred from the non-technical account | 5 | | 263 |
| <i>Claims incurred, net of reinsurance</i> | | | |
| Claims paid – gross amount | | (31,829) | |
| Claims paid – reinsurers' share | | <u>1,875</u> | |
| | | (29,954) | |
| Amounts retained to meet all known and unknown outstanding liabilities, net of reinsurance | 3 | <u>(6,306)</u> | |
| Claims incurred, net of reinsurance | | | (36,260) |
| Net operating expenses | 4 | | (39,091) |
| Balance on the technical account for general business | | | <u><u>(1,086)</u></u> |

INCOME STATEMENT – 2013 RUN-OFF YEAR OF ACCOUNT

NON TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 36 MONTHS ENDED 31ST DECEMBER 2015

Non-Technical Account – General business

| 2013 RUN-OFF YEAR OF ACCOUNT | | |
|--|-------|------------------------------|
| | NOTES | £'000 |
| Balance on technical account – general business | | (1,086) |
| Investment income | 5 | 263 |
| Allocated investment return, transferred to the general business technical account | 5 | (263) |
| Exchange gains and losses | | (2,191) |
| | | <hr/> |
| Loss for the run-off year of account | | <u><u>(3,277)</u></u> |

There is no other comprehensive income in the 36 month period other than dealt with in the technical and non-technical account.

STATEMENT OF CHANGES IN MEMBERS' BALANCES

FOR THE 36 MONTHS ENDED 31ST DECEMBER 2015

| | AS AT 31 DECEMBER 2015 |
|---|------------------------------|
| | £'000 |
| Loss for the year of account as at 31 December 2015 | (3,277) |
| Members' agents' fees | (21) |
| Restatement difference arising from reconversion of 31 December 2014 balances following change in UK GAAP | <u>56</u> |
| Members' balances carried forward at 31 December 2015 | <u><u>(3,242)</u></u> |

STATEMENT OF FINANCIAL POSITION – 2013 RUN-OFF YEAR OF ACCOUNT

AS AT 31ST DECEMBER 2015

ASSETS

| | NOTES | £'000 | £'000 |
|---|-------|-------|---------------------|
| Financial investments | | | |
| Other financial investments | 6 | | 321 |
| Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities | | | |
| | 3 | | 18 |
| Debtors | | | |
| Debtors arising out of direct insurance operations | 7 | 1,728 | |
| Debtors arising out of reinsurance operations | | 15 | |
| Other debtors | | 304 | |
| | | | <u>2,047</u> |
| Other assets | | | |
| Cash at bank and in hand | 9 | 353 | |
| Overseas deposits | 10 | 999 | |
| | | | <u>1,352</u> |
| Prepayments and accrued income | | | |
| | | | - |
| Total assets | | | |
| | | | <u><u>3,738</u></u> |

STATEMENT OF FINANCIAL POSITION – 2013 RUN-OFF YEAR OF ACCOUNT

AS AT 31ST DECEMBER 2015

MEMBERS' BALANCES AND LIABILITIES

| | NOTES | £'000 | £'000 |
|---|-------|------------|---------------------|
| Members' balances | | | |
| Members' balances | | | <u>(3,242)</u> |
| Liabilities | | | |
| Amounts retained to meet all known and unknown outstanding liabilities – gross amount | 3 | | 6,324 |
| Creditors | 8 | | |
| Creditors arising out of reinsurance operations | | 58 | |
| Other creditors including taxation and social security | | <u>474</u> | 532 |
| Accruals and deferred income | | | 124 |
| Total liabilities | | | <u>6,980</u> |
| Total members' balances and liabilities | | | <u><u>3,738</u></u> |

The underwriting year accounts on pages 11 to 31 were approved by the Board of Directors on 23rd March 2016 and signed on its behalf by:

