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ICAT Syndicate 4242

Syndicate Annual Report and Financial Statements

31 December 2015

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Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell, Chairman and Non-Executive Director
Y A Bouman (Resigned 12 February 2016)
G M J Erulin, Non-Executive Director
L Harfitt
A J Hubbard, Non-Executive Director
D J G Hunt
D F C Murphy, Non-Executive Director
S P A Norton
J W Ramage, Non-Executive Director
J M Tighe

Company Secretary

C Chow

Managing Agent's Registered Office

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

Registered Number

01918744

Directors and Administration (Continued)

Syndicate

Active Underwriter

M H McConnell

Primary Coverholder

International Catastrophe Insurance Managers LLC (ICAT)

Claims Administrator

Boulder Claims LLC

Investment Manager

General Re – New England Asset Management

Bankers

Citibank NA
Barclays Bank PLC
Lloyds Bank
The Bank of New York Mellon Corporation

Registered Auditors

KPMG LLP

Signing Actuary

N Sharif, KPMG LLP

Annual Report of the Directors of the Managing Agent

31 December 2015

The directors of the Managing Agent (the directors) present their report below, together with the audited financial statements for Syndicate 4242 (the Syndicate), for year ended 31 December 2015 on pages 20 to 55.

The directors prepared this annual report using the annual basis of accounting required by Statutory Instruments No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The directors provide separate accounts for closed underwriting years to the Syndicate's members in accordance with Lloyd's Syndicate Byelaw No. 8 of 2005.

Managing Agent

The Managing Agent for the Syndicate is Asta Managing Agency Ltd (Asta). Asta also manages seven other syndicates and three Special Purpose Syndicates on behalf of supporting third parties. The financial statements of the Managing Agent can be obtained by application to the Managing Agent's Registered Office listed on page 2.

Results

The Syndicate generated profits of $29.6 million ($32.5 million in 2014) on gross written premiums of $169.4 million ($135.2 million in 2014).

This table details the profits and related returns on insurance capacity for the 2013 closed underwriting year and the directors forecast for the Syndicate's two open underwriting years.

	Underwriting Years		
	2015 Open	2014 Open	2013 Closed
	$000	$000	$000
Profit	23,203	29,138	29,063
Return on insurance capacity	16.6%	21.9%	22.3%

Principal Activities

The Syndicate transacts general insurance and reinsurance business in the United Kingdom (U.K.) within the Lloyd's market. The Syndicate specialises in underwriting property insurance policies covering small and middle market businesses located in areas of the United States (U.S.) that are prone to hurricanes and earthquakes. Hurricane policies include coverage for tropical storms and also provide attritional protection against tornados, hail, and other windstorm risks. The Syndicate also offers incidental general liability, equipment breakdown, and limited flood coverage when purchased alongside hurricane or earthquake coverage and All Other Peril (AOP) coverage. AOP coverage provides protection against fires, theft, vandalism, water damage, and other covered property perils. Newly formed ICAT Special Purpose Syndicate 6123 (SPS 6123) reinsures the Syndicate for a portion of this business. The Syndicate also provides reinsurance to U.S. insurance companies covering personal lines property risks against named hurricanes in Hawaii and earthquakes in California and Hawaii.

The Syndicate contracts with certain wholly owned subsidiaries of Paraline Group, Ltd, a Bermuda based insurance organisation, for certain insurance services; these subsidiaries include International Catastrophe Insurance Managers, LLC (ICAT Managers), Boulder Claims, LLC (Boulder Claims), and Paraline International, Ltd (Paraline International). ICAT Managers and Boulder Claims are Delaware companies, while Paraline International is a Bermuda company.

Annual Report of the Directors of the Managing Agent

31 December 2015

ICAT Managers underwrites most of the Syndicate's insurance business as its primary coverholder. ICAT Managers writes business for the Syndicate through its network of relationships with surplus line wholesale brokers and licensed retail agents. Although the Syndicate delegates day-to-day underwriting and related operational management responsibility to ICAT Managers, the directors regularly review the results of the coverholder's monitoring procedures and supplement these procedures with Managing Agent and third party audits. Paraline International also provides underwriting oversight for the Syndicate.

Boulder Claims provides claims administration services to the Syndicate. The Managing Agent contracts with a third party to coordinate oversight of Boulder Claims.

The insurance services that ICAT Managers and Boulder Claims (collectively, ICAT) provide to the Syndicate account for 53.8% of their total business. ICAT also provides services to other syndicates and insurance carriers and claims services to a state sponsored risk pool. ICAT's main office is in Broomfield, Colorado.

The Syndicate also contracts with other parties to underwrite insurance business subject to oversight by ICAT.

Business Review

Business Summary

The Syndicate entered into a binding authority agreement with ICAT to underwrite insurance business. ICAT writes this business in the underwriting regions of the U.S. below.

i. Eastern Seaboard

ii. Florida

iii. Gulf Coast

iv. Hawaii

v. Earthquake (primarily California, the U.S. Pacific Northwest, the U.S. Intermountain West, Alaska, the New Madrid area of the U.S., and Hawaii)

ICAT further divides its commercial underwriting operations into two business units: the Platform Business Unit (PBU) and the Middle Market Business Unit (MMBU).

i. The PBU provides coverage to small businesses that the traditional insurance industry may overlook having properties with insured values of generally $5.0 million or less with an average value of $1.8 million and an average premium of $4,923. Small business policies account for 46.2% (49.5% in 2014) of the Syndicate's total business.

ii. The MMBU provides coverage to middle market businesses on the lower end of the market that require customised and layered insurance solutions. Middle market properties have insured values of more than $5.0 million, but typically less than $50.0 million, with an average value of $20.1million and an average premium of $18,919. Middle market policies account for 39.5% (42.4% in 2014) of the Syndicate's total business.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The Syndicate also provides proportional reinsurance to four U.S. insurance companies covering personal lines property risks: three companies covering earthquakes in California and one company covering named hurricanes and earthquakes in Hawaii. The Syndicate reinsures the California risks, most of which are subject to maximums of $2.5 million for each building and $4.1 million of total insured value for each policy. The Syndicate also limits its reinsurance acceptances from one company ceding California risks to no more than $3.5 million of premiums, while it limits the cessions from another to $15.0 million of premiums a year. The Syndicate reinsures Hawaii risks, subject to a maximum liability of $300.0 million for each catastrophe ($600.0 million in the event of multiple catastrophes). These California and Hawaii reinsurance arrangements include commissions of 26.0% to 40.0% on inward reinsurance premiums. These reinsurance acceptances account for 9.6% (6.9% in 2014) of the Syndicate's total business.

The Syndicate has separate binding authority agreements with third party coverholders to underwrite policies covering high-value homes and small businesses against property losses, including those from hurricanes and other windstorms in Florida, coastal counties from Virginia to Texas, and the Northeastern U.S. and earthquakes in certain areas of the U.S. Some of these policies also cover the owners' incidental liabilities and account for the rest of the Syndicate's total business. ICAT controls and monitors this business on behalf of the Syndicate.

On 2015 May 1, ICAT launched SPS 6123. SPS 6123 provides variable quota share reinsurance to the Syndicate on certain middle market business policies. This outward reinsurance arrangement effectively affords the Syndicate with more insurance capacity to cover a greater portion of larger risks.