Belinda Taylor
Finance Director

STATEMENT OF CASH FLOWS – 2013 RUN-OFF YEAR OF ACCOUNT

2013 RUN-OFF YEAR OF ACCOUNT

| | NOTES | £'000 |
|---|-------|-------------------|
| <i>Loss for the run-off year of account</i> | | (3,277) |
| Net reserves retained to meet all known and unknown liabilities | 3 | 6,306 |
| Investment return | 5 | (263) |
| Increase in other assets, net of liabilities | | (2,334) |
| <i>Net cash inflow from operating activities</i> | | <u>432</u> |
| <i>Investing activities:</i> | | |
| Investment income received | 5 | 263 |
| Purchase of debt and equity instruments | | (321) |
| <i>Net cash outflow from financing activities</i> | | <u>(58)</u> |
| <i>Financing activities:</i> | | |
| Members' agents' fees | | (21) |
| <i>Net cash outflow from financing activities</i> | | <u>(21)</u> |
| Cash and cash equivalents at 31 December 2015 | 9 | <u><u>353</u></u> |

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

1. ACCOUNTING POLICIES

Statement of compliance

These underwriting year accounts have been prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

The syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014 which required a restatement of previously reported balances within the syndicate's annual accounts for the year ended 31 December 2015. The impact on the reported financial position and financial performance within these underwriting year accounts is £nil other than for the balance of £56,00 disclosed in the Statement of Changes in Members' Balances. References are made within the Significant accounting policies set out below to the impact of FRS 102 and FRS 103 on accounting policies and the presentation of balances within this set of accounts.

Basis of preparation

These underwriting year accounts were approved for issue by the Board of Directors on 23rd March 2016. The financial statements are prepared in sterling which is the functional and presentational currency of the syndicate and rounded to the nearest £'000.

Members participate on a syndicate by reference to a year of account, and each syndicate year of account is a separate annual venture. These underwriting year accounts relate to the 2013 run-off year of account. Consequently the statement of financial position represents the assets and liabilities of the 2013 year of account as at 31st December 2015 and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period. As each syndicate year of account is a separate annual venture there are no comparative figures.

Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the underwriting period. However, the nature of estimation means that actual outcomes could differ from those estimates.

Significant accounting policies

The underwriting year accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of the three-year period, outstanding liabilities can normally be determined with sufficient accuracy to permit the year of account to be closed by payment of a reinsurance to close premium to the successor year of account. Where it is not deemed to be possible to determine the outstanding liabilities with sufficient accuracy, the year of account will not be closed by way of reinsurance to close. The year of account has been put in to run-off due to uncertainty surrounding the treatment of tax rebates and the determination of outstanding liabilities.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

Significant accounting policies *continued*

Premiums written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Premiums in respect of insurance contracts underwritten under a binding authority or line slip are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

Premiums written are treated as fully earned.

Reinsurance premium ceded

Outwards reinsurance premiums are attributed to the same year as the original risk being protected.

Claims paid and related recoveries

Gross claims paid comprise settlement expenses (both internal and external) paid in the year, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Amounts retained to meet all known and unknown outstanding liabilities

The net amount retained to meet all known and unknown outstanding liabilities is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the run-off year of account.

The estimate of gross claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date. It also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical techniques of estimation applied by the syndicate's staff and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience for the relevant classes of business the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

Reinsurers' share is based on calculated amounts of gross outstanding claims and projections for gross 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 and the current security rating of the reinsurance companies involved. The syndicate uses a number of statistical techniques to assist in making these estimates.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

Significant accounting policies *continued*

Amounts retained to meet all known and unknown outstanding liabilities continued

Reinsurers' shares is based on calculated amounts of gross outstanding claims and projections for gross 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 and the current security rating of the reinsurance companies involved. The syndicate uses a number of statistical techniques to assist in making these estimates.

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

The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided.

Insurance contracts – Product classification

Insurance contracts are those contracts when the syndicate has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Foreign currencies

The syndicate's functional currency and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are recorded at the average rates of exchange for the period. Amounts retained to meet all known and unknown liabilities are included at the rate ruling on the date the amounts are first reflected in the accounts.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet dates unless contracts to sell currency for Sterling have been entered into prior to the balance sheet date, in which case the contracted rates have been used.