The Syndicate's insurance capacity is £98.0 million ($152.2 million at 31 December), £8.0 million of which relates to business reinsured by SPS 6123 ($12.4 million at 31 December). Insurance capacity is a measure of the maximum gross premiums, net of acquisition costs that the Syndicate is eligible to write; the Syndicate wrote $120.9 million ($97.5 million in 2014) in such premiums.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

Key Financial Performance Indicators

In the opinion of the directors, the key financial performance indicators below best represent the performance and position of the Syndicate.

	2015 $000	2014 $000
Gross written premiums:		
Eastern Seaboard	27,890	24,659
Florida	56,842	44,984
Gulf Coast	33,863	28,502
Hawaii (includes direct and inward reinsurance premiums)	6,023	6,310
Earthquake (includes direct and inward reinsurance premiums)	44,748	30,718
Total gross written premiums	169,366	135,173
% of insurance capacity	78.5%	80.2%
Outward reinsurance premiums	(60,465)	(42,731)
Profit for the financial year	29,580	32,549
Members' balances	46,604	44,482
Net loss ratio*	17.8%	12.1%
Combined ratio (financial basis)*	70.8%	64.4%

**The net loss ratio is the ratio of net claims incurred to net premiums earned, while the combined ratio is the ratio of net claims incurred and net operating expenses to net premiums earned. Lower ratios represent better performance.*

The Syndicate's profitability decreased by 9.1% compared to the last year for two reasons: higher AOP losses and reinsurance spending.

The Syndicate experienced significantly more AOP losses in 2015 from water damage and fires. Unusually cold weather and winter storms in the Northeastern U.S. during the first quarter of year were to blame for a majority of the water damage losses as a result of freezing and bursting pipes, while large fire claims, particularly a $1.5 million claim, were to blame for the increase in fire losses. The 2015 Atlantic hurricane season was a slightly below average season with 11 named storms. Tropical Storm Ana made landfall near North Myrtle Beach, South Carolina on 10 May, making it the earliest U.S. storm landfall on record. Tropical Storm Bill made landfall near Matagorda Island, Texas and remained over land for a few days which caused flooding. The 2015 Pacific hurricane season was the second most active Pacific hurricane season on record with 26 named storms. Hurricanes Guillermo, Hilda, Jimena, Kilo, and Ignacio along with Tropical Storm Niala affected Hawaii with heavy rains and high surf, though none of them actually made landfall. Despite an active season in both the Atlantic and Pacific basins, the Syndicate did not suffer significant catastrophe losses.

Reinsurance costs increased because the Syndicate placed more catastrophe coverage in response to continued growth in its business and a new variable quota share arrangement with SPS 6123. The Syndicate increased its catastrophe coverage by up to $235.0 million for each large event ($375.0 million in the aggregate) to protect against its growing aggregate exposure to insurance risk, resulting in increased reinsurance costs of $9.1 million. The Syndicate also ceded premiums of $6.6 million to SPS 6123.

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The Syndicate's gross written premium grew by 25.3% in 2015. With the exception of Hawaii, the rest of the Syndicate's business grew by more than 10.0%, led by the Earthquake region and Florida, despite a continued softening of rates across the market throughout the year. The deployment of increased insurance capacity in the Earthquake region and the overall allocation of more capacity to Florida explains most of this growth. The Syndicate's other binding authorities and inward personal lines reinsurance arrangements in California covering residential properties against earthquakes also contributed to this growth.

Both the Syndicate's net loss ratio and combined ratio deteriorated as a result of the increased AOP losses and reinsurance discussed above. The absence of significant catastrophe losses during the year, however, drove the Syndicate's overall profitability.

Non-financial Key Performance Indicators

	2015	2014
Adherence to underwriting authority limits	100.0%	100.0%
Customer retention ratio	83.7%	86.4%

The Managing Agent contracts with ICAT to perform a majority of the Syndicate's activities. The Managing Agent's staff, however, reviews and monitors the activities of ICAT and provides actuarial (both reserving and capital modelling), regulatory compliance, and risk management services to the Syndicate. The Managing Agent is responsible for the environmental activities of the Syndicate, although by their nature, insurers generally do not produce significant environmental emissions. Therefore, the directors do not consider it appropriate to monitor and report any performance indicators for environmental matters.

Outward Reinsurance Arrangements

Catastrophe Coverage – The Syndicate has layered catastrophe reinsurance to protect against the adverse accumulation of the losses below from multiple policies as a result of large catastrophic events.

i. First event: Losses in excess of $35 million up to $535 million

ii. Second event: Losses in excess of $20 million up to $300 million

iii. Third event: Losses in excess of $10 million up to $50 million

The catastrophe reinsurance above provides $720.0 million of aggregate coverage. Included in the aggregate coverage is reinsurance to protect against an accumulation of losses from two catastrophic events, each with losses up to $80.0 million; combined reinsurance recoveries under this coverage and higher layer, first event coverage of $95.0 million in excess of $332.6 million (collectively, the Shared Limit Coverage) are limited to $140.0 million.

If the Syndicate exhausts any of its catastrophe reinsurance, a portion of the coverage is automatically reinstated for additional premiums to protect against more catastrophic events during the rest of the coverage term, subject to certain aggregate limits.

Before 1 April, 2015, the Syndicate had similarly layered catastrophe reinsurance to protect against large catastrophic events, each with losses in excess of $30 million up to $300 million ($450 million in the aggregate), with a majority of the coverage subject to automatic reinstatement.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The reinsurers base their catastrophe reinsurance coverage pricing on the actual amount of gross catastrophe insurance business written by the Syndicate (with the exception of the flat premiums for the Shared Limit Coverage and certain earthquake coverage).

Attritional Catastrophe Coverage – The Syndicate has attritional catastrophe reinsurance to protect against tornados, hail, and other windstorm events, each with losses in excess of $1 million up to $4 million with no reinstatement.

All Other Peril Coverage – The Syndicate has reinsurance to protect against the occurrence of losses from other perils such as large fires. The Syndicate reinsures losses excluding flood, earthquake, windstorm or hail in excess of $1 million ($250,000 for residential property) for each building up to $14 million and events damaging several buildings in the same location with losses in excess of $2.0 million up to $5.0 million. For multiple sinkhole collapse and terrorism events, total coverage is limited to $35.0 million. The Syndicate earns contingent profit commissions on this coverage equal to 25% of the excess of ceded premiums over deductions for underwriting expenses (equal to 35% of ceded premiums) and any claims, including adjustment expenses being paid under the coverage.

For properties reinsured before 1 January 2015, the Syndicate had similar coverage for losses in excess of $1 million ($250,000 for residential properties) for each building up to $10 million with a total coverage limit for multiple sinkhole collapse and terrorism events of $27 million.

SPS 6123 Coverage – Beginning 2015 May 1, the Syndicate has variable quota share reinsurance, where it cedes up to 80% of the related written premiums on certain middle market business policies with total insured values of more than $10 million, subject to a limit of $5 million on each policy.

The Syndicate has proportional reinsurance to cover most of its general liability and equipment breakdown related liabilities and also purchases facultative AOP reinsurance for larger risks.

Future Outlook

Though the Syndicate expects soft market conditions to persist in 2016 with rates declining further, it still plans to grow its business, though not as much as in the last two years. The Syndicate expects to increase its inward reinsurance personal lines business in California covering residential properties against earthquakes and expand its other binding authorities covering homes against hurricanes to other states. Also, the Syndicate together with ICAT will remain active in seeking new partnerships with other potential coverholders and ceding insurers to help expand its business further. The Syndicate expects the reinsurance rate reductions that it enjoyed over the last few years to level off in 2016, but still remain attractive for increasing coverage more to support planned growth.

Investments

The Syndicate's investment strategy seeks to preserve capital and maintain enough liquidity to support the underwriting activities of the business. The Managing Agent delegates the management of funds under its control in the U.S. situs trust funds and the Lloyd's Dollar Trust Fund to an external fund manager, General Re – New England Asset Management (GR-NEAM). The Managing Agent, in consultation with ICAT, established investment guidelines for the fund manager to follow. Under these guidelines, the fund manager maintains an investment portfolio, which focuses on credit quality in the selection of investments and avoids complex instruments and investments correlated to the Syndicate's loss exposures in areas prone to hurricanes and tropical storms.

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The directors evaluate the fund manager's performance against the Bank of America Merrill Lynch 0-1 year U.S. Treasury Notes and Bonds benchmark. The fund manager underperformed this benchmark by 25.00% during the year, resulting in a yield of 0.12%. U.S. trust funds include the U.S. situs trust funds and the Lloyd's Dollar Trust Fund (the Syndicate's main operating account) under the Managing Agent's control. U.S. trust funds also include the Lloyd's Joint Asset Trust Funds (JATF), which provide further support in addition to the U.S. situs funds. Citibank NA is the custodian of the U.S. situs trust funds, the Lloyd's Dollar Trust Fund, and the JATF. The U.S. situs trust funds and JATF protect the Syndicate's policyholders as required by U.S. regulators and are unavailable for use in the Syndicate's operations.

Foreign Exchange

Foreign exchange is not significant to the Syndicate, since the Syndicate transacts all of its business in U.S. Dollars.

Principal Risks and Uncertainties

The following paragraphs summarise the principal risks and uncertainties facing the Syndicate.

Insurance Risk

Underwriting Risk – Underwriting risk may either arise from an inaccurate assessment of the risks entailed in writing an insurance policy or from factors wholly out of the Syndicate's control. As a result, losses paid by the Syndicate may exceed earned premiums. The Syndicate tries to reduce underwriting risk by basing its risk appetite on its maximum loss tolerance. The Syndicate sets its tolerance for catastrophe losses based on nationwide and regional Exceedance Probabilities (EP) in the U.S., as well as on Realistic Disaster Scenarios (RDS) designed to stress test the Syndicate for material catastrophe risks at different probability levels by potential loss of capital. The EP is the probability that losses exceed a certain threshold for a catastrophic loss event at a selected probability of occurrence. The Syndicate generally quantifies its risk appetite at the 99.5% EP level or the 1 in 200 year loss. RDS include the events below.

i. Windstorm in the Northeastern U.S.

ii. Windstorm in the Carolinas

iii. Two separate Florida windstorms (Miami-Dade and Pinellas)

iv. Windstorm in the U.S. Gulf

v. Two separate California earthquakes (Los Angeles and San Francisco)

vi. New Madrid area of the U.S. earthquake

vii. Two separate Syndicate-specific scenarios (Mississippi windstorm and U.S. Pacific Northwest earthquake)

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The Syndicate's 1 in 200 year nationwide EP estimated losses increased from $370.7 million at 31 December 2014 to $485.2 million by the peak of the 2015 hurricane season due to the growth in the Syndicate. The Syndicate monitors EP estimated losses and balances the offering of new and renewal accounts between low and high loss-driving areas. The Syndicate sets its tolerance for AOP losses at the building and location level. ICAT monitors the Syndicate's loss exposures against its underwriting risk appetite using various methods, including RDS modelling. Also, the Syndicate periodically evaluates and adjusts its reinsurance protection to manage its overall retention of insurance risk.

ICAT controls the underwriting of the Syndicate's business, including the underwriting of original risks for all of Syndicate's inward reinsurance. ICAT sets and controls the underwriting authority of each of its underwriters. Underwriters adhere to daily monitored regional blueprints, which identify where the Syndicate's insurance capacity should be deployed. These blueprints, with their defined underwriting guidelines alongside modelling and pricing practices, determine the prescribed range of rates at which ICAT may sell the Syndicate's insurance capacity. Underwriters must refer underwriting decisions for risks outside of those outlined in the blueprints or in excess of their authority limit to higher levels of authority. ICAT audits the individuals who have binding authority in both groups on a regular basis to ensure adherence to established underwriting authority limits. ICAT also conducts other underwriting audits on an ad-hoc basis and reviews significant risks written each month. The Managing Agent also has its own controls.

The Managing Agent has a governance structure in place to monitor the underwriting and loss exposure management controls of ICAT. The Managing Agent appoints the Syndicate Board (the Board), which manages the Syndicate. The Board ensures the appropriate management of the Syndicate in accordance with the Managing Agent's responsibilities. The Board meets quarterly and has delegated authority to approve underwriting related matters, including:

i. non-material changes to the business plan,

ii. underwriting authority levels and guidelines,

iii. operational and coverholder procedures,

iv. risk policies, the risk register, and all other risk management matters, and

v. the Syndicate's compliance plan.

The Managing Agent also monitors the Syndicate's performance against its underwriting risk appetite in several ways, including regular meetings with the Active Underwriter and participation in the monthly meetings of the Production Risk Management Committee (the Committee), which is a subcommittee of the Board, that considers reports from the Active Underwriter and other areas of the business. The Committee also reviews underwriting related matters, including:

i. progress against the business plan or forecast,

ii. premium rates and volumes,

iii. overall loss exposures,

iv. significant product and premium rate changes;

v. market conditions, and

vi. the outcome of underwriting audits covering the operations of ICAT.

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Furthermore, Paraline International provides oversight of the underwriting policies adopted by the Active Underwriter. Paraline International identifies key underwriting guidelines and limitations in the binding authority agreement between ICAT and the Syndicate and monitors ICAT adherence to these underwriting guidelines including consideration of material changes in underwriting authority, risk profile, reinsurance, and any breaches of the ICAT binding authority agreement.

The Syndicate's annual business planning process sets the targets for written premiums and overall profitability for the coming year. Factors taken into account in determining these targets include the risk appetite of the Syndicate's capital providers, anticipated pricing, insurance policy terms and conditions, and other risk metrics.

Reserving Risk – The Syndicate's financial condition and profitability depend heavily on its ability to accurately assess its liability for claims outstanding from its insured and reinsured risks. The Syndicate tries to reduce the risk associated with this assessment by hiring qualified third party claims administrators that have specialised adjusters and forensic engineers to set reserves on notified damaged properties and incidental liability claims. Both ICAT and the Managing Agent review these reported claims monthly. The Syndicate also employs standard actuarial methods to assess its overall best estimate of reserves for each underwriting account quarterly using historical losses loaded for future uncertainty in areas where reserves may prove to be materially inadequate; this assessment process requires ongoing discussions between the Syndicate's actuaries and the underwriters and claims adjusters of ICAT, and includes various levels of approval supplemented by external actuarial validation. The Syndicate's actuaries track projected loss ratios quarterly and may reassess their reserving methods if necessary. The Board approves the reserves of the Syndicate quarterly for the first, second, and third quarters, after considering the recommendation of the Reserve Committee (a subcommittee of the Board). The Managing Agent's Board approves the Syndicate's fourth quarter reserves.