Differences arising on the translation of foreign currency amounts are included in the non-technical account.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

Significant accounting policies *continued*

Operating expenses

Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash at banks and in hand, net of outstanding bank overdrafts. Short term deposits which are held in collective investment schemes are recognised as Financial Investments in the Statement of Financial Position. The fair value of these short term deposits are valued using FRS 102 Level 1 hierarchy, being quoted (unadjusted) prices in active markets for identical assets or liabilities.

Derecognition of financial assets

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

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

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

Financial liabilities

The syndicate's financial liabilities include trade and other payables, borrowings, insurance payables and derivative financial instruments, 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.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

Significant accounting policies *continued*

Financial liabilities continued

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if:

- there is a currently enforceable legal right to offset the recognised amounts; and
- there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Reinsurance assets

The syndicate cedes insurance risk in the normal course of business for all of its businesses. 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 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 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.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

Significant accounting policies *continued*

Investments

Investments are stated at current value at the balance sheet date. For this purpose listed investments and overseas deposits are stated at mid-market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

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 their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

The returns on investment assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting underwriting business. All investment return is considered to arise on such funds.

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate are included in the Statement of Financial Position under the heading 'other debtors'.

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

Pension costs

HUL operates a defined contribution pension scheme and its recharges to the syndicate in respect of staff costs include an element for pension costs. These costs are included within net operating expenses.

Profit commission

Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

2. PARTICULARS OF BUSINESS WRITTEN

Segmental analysis: type of business

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

| | GROSS PREMIUMS WRITTEN (NOTES 1 & 4) £'000 | GROSS CLAIMS INCURRED (NOTE 2) £'000 | GROSS OPERATING EXPENSES £'000 | REINSURANCE BALANCE (NOTE 3) £'000 | TOTAL £'000 |
|--------------------------------------|--|--|---|---|----------------|
| Direct Insurance: | | | | | |
| Accident & Health | 51,557 | (24,079) | (28,631) | (111) | (1,264) |
| Fire and other damage to property | 8,055 | (5,483) | (3,145) | (531) | (1,104) |
| Third party liability | 13,813 | (5,733) | (5,873) | (1,394) | 813 |
| Pecuniary loss | 4,880 | (2,858) | (1,442) | (374) | 206 |
| | 78,305 | (38,153) | (39,091) | (2,410) | (1,349) |

Note 1: All gross premiums are 100% earned; the foreign exchange difference arising between gross premiums written and gross premiums earned has been taken to the non-technical account as part of exchange gains and losses.

Note 2: Gross claims incurred comprises gross claims paid and gross amounts retained to meet all known and unknown liabilities.

Note 3: The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries paid and reinsurance recoveries anticipated to meet all known and unknown liabilities.

Note 4: All premiums are concluded in the UK.

Geographical analysis: premiums by destination

| | £'000 |
|----------------|---------------|
| UK | 9,865 |
| EU | 3,464 |
| Other European | 907 |
| Australasia | 59,802 |
| North America | 3,671 |
| Other | 596 |
| | 78,305 |

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

3. NET RESERVES RETAINED TO MEET ALL KNOWN AND UNKNOWN OUTSTANDING LIABILITIES

AS AT 31 DECEMBER 2015

| | £'000 |
|--|--------------|
| Gross amount retained to meet all known and unknown outstanding liabilities | 6,324 |
| Reinsurance recoveries anticipated on gross amounts retained to meet all known and unknown outstanding liabilities | (18) |
| Net amount retained to meet all known and unknown outstanding liabilities | <u>6,306</u> |

4. NET OPERATING EXPENSES

CUMULATIVE TO 31 DECEMBER 2015

| | £'000 |
|---|---------------|
| Acquisition costs: | |
| Brokerage and commissions | 32,949 |
| Other | 929 |
| Administrative expenses | 5,213 |
| | <u>39,091</u> |
| The loss at 36 months is stated after charging: | |
| | £'000 |
| Auditor's remuneration: | |
| Audit of syndicate accounts | 117 |
| Other services pursuant to Regulations & Lloyd's Bye-Laws | 3 |
| Standard personal expenses | 772 |

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

5. INVESTMENT RETURN

CUMULATIVE TO 31 DECEMBER 2015

| | £'000 |
|--|--------------|
| Income from investments | 312 |
| Losses on the realisation of investments | (49) |
| | <u>263</u> |
| Average amount of syndicate funds available for investment during the period ("average funds") | 4.05 million |
| Split: | |
| Sterling /Euro | 0.57 million |
| Dollars (Primarily Australian dollars) | 3.48 million |
| Investment return yield | % |
| Sterling /Euro | 0.8 |
| Dollars | 2.3 |

6. FINANCIAL INVESTMENTS

AS AT 31ST DECEMBER 2015

| | MARKET VALUE £'000 | COST £'000 |
|---|--------------------------|---------------|
| Holdings in collective investment schemes | <u>321</u> | <u>321</u> |

Under the fair value hierarchy the above investments are all included in the level 1 category. The cost, fair value and market value of these investment schemes are the same and as at 31 December 2015 related wholly to Canadian Dollar investment schemes (CAD 657,000).

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

7. DEBTORS

AS AT 31ST DECEMBER 2015

| | £'000 |
|--|--------------|
| Arising out of insurance operations – due from policy holders and intermediaries | 1,728 |
| Arising out of reinsurance operations | 15 |
| Other debtors | 304 |
| | <u>2,047</u> |

8. CREDITORS

AS AT 31ST DECEMBER 2015

| | £'000 |
|---|------------|
| Arising out of direct insurance operations – due to policy holders and intermediaries | - |
| Arising out of reinsurance operations | 58 |
| Other creditors | 474 |
| | <u>532</u> |

9. CASH AND CASH EQUIVALENTS

AS AT 31ST DECEMBER 2015

| | £'000 |
|--------------------------|------------|
| Cash at bank and in hand | 353 |
| | <u>353</u> |

10. OTHER ASSETS – OTHER

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

11. BORROWINGS

During the period to 31st December 2015, the syndicate renewed unsecured overdraft facilities with Barclays Bank plc, as a buffer against any timing differences between premium receipts and claims and other expense payments being made. This facility was available for use against the Sterling, Euro, US and Australian dollar accounts. Balances overdrawn for the 2013 underwriting year as at 31st December 2015 were £nil.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

12. RELATED PARTIES

On 1st January 2013 when the 2013 year of account commenced the managing agency was owned by Wild Goose Holdings Pty Ltd (WGH), a company registered in Australia. WGH also owned Kinetic Insurance Brokers Limited (KIBL), a Lloyd's placing broker, which handles the placing of most of the syndicate's binder business through Xchanging. On 1st April 2015 the shareholding of the managing agency and of KIBL was sold by WGH, to Hamilton UK Holdings Limited, a company owned by Hamilton Insurance Group, Ltd, being the ultimate parent company.

Other than directorship fees, salaries and other related remuneration and any potential future investment earnings or growth in capital value arising from shareholdings in these or related companies, no personal benefit is derived by any of the directors from the related party arrangements that exist. All arrangements have been conducted at an arms-length basis.

Transactions between the managing agent and the syndicate

Total fees paid to the managing agency in respect of services provided to the syndicate for the 2013 underwriting year of account amounted to £320,000.

There is no profit commission payable to the managing agency on the 2013 underwriting year of account due to losses arising.

The managing agent recharged £584,000 of administrative expenses to the syndicate, which comprised salary costs of £452,000 and office and other expenses incurred on behalf of the syndicate of £132,000.

As at 31 December 2015 HUL was owed £32,000 for expenses charged to the 2013 underwriting year of account but not yet reimbursed by the syndicate. The creditor is repayable on demand and no interest is charged by the managing agent on the amount due.

Business transactions

Within the WGH group were three service companies which contributed 25% of the gross premiums, net of acquisition costs written in the 2013 year of account. The total acquisition costs charged by the WGH owned service companies and by KIBL to the 2013 underwriting year of account amounted to £6,053,000 (18% of total brokerage and commission charges as disclosed in Note 4), of which £5,926,000 had been charged in the period before change of control.