Catastrophe Risk – The occurrence of adverse economic conditions, natural or other disasters, or other circumstances specific to or otherwise significantly impacting the regions and states in which the Syndicate mainly underwrites in may adversely affect its profitability and financial condition. The Syndicate tries to limit this risk through geographic diversification. ICAT uses catastrophe models to set the Syndicate's overall loss exposure limits; these models include provisions for secondary uncertainty, loss amplification (demand surge), storm surge coverage leakage. ICAT models every property in the Syndicate's book of business monthly using adjusted modelling parameters to address observed deficiencies in these models to better reflect historical losses. In managing the Syndicate's risk appetite, ICAT allocates limits to various geographic zones. The identification and determination of each zone and its area as well as whether to include a particular policy within a zone's limits requires significant judgment. ICAT controls and limits the Syndicate's concentration of risk within these zones as well as the risk at the neighbourhood and street level using an accumulation tool.

In addition to the Syndicate's catastrophe risks, the Syndicate's profitability and financial condition may be adversely affected by unexpectedly large accumulations of AOP losses and incidental liability claims. ICAT tries to reduce this risk to the Syndicate by using appropriate underwriting processes, which include inspections of every property, to guide the pricing and acceptance of risks. These processes help to ensure that premiums cover the expected levels of loss.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The Syndicate tries to limit its risk of insolvency from a single large catastrophe or multiple smaller catastrophes by purchasing reinsurance. The Syndicate evaluates the probability of catastrophes using a catastrophe model that quantifies its hurricane and earthquake related loss exposures. ICAT developed the catastrophe model used by the Syndicate by applying its model adjustment methodology to a model from a major vendor to align the vendor model to the Syndicate's assessment of risk. The Syndicate applies this adjustment methodology because it estimates building vulnerability, storm surge coverage leakage, losses from inland risks and coastal risks, and landfall frequency and severity more precisely than the vendor model. The Syndicate validates the results from ICAT's methodology against alternate models from other major vendors.

Reinsurance Risk – The cost of reinsurance also impacts the Syndicate where the availability of reinsurance and associated pricing is subject to prevailing market conditions which fluctuate in cycles over time. These cycles are affected by various factors including the frequency and severity of worldwide catastrophic events, market capacity, competition, and general economic conditions. The Syndicate monitors market cycles and seeks favourable reinsurance pricing with a diversified group of secure reinsurers.

Operational Risk

Operational risk is the risk that events caused by people, internal controls, processes, or systems lead to losses for the Syndicate. The Managing Agent together with ICAT and Paraline International try to manage this risk for the Syndicate by having detailed procedure manuals in place. They also have business continuity and disaster recovery plans in place. The close involvement of the directors in the Syndicate's key decision making further reduces the risk of these losses.

Market Risk

Interest Rate Risk – Increasing market interest rates reduce the value of the Syndicate's fixed maturities. The Syndicate may realise a loss if it sells fixed maturities whose value has fallen below their acquisition cost. Declining market interest rates may reduce the Syndicate's investment income, as it invests proceeds from positive operating cash flows and reinvests proceeds from maturing or sold investments in new investments that may yield less than the investment portfolio's historical average rate of return. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions, and other factors beyond the Syndicate's control. The Syndicate significantly reduces this risk by maintaining high quality investments (rated AA or better on average by Standard & Poor's) with an average duration of one year or less in its investment portfolio to provide downside protection against increases in interest rates; accordingly, the Syndicate does not have material interest rate risk.

Currency Risk – The Syndicate writes all its business in U.S. Dollars, which is its functional currency. The Syndicate also keeps all of its reinsurance balances and investments in U.S. Dollars. The Syndicate has Great British Pound expenses; these expenses, however, do not create material currency risk for the Syndicate. The Syndicate has no exposure to other currencies.

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31 December 2015

Investment Price Risk – Disruptions in the public debt market, including widening credit spreads, bankruptcies, and government intervention in large financial institutions, may result in significant realised and unrealised losses in the Syndicate's investment portfolio. Also, market conditions and other factors beyond the Syndicate's control could cause the credit quality ratings of its investments to deteriorate. If the Syndicate liquidates these securities during a period of tightening credit in the financial markets, it may realise a loss. The Syndicate significantly limits this risk by purchasing short-term, high quality investments consisting mostly of money funds, commercial paper, and U.S. Treasury bills, and generally holding them to maturity.

Credit Risk

Bankruptcy, liquidity problems, distressed financial condition, or the general effects of today's economic environment may increase the risk that policyholders or intermediaries, such as insurance agents and brokers, may not pay a part of or the full amount of premiums owed to the Syndicate's coverholders, despite an obligation to do so. If non-payment becomes widespread, whether as a result of bankruptcy, lack of liquidity, adverse economic conditions, operational failure, or otherwise, it could have a material adverse impact on the financial condition of the Syndicate's coverholders and their ability to pay the premiums they in turn owe to the Syndicate. No single agent, broker, or policyholder accounted for more than 13.2% (11.0% in 2014) of the premiums that the coverholders wrote for the Syndicate and 13.4% of premium balances due at 31 December 2015 (10.5% at 31 December 2014). Further, insurance policies may be cancelled for non-payment from policyholders.

The Syndicate transfers significant amounts of insurance risk to reinsurers. If these reinsurers fail to honor their obligations, the Syndicate's financial condition, profitability, and cash flows could be adversely affected. The Syndicate tries to reduce this risk by setting maximum exposure and credit limits for each of its reinsurers based on their industry credit rating and net asset balance. The Syndicate regularly evaluates the financial condition and payment performance of its reinsurers with the help of outside brokers; evaluations include reviewing credit ratings and monitoring concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics to minimise the Syndicate's exposure to significant losses from reinsurer insolvencies. The Syndicate mostly purchases reinsurance from reinsurers with an A.M. Best or Standard & Poor's rating of A or better. If a reinsurer does not have an A or better rating, the Syndicate may obtain collateral from the reinsurer to secure their reinsurance obligations. The Syndicate had U.S. Dollar denominated collateral of $173.9 million from certain reinsurers at 31 December 2015 to secure their obligations. No single reinsurer accounted for more 18.5% of reinsurance balances recoverable at 31 December 2015 (23.5% at 31 December 2014). There were no catastrophe reinsurance recoveries outstanding at 31 December 2015. There were $1.3 million in outstanding AOP and liability recoveries on paid claims, $1.1 million of which the Syndicate collected on 6 January 2016.

Liquidity Risk

The Syndicate's operations could be adversely affected if it did not have 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 Syndicate settles its payment obligations in accordance with the vendor terms of each transaction. At 31 December 2015 billings were 22 days outstanding (20 days at 31 December 2014). The Syndicate holds any excess funds in cash or invests them in money funds readily convertible to cash without excessive cost to the business. The Syndicate also has a $35.0 million letter of credit facility from Barclays Bank PLC that it collateralised with reinsurance balances recoverable and premiums receivable.

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Regulatory and Compliance Risk

The Syndicate is subject to continuing approval by Lloyd's to operate in the Lloyd's market and must comply with the regulatory requirements set by Lloyd's, the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA). Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly by U.S. regulators concerning U.S. risks underwritten by the Lloyd's market. The Syndicate tries to reduce the risk of its approval to operate in the Lloyd's market being revoked by monitoring and fully complying with all of its regulatory obligations. The Managing Agent helps the Syndicate in this regard by regularly monitoring regulatory and legal compliance related developments and assessing the impact of these developments on agency and Syndicate policies.

Insurance business is state regulated in the U.S., and therefore, state legislatures may enact laws that adversely affect the industry. Such unfavourable changes could adversely impact the Syndicate's operations. The Syndicate's operating status in all states as an approved non-admitted surplus lines carrier rather than as a licensed and admitted carrier, however, reduces this risk. Surplus lines carriers are less regulated, specifically in the forms they use and the rates they can charge. Surplus lines carriers, however, cannot write insurance that is typically available in the admitted market and, traditionally, may only write a policy if it has been rejected by three different admitted carriers and provided the agent or broker placing the business with them has a surplus lines license. Surplus lines carriers are not protected by state guarantee funds, although the U.S. trust funds and Lloyd's Central Fund provide a chain of security for the Syndicate's policyholders.

Future Developments and Important Events since the End of the Financial Year

The Syndicate increased its insurance capacity to write business from £98.0 to £110.0 million ($162.9 million) for the 2016 underwriting year, £15.0 ($22.2 million) of which relates to business reinsured by SPS 6123.

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

Payments to Members

The Syndicate generally releases a majority of the profits on each of its open underwriting years to members at the end of two calendar years. Therefore, the directors propose a $27.6 million open year profit release to the members of the 2014 underwriting year.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

Directors

The people below were directors of the Managing Agent of the Syndicate from 1 January 2015 to the date of this report.

T A Riddell, Chairman and Non-Executive Director
Y A Bouman (Resigned 12 February 2016)
G M J Erulin, Non-Executive Director
L Harfitt
A J Hubbard, Non-Executive Director
D J G Hunt
D F C Murphy, Non-Executive Director
S P A Norton
J W Ramage, Non-Executive Director
J M Tighe

The directors of Asta did not participate on the Syndicate and did not have an interest in any of its contracts.

Disclosure of Information to Auditors

Each of the directors who held office at the approval date of this report confirms to the best of their knowledge, that there is no relevant audit information of which the Syndicate's auditors are unaware, and each Director took all action necessary as a Director to become aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Auditors

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

On behalf of the Board

Charmaine Chow
Company Secretary
15 March 2016

Statement of Managing Agent's Responsibilities

31 December 2015

The Managing Agent must prepare the directors' annual report and financial statements for Syndicate 4242 (the Syndicate) 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 financial statements for the Syndicate at 31 December each year in accordance with applicable law and United Kingdom (U.K.) accounting standards (U.K. Generally Accepted Accounting Practice). Law requires that the financial statements give a true and fair view of the state of affairs of the Syndicate at that date and its profit or loss for the year.

In preparing the Syndicate's financial statements, the Managing Agent must:

i. select suitable accounting policies and apply them consistently, subject to changes from new accounting standards adopted during the year;

ii. make reasonable and prudent judgments and accounting estimates;

iii. state whether they followed applicable accounting standards, subject to any material departures disclosed and explained in the notes to the financial statements; and

iv. prepare the financial statements on the basis that the Syndicate will continue to write business for the foreseeable future unless it is inappropriate to presume so.

The Managing Agent must keep adequate accounting records that disclose with reasonable accuracy at any time the financial condition of the Syndicate and enable the Managing Agent to ensure that the Syndicate's financial statements comply with the 2008 Regulations. The Managing Agent must also safeguard the assets of the Syndicate by taking reasonable steps to prevent and detect fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Syndicate 4242

We have audited the financial statements of Syndicate 4242 for the year ended 31 December 2015, as set out on pages 20 to 55. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of the managing agent and auditors

As explained more fully in the statement of managing agent's responsibilities set out on page 17, the Managing Agent is responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on the syndicate's financial statements

In our opinion the financial statements:

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

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

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

Independent auditors' report to the members of Syndicate 4242 (Continued)

Matters on which we are required to report by exception

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

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

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

15 March 2016

Statement of Profit and Loss - Technical Account
Year Ended 31 December 2015

	Note	2015 $000	2014 $000
Technical account - General business:			
Earned premiums, net of reinsurance:			
Gross premiums written	3	169,366	135,173
Outward reinsurance premiums		(60,465)	(42,731)
Net premiums written		108,901	92,442
Change in the gross provision for unearned premiums	12	(15,329)	(2,532)
Change in the provision for unearned premiums, reinsurers' share	12	7,227	1,371
Net change in provision for unearned premiums		(8,102)	(1,161)
Earned premiums, net of reinsurance		100,799	91,281
Allocated investment return transferred from the non-technical account	5	8	18
Claims incurred, net of reinsurance:	4		
Claims paid:			
Gross amount		(17,216)	(11,588)
Reinsurers' share		1,551	75
Claims paid		(15,665)	(11,513)
Change in the provision for claims:	12		
Gross amount		(2,989)	446
Reinsurers' share		706	37
Change in provision for claims		(2,283)	483
Claims incurred, net of reinsurance		(17,948)	(11,030)
Net operating expenses	6, 7	(53,204)	(47,720)
Balance on techincal account - general business		29,655	32,549

All operations relate to continuing activities.

The notes on pages 26 to 55 form part of these financial statements.

Statement of Profit and Loss - Non-technical Account
Year Ended 31 December 2015

	Note	2015 $000	2014 $000
Balance on the technical account - general business		29,655	32,549
Investment income	5	155	98
Unrealised gains on investments	5	—	5
Investment expenses and charges	5	(93)	(77)
Unrealised losses on investments	5	(54)	(8)
Allocated investment return transferred to general business technical account	5	(8)	(18)
Other charges (loss on foreign exchange)		(75)	—
Profit for the financial year		29,580	32,549

All operations relate to continuing activities.

Syndicate 4242 had no recognised gains and losses this year or last year other than those included in the Profit and Loss Account. Therefore, the directors of the Managing Agent have not presented a Statement of Comprehensive Income.

The notes on pages 26 to 55 form part of these financial statements.

Balance Sheet
At 31 December 2015

	Note	2015 $000	2014 $000
Assets:			
Investments:			
Other financial investments	8	94,066	74,442
Reinsurers' share of technical provisions:	12		
Provision for unearned premiums		12,088	4,861
Claims outstanding		911	205
		12,999	5,066
Debtors:			
Debtors arising out of direct insurance operations	9, 14	19,498	13,238
Debtors arising out of reinsurance operations		3,291	1,835
Other debtors		707	541
		23,496	15,614
Other assets:			
Cash and cash equivalents		737	11,467
Prepayments and accrued income:			
Accrued interest		39	4
Deferred acquisition costs	10	18,847	14,108
Other prepayments and accrued income		2,357	2,070
		21,243	16,182
Total assets		152,541	122,771

The notes on pages 26 to 55 form part of these financial statements.

Balance Sheet
At 31 December 2015

	Note	2015 $000	2014 $000
Liabilities:			
Capital and reserves:			
Members' balances	11	46,604	44,482
Technical provisions:	12		
Provision for unearned premiums:			
Gross amount		65,928	50,599
Claims outstanding:			
Gross amount		12,121	9,132
		78,049	59,731
Creditors:			
Creditors arising out of direct insurance operations		32	108
Creditors arising out of reinsurance operations		13,295	9,338
Other creditors	13	3,853	862
		17,180	10,308
Accruals and deferred income		10,708	8,250
Total liabilities		152,541	122,771

The board of Asta Managing Agency Ltd approved Syndicate 4242's financial statements on pages 26 to 55 on 15 March 2016, which the Director below signed on the board's behalf.

David J G Hunt
Director
15 March 2016

The notes on pages 26 to 55 form part of these financial statements.

Statement of Changes in Members' Balances
Year Ended 31 December 2015

	Note	2015 $000	2014 $000
Members' balances at beginning of year		44,482	27,281
Impact of change in accounting policies from adoption of Financial Reporting Standard 102, *The Financial Reporting Standard*	19	—	—
Restated members' balances at beginning of year		44,482	27,281
Profit for the financial year		29,580	32,549
Payments of profit to members' personal reserve fund	11	(27,428)	(15,381)
Members' agent fees		(30)	33
Members' balances at end of year		46,604	44,482

Members participate in Syndicate 4242 on an underwriting year basis. Syndicate 4242 assesses its results and net assets for each underwriting year based on the policies incepting in that year for the membership of that year.

The notes on pages 26 to 55 form part of these financial statements.

Statement of Cash Flows
Year Ended 31 December 2015

	Note	2015 $000	2014 $000
Cash flows from operating activities			
Profit for the financial year		29,580	32,549
Adjustments to reconcile profit for the financial year to net cash provided by operating activities:			
Net losses on other financial investments and foreign exchange		79	51
Changes in operating assets and liabilities:			
(Increase) in reinsurers' share of technical provisions		(7,933)	(1,408)
(Increase)/Decrease in debtors		(7,882)	1,230
(Increase) in prepayments and accrued income		(5,061)	(973)
Increase in technical provisions		18,318	2,086
Increase in creditors		6,872	1,054
Increase in accruals and deferred income, net of foreign exchange effects		2,385	2,463
Net cash provided by operating activities		36,358	37,052
Cash flows from investing activities			
Purchases of other financial investments		(526,199)	(346,953)
Proceeds from sales and maturities of other financial investments		506,651	335,729
Change in overseas deposits		(82)	(34)
Net cash used in investing activities		(19,630)	(11,258)
Cash flows from financing activities			
Payments of profit to members' personal reserve fund	11	(27,428)	(15,381)
Members' agent fee advances/(refunds)		(30)	33
Net cash used in financing activities		(27,458)	(15,348)
Net (decrease)/increase in cash and cash equivalents		(10,730)	10,446
Cash and cash equivalents at beginning of year		11,467	1,021
Cash and cash equivalents at end of year		737	11,467

The notes on pages 26 to 55 form part of these financial statements.

Notes to the Financial Statements

31 December 2015

(1) Basis of Preparation

The directors of the Managing Agent (the directors) prepared these financial statements for Syndicate 4242 (the Syndicate) in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102, *The Financial Reporting Standard* (FRS 102) and Financial Reporting Standard 103, *Insurance Contracts* (FRS 103), being applicable United Kingdom (U.K.) Generally Accepted Accounting Practice (GAAP), 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 directors prepared these financial statements on the historical cost basis, except for certain financial instruments measured at fair value through profit or loss, and presented them in U.S. Dollars, which is the functional and presentational currency of the Syndicate.

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

The Syndicate transitioned from previously existing U.K. GAAP to FRS 102 and FRS 103 on 1 January 2014. Note 19 explains how the transition to FRS 102 and FRS 103 affected the Syndicate's reported financial position and financial performance.

(2) Accounting Policies

The directors consistently applied the material accounting policies in items (b) through (q) below to prepare these financial statements.

(a) Use of Estimates

The preparation of financial statements in conformity with U.K. GAAP requires that the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include:

(i) provision for claims outstanding,

(ii) expected policy cancellations, and

(iii) accruals for contingent commissions under reinsurance contracts.

(b) Insurance Contracts

Insurance contracts are contracts where the Syndicate (as an insurer or reinsurer) accepts significant insurance risk (risk arising from both underwriting risk and timing risk), from a policyholder or reinsured by agreeing to compensate them if a specified uncertain future event (the insured or reinsured event) adversely affects them. The Syndicate determines whether it has significant insurance risk by comparing the amount and timing of premiums, commissions, and claim settlement expenses paid with the amount and timing of such cash flows if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once the Syndicate classifies a contract as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk decreases significantly during this period, unless all rights and obligations extinguish or expire.

Notes to the Financial Statements (Continued)
31 December 2015

(2) Accounting Policies (Continued)

(c) Gross Premiums Written

Gross premiums written consist of premiums on insurance contracts bound during the year. Gross premiums written also include premiums on reported but unprocessed insurance contracts at the balance sheet date, inward reinsurance premiums from ceding insurance companies, including portfolio transfers, and a deduction for expected insurance contract cancellations based on historical cancellation activity over the past two years. The Syndicate shows premiums gross of coverholder commissions and excludes taxes and fees levied on them.

(d) Outward Reinsurance Premiums

Outward reinsurance premiums consist of premiums on outward reinsurance contracts with other insurers and reinsurers bound during the year to reduce the Syndicate's exposure to losses from catastrophes, all other property perils, and incidental liability claims. The Syndicate's catastrophe reinsurers also charge reinstatement premiums to restore reinsurance contracts to their full limits when large catastrophes occur that exhaust all or a portion of these limits. Reinsurance transactions do not relieve the Syndicate of its primary obligations to its policyholders.

(e) Provision for Unearned Premiums

The provision for unearned premiums is the portion of gross premiums written that the Syndicate will earn in the future and the corresponding amount of reinsurance premiums that it will expense. The Syndicate earns hurricane premiums, inclusive of attritional catastrophe coverage covering tornados, hail, and other windstorm risks, evenly over the Atlantic Hurricane Season(s) (the incidence of risk) that occur during the policy term. The Atlantic Hurricane Season runs from June 15th to November 15th of each year. The Syndicate earns earthquake, all other property peril, equipment breakdown, and general liability premiums evenly over the policy term. The Syndicate expenses related reinsurance premiums evenly over the contract term (remaining contract term for reinstatement premiums), or incidence of risk, if significantly different. The Syndicate also expenses the deferred premium balance on exhausted coverage when large catastrophes occur.

(f) Provision for Unexpired Risks

At the balance sheet date, the Syndicate performs a liability adequacy test on it insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows. If this test shows that the liabilities is inadequate, any deficiency is recognised as an expense to the profit or loss account initially by recognising an additional liability for claims provisions or recognising a provision for unexpired risks.

The directors assess the provision for unexpired risks by class of business, after considering related investment returns. No provision for unexpired risks was recorded in 2015 or 2014.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(g) *Claims Incurred, Net of Reinsurance*

Gross claims incurred consist of the estimated cost of settling all claims occurring before the balance sheet date, whether reported or not, including related claims handling expenses. The Syndicate does not discount claims outstanding. The Syndicate anticipates subrogation recoveries when it sets provisions for reported claims. The Syndicate accounts for reinsurance recoveries when it incurs the related losses. The directors assess the provision for claims outstanding on a case basis based on the estimated cost of all claims notified but not settled at the balance sheet date.

The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods and includes adjustments for catastrophes and other significant events, changes in historical trends, economic and social conditions, judicial decisions, and legislation, as necessary.

In evaluating the provision, the directors use the findings of the Syndicate's actuaries, which include an associated third party claims administrator's loss estimates for large catastrophes. The claims administrator, together with loss modelling staff, base the selected estimate of losses for each large catastrophe after considering the range of ultimate loss estimates using various methods. Such methods include expected claim count and average cost per claim, incurred loss development, stochastic event scenario modelling from different software vendors, market share analysis, and other information, including independent third party evaluations. For smaller catastrophes, all other property perils, equipment breakdown, and general liability claims, the Syndicate's actuaries apply Initial Expected Loss Ratios (IELRs) for each class of business, which is segmented by homogeneous regions and policy types. The Syndicate's actuaries develop these IELRs against catastrophe models, market data, and past claims on similar classes of business.

The provision for claims outstanding is subject to significant variability. While the directors believe that the recorded provision for gross claims and reinsurance recoveries is adequate, establishing this liability is a judgmental and inherently uncertain process. Therefore, it is possible that actual losses may not conform to the assumptions that the directors used in determining the amount of this provision. Accordingly, the ultimate provision may be significantly greater or less than the outstanding amount held at the balance sheet date. The Syndicate recognises adjustments to the provision for claims outstanding in the profit and loss account when known. The nature of short tail claims, such as the property insurance that the Syndicate provides, where policyholders typically notify the Syndicate of their claims within an average of 28 days and the Syndicate typically settles these claims within a short time period which is normally less uncertain after a few years than long tail risks, such as some liability lines of business, where it may be several years before policyholders advise their insurance carriers of their claims and the carriers settle them.

The directors base the reinsurers' share of the provision for claims outstanding on the provisions for reported claims and IBNR, net of estimated irrecoverable amounts from potential reinsurer insolvencies based on the type of balance and security ratings of the involved reinsurers. The directors use statistical methods to help them make these estimates.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(h) Claims Handling Expenses

Claims handling expenses mostly consist of fees that the Syndicate pays to an associated third party claims administrator for the handling of claims on its behalf. In exchange for these services, the Syndicate pays a base fee equal to a percentage of gross premiums written. The paid fee gives the Syndicate access to the claims administrator's staff for the administration of claims; it also entitles the Syndicate to a predetermined number of new claim file allowances. To the extent that actual claim volume exceeds the accumulated claim file allowances under the base fee, the claims administrator charges an additional fee for each additional claim.

This claims administration arrangement contains multiple deliverables, each representing a separate unit of accounting. As such, the Syndicate defers the portion of fees attributable to new claim file allowances based on their selling prices (contract rates) until actual claims are reported against them, or the allowances expire, whichever occurs first. If an actual claim is reported against a claim file allowance, the Syndicate recognises the allowance expense over the period that the claim is administered based on historical settlement patterns. If a claim is not reported against a claim file allowance before the allowance expires, the Syndicate includes the allowance in the profit and loss account when the allowance expires. The Syndicate defers the rest of the base fee (for access to staff and infrastructure) and recognises it as expense evenly over the term of services. The Syndicate includes deferred claims handling expenses in other prepayments and accrued income.

(i) Acquisition Costs, Net of Reinsurance

Acquisition costs consist of coverholder and ceding commissions (on inward reinsurance acceptances) primarily related to the production of new and renewal business. The Syndicate defers acquisition costs to the extent that they are attributable to unearned premiums at the balance sheet date and expenses them as it earns the underlying insurance contract premiums. The Syndicate includes acquisition costs in net operating expenses. The Syndicate defers recoveries of acquisition costs (ceding commissions) from outward reinsurers and includes them in accruals and deferred income. The Syndicate earns ceding commissions as it expenses underlying reinsurance contract premiums and includes them in net operating expenses under reinsurance commissions and profit participation.

(j) Investment Return

Investment return consists of income from investments, gains and losses on the realisation of investments, and movements in unrealised gains and losses on investments, net of investment management expenses. Income from investments consists of interest, which the Syndicate recognises when earned. The Syndicate bases realised gains and losses on each investment on the difference between the sale proceeds and the cost of the investment. Realised and unrealised gains and losses arising from changes in the fair value of investments are presented in non-technical profit and loss account in the period in which they arise. Investment management expenses consist of investment custodian and fund management fees.

The Syndicate first records its investment return in the non-technical account. Then the Syndicate transfers this return to the general business technical account to reflect the investment return on funds supporting the Syndicate's underwriting business.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(k) Net Operating Expense

The Syndicate recognises operating expenses when incurred. Operating expenses include acquisition costs and the change in deferred acquisition costs, administrative expenses, and reinsurance commissions and profit participation. Administrative expenses consist of:

(i) operating costs,

(ii) Managing Agent fees,

(iii) Lloyd's membership costs, and

(iv) auditor fees.

Administrative expenses also include profit commissions charged by the Managing Agent. Profit commissions equal a percentage of each underwriting year's profits subject to a two-calendar-year deficit carry-forward provision. The Syndicate charges commissions to expense when incurred. The Syndicate recognises brokerage sharing when brokers place the reinsurance coverage.

Reinsurance commissions and profit participation consist of ceding and contingent profit commissions from reinsurers. The Syndicate recognises ceding commissions as it expenses the underlying reinsurance premiums and accrues for contingent profit commissions based on the contract formulas. The Syndicate's contingent profit commission calculations include a provision for IBNR.

(l) Investments

The Syndicates' investments consist of shares and other variable yield securities and debt and fixed income securities.

(m) Fair Value Measurements of Financial Assets and Liabilities

The Syndicate follows the recognition and measurement requirements of FRS 102 section 11 *Basic Financial Instruments* and section 12 *Other Financial Instruments*. All of the Syndicate's financial assets and liabilities are basic financial instruments.

The Syndicate measures its investments at fair value through profit or loss using valuation techniques that maximise the use of observable market data and minimise the use of unobservable market data. The Syndicate determines fair value based on assumptions that market participants would use in pricing an investment in the principal or most advantageous market. When considering market participant assumptions in its fair value measurements, the Syndicate uses the fair value hierarchy below to classify its investments.

(i) Class A inputs – Quoted prices (unadjusted) in active markets for identical investments accessible at the measurement date.

(ii) Class B inputs – Prices of recent transactions for identical investments (either unadjusted or adjusted) accessible at the measurement date.

(iii) Class C inputs – Market data other than the quoted or recent prices included in Classifications A and B observed for the investment, either directly or indirectly, as well as unobservable market data for the investment.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(n) Fair Value Measurements of Financial Assets and Liabilities (Continued)

Where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the Syndicate bases the entire fair value measurement on the lowest level input that is significant to the entire measurement. The Syndicate recognises transfers between levels of the fair value hierarchy when events or changes in circumstances causing the transfer occur.

The Syndicate carries all of its other financial assets and liabilities at cost.

(n) Cash and Cash Equivalents

The Syndicates' cash and cash equivalents consist of cash at banks and in hand.

(o) Offsetting

The Syndicate sets off and presents its financial assets and liabilities net where:

(i) each it and another party owes the other determinable amounts,

(ii) it has the right to set off the amount owed with the amount owed by the other party,

(iii) it intends to set off, and

(iv) the right of setoff is enforceable at law.

(p) Foreign Currency Translation

The directors measure foreign currency assets and liabilities at the closing exchange rate in effect at the balance sheet date, while they measure foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions. The directors used an exchange rate of 1.48 to translate Sterling balances into U.S. Dollars at 31 December 2015 (1.55 at 31 December 2014).

(q) Taxation

Schedule 19 of the Finance Act 1993 does not require the Managing Agent to deduct basic rate income tax from the Syndicate's trading income. Also, the Managing Agent may recover all U.K. basic rate income tax (now at 20%) deducted from the Syndicate's investment income. Therefore, payments of profits made to members of the Syndicate or their members' agents are gross of tax. Trading income includes capital appreciation, which is also paid gross of tax. The Syndicate did not make any provision for U.S. federal income tax payable on its underwriting results or investment earnings. The Syndicate's members pay these taxes alongside the U.K. income taxes resulting from the Syndicate's trading and investment income. The Syndicate includes any tax payments made on account of its members during the year in members' balances.

Notes to the Financial Statements (Continued)

31 December 2015

(3) Segment Reporting

The tables below detail the Syndicate's underwriting results before investment return by class of business.

2015 $000	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance Balance	Total
Fire and other damage to property	152,619	140,630	(20,008)	(49,091)	(42,942)	28,589
Third party liability	484	375	(310)	(41)	(51)	(27)
Reinsurance accepted	16,263	13,032	113	(5,837)	(6,223)	1,085
Total	169,366	154,037	(20,205)	(54,969)	(49,216)	29,647

2014 $000	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance Balance	Total
Fire and other damage to property	125,575	125,415	(10,898)	(45,186)	(37,497)	31,834
Third party liability	311	156	(25)	(18)	(104)	9
Reinsurance accepted	9,287	7,070	(219)	(3,509)	(2,654)	688
Total	135,173	132,641	(11,142)	(48,713)	(40,255)	32,531

Included in the reinsurance balance are reinsurance commissions and profit participation of $1.8 million ($1.0 million in 2014).

Surplus lines wholesale brokers pay fire and other damage to property and third party liability premiums to the Syndicate's coverholders in single payments, while policyholders working through licensed retail agents pay premiums in single or multiple instalments to ceding insurance companies.

The Syndicate only writes business in the U.S.

Commissions paid or payable on direct insurance business totalled $42.0 million ($34.2 million in 2014).

(4) Claims Movement

The Syndicate's incurred claims, net of reinsurance, from past accident years developed favourably by $0.3 million during year (favourably by $0.5 million in 2014). This positive development of run-off losses during the year reflects loss reserve reductions on past catastrophes, particularly Superstorm Sandy.

Notes to the Financial Statements (Continued)

31 December 2015

(5) Investment Return

	2015 $000	2014 $000
Income from investments	153	88
Gains on realisation of investments	2	10
Unrealised gains on investments	—	5
Losses on realisation of investments	—	—
Unrealised losses on investments	(54)	(8)
Investment management expenses	(93)	(77)
Total	8	18

This table details the average funds available for investment, investment returns, and investment yields. The Syndicate holds all of its investments in U.S. Dollars.

	2015 $000	2014 $000
Average funds available for investment	83,740	73,567
Investment returns	153	88
Investment yield	0.2%	0.1%

(6) Net Operating Expenses

	2015 $000	2014 $000
Acquisition costs	48,507	37,618
Change in deferred acquisition costs	(4,739)	(944)
Administrative expenses	11,201	12,039
Reinsurance commissions and profit participations	(1,765)	(993)
Total	53,204	47,720

This table details administrative expenses included in net operating expenses.

	2015 $000	2014 $000
Operating costs (includes Managing Agent recharges)	2,999	2,767
Managing Agent fees and profit commissions	7,933	9,147
Lloyd's membership costs	1,170	766
Auditor remuneration - audit fees	254	296
Auditor remuneration - non-audit fees	60	66
Brokerage sharing	(1,215)	(1,003)
Total	11,201	12,039

Notes to the Financial Statements (Continued)

31 December 2015

(6) Net Operating Expenses (Continued)

Managing Agent fees consist of service fees paid or payable to the Managing Agent. Auditor fees were primarily for the audits of the Syndicate's financial statements and underwriting year accounts and the audits of the Lloyd's regulatory returns. Audit fees also include fees for the Syndicate's half year review of $68,866. Non audit fees are for the actuarial review of the Syndicate's technical provisions and the preparation of the statements of actuarial opinion.

(7) Key Management Personnel Compensation

The directors did not receive any compensation for their services during 2015 or 2014, nor did the directors participate on the Syndicate or have an interest in any of its contracts.

The Managing Agent employed an average of 10 people that worked for the Syndicate. The Managing Agent recharged the Syndicate for the payroll costs of one of these employees. Service fees paid to the Managing Agent as part of their Managing Agent fees included compensation for the other employees.

International Catastrophe Insurance Managers, LLC (ICAT Managers), a Delaware company, underwrites most of the Syndicate's insurance business. Boulder Claims, LLC (Boulder Claims), also a Delaware company and a wholly owned subsidiary of ICAT Managers (collectively ICAT), provides claims administration services to the Syndicate. The Syndicate's staff compensation expense includes reimbursements to ICAT Managers for the recharged portion their underwriting and operations staff's salaries, including the salaries of the Active Underwriter and Syndicate Operations Manager, who work directly for the Syndicate, but are employees of ICAT Managers.

This table details the payroll recharges, included in administrative expenses under operating costs, to the Syndicate by category.

	2015 $000	2014 $000
Wages and salaries	404	412
Social security costs	11	21
Other pension costs	21	28
Total	436	461

Compensation to the Active Underwriter accounted for $212,511 ($183,288 in 2014) of the total payroll recharges.

An external fund manager provides investment services to the Syndicate.

Notes to the Financial Statements (Continued)
31 December 2015

(8) Investments

	2015 $000 Fair value	2015 $000 Cost
Other financial investments:		
Shares and other variable yield securities	15,150	15,150
Debt securities and other fixed income securities	78,360	78,318
Deposits with credit institutions (overseas deposits)	556	556
Total	94,066	94,024

	2014 $000 Fair value	2014 $000 Cost
Other financial investments:		
Shares and other variable yield securities	369	369
Debt securities and other fixed income securities	73,599	73,592
Deposits with credit institutions (overseas deposits)	474	474
Total	74,442	74,435

The Syndicate holds its debt and other fixed-income securities in U.S. situs trust funds and the Lloyd's Dollar Trust Fund (the Syndicate's main operating account); all of these securities are listed. The U.S. situs trust funds totalling $31.6 million at 31 December 2015 ($