Following change of control Mr Brian Duperreault, Mr Robert Deutsch, Mr Malcolm Beane, Mr Dominic Ford and Ms Belinda Taylor, who are all directors of HUL, were also appointed as directors of KIBL. They have no interest in the share capital of this company and other than fees paid to Mr Malcolm Beane in his capacity as non-executive director, no director has received any remuneration or other benefits for acting as a director of the company.

Additionally, recharges to the 2013 underwriting year of account of salary and administrative expenses incurred by WGH's service companies on behalf of Syndicate 3334 amounted to £1,317,000. Their expenses plus other recharges directly relating to underwriting operations, which are treated as other acquisition costs in the syndicate's technical account results, account for £669,000 of these recharges.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

In addition the WGH group owns a risk management company in Australia which charged £215,000 for risk surveys undertaken on instruction from the Australian service company. These costs are also included in other acquisition costs in the syndicate's technical account.

Capital support for Syndicate 3334

Of the £42,738,000 of capacity for the 2013 underwriting year of account, SCI Capital Limited, which is a corporate member company within the WGH group, has provided 99.7% of the capital support. The Hamilton group has no participation in the 2013 underwriting year of account.

There are no other transactions or arrangements to be disclosed.

13. POST BALANCE SHEET EVENTS

A cash call of £1,800,000 was made on the 9th March 2016 with a due date of 16th June 2016.

14. RISK MANAGEMENT

The key risk factors affecting the run-off of the 2013 year of account are set out below:

Regulatory risk

The agency is required to comply with the requirements of the PRA and FCA and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a compliance officer who monitors regulatory developments and assesses the impact on agency policy. He is supported by two assistants who carry out a compliance monitoring programme.

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. The objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The syndicate purchases reinsurance as part of its risks mitigation programme and the agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

The Board monitors performance and exposures against the business plan on a rolling monthly basis. Reserve adequacy is monitored through quarterly review by the syndicate actuary and the reserving committee.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities. However, in general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin should decrease. However, due to the uncertainty inherent in the estimation process, the overall claim provision may not always be in surplus. The table below summarises the development pattern of the 2013 run-off year of account at a gross and net level:

| Gross and Net claims development | | | | | | |
|----------------------------------|------------------------|-----------------------------|----------------|-----------------|---------------------------|----------------------|
| £'000 | Underwriting pure year | At end of underwriting year | One year later | Two years later | Less: cumulative payments | Outstanding reserves |
| Gross | 2013 | (15,779) | (31,339) | (34,808) | 28,484 | (6,324) |
| Net | 2013 | (14,670) | (29,673) | (33,101) | 26,795 | (6,306) |

Credit risk

The key aspect of credit risk is the risk of default by one or more of the syndicate's reinsurers or other counterparties. Compliance with the policy is monitored and exposures and breaches are reported to the syndicate risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

HUL aims to mitigate credit risk in the following ways:

- A credit risk policy exists that sets out the approach to managing credit risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee.
- The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.
- Dealing with counterparties with strong credit ratings along with appropriate due diligence as per HUL's compliance procedures.

The following tables provide information relating to the credit risk exposure of the 2013 underwriting year of account as at 31 December 2015. The assets are classified according to Standard & Poor's credit ratings of counterparties.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

| Credit Risk Ratings - As at December 2015 | AAA | AA | A | BBB | BBB or less | Not rated | Total |
|--|-----|----|------------|-----|-------------|--------------|--------------|
| Shares and other variable yield securities and unit trusts | - | - | 321 | - | - | - | 321 |
| Overseas deposits as investments | - | - | - | - | - | 999 | 999 |
| Reinsurer' share of claims outstanding | - | - | - | - | - | 18 | 18 |
| Reinsurer debtors | - | - | - | - | - | 15 | 15 |
| Cash at bank and in hand | - | - | 353 | - | - | - | 353 |
| Insurance debtors | - | - | - | - | - | 1,728 | 1,728 |
| Total credit risk | - | - | 674 | - | - | 2,760 | 3,434 |

The following table show the maximum exposure to credit risk (including an analysis of the financial assets exposed to credit risk) for the components of the statement of financial position.

| Credit Risk Ageing and Impairment | Neither due nor impaired | Up to three months | Three to six months | Six months to one year | Greater than one year | Financial assets that have been impaired | Total |
|--|--------------------------|--------------------|---------------------|------------------------|-----------------------|--|--------------|
| Shares and other variable yield securities and unit trusts | 321 | - | - | - | - | - | 321 |
| Overseas deposits as investments | 999 | - | - | - | - | - | 999 |
| Reinsurer' share of claims outstanding | 18 | - | - | - | - | - | 18 |
| Reinsurer debtors | 15 | - | - | - | - | - | 15 |
| Cash at bank and in hand | 353 | - | - | - | - | - | 353 |
| Insurance debtors | 1,482 | - | 2 | - | 244 | - | 1,728 |
| Other debtors | 304 | - | - | - | - | - | 304 |
| Total credit risk | 3,492 | - | 2 | - | 244 | - | 3,738 |

Liquidity risk

Liquidity risk is the risk that the syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

A number of policies are implemented by the agency to mitigate against the risk of the syndicate being unable to settle its obligations as they fall due. HUL aims to mitigate liquidity risk in the following ways:

- A liquidity risk policy exists that sets out the approach to managing liquidity risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee. The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.
- In overdraft facility has been set-up and is utilised to close any short-term funding gaps.

Due to all funds under the control of the managing agency being held in instant access cash and cash equivalent accounts there are no stated maturity profiles.

Market risk

The key aspect of market risk is that the syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The agency's finance committee reviews currency matching quarterly. Where there is a significant mismatch, the agency seeks to mitigate the risk through forward foreign currency contracts, where this is appropriate.

NOTES TO THE ACCOUNTS

FOR THE 2013 RUN-OFF YEAR OF ACCOUNT

Market risk is made up of three types of risk:

- a) Currency risk;
- b) Interest rate risk; and
- c) Equity price risk

HUL does not hold any investment assets that would be subject to interest rate or equity price risk.

HUL aims to mitigate liquidity risk in the following ways:

A market risk policy exists that sets out the approach to managing market risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee. The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. HUL's functional currency is Sterling and its exposure to foreign exchange risk arises from transactions and assets held in non-sterling currencies. Primarily these are the US, Canadian and Australian Dollars, Euro and Japanese Yen. The following table shows the exposure of the financial assets and liabilities to foreign exchange risk for the 2013 underwriting year.

| At December 2015 - Currency Analysis | GBP | USD | EUR | CAD | AUD | JPY | OTH | Total |
|---|----------------|-------------|--------------|--------------|----------------|-------------|----------|----------------|
| Financial investments | - | - | - | 321 | - | - | - | 321 |
| Reinsurer's share of technical provisions | 7 | - | - | - | 11 | - | - | 18 |
| Insurance and reinsurance receivables | 143 | 108 | (214) | 13 | 1,650 | 43 | - | 1,743 |
| Cash and cash equivalents | 40 | 8 | 311 | 69 | 924 | - | - | 1,352 |
| Other assets | 154 | (84) | 1,213 | 36 | (1,015) | - | - | 304 |
| Total Assets | 344 | 32 | 1,310 | 439 | 1,570 | 43 | - | 3,738 |
| Technical Provisions | (2,755) | (62) | (789) | (180) | (2,514) | (24) | - | (6,324) |
| Insurance and reinsurance payables | (2) | (30) | - | - | (26) | - | - | (58) |
| Other creditors | (472) | - | (68) | - | (58) | - | - | (598) |
| Total Liabilities | (3,229) | (92) | (857) | (180) | (2,598) | (24) | 0 | (6,980) |

Operational risk

This is the risk that errors caused by people, processes or systems 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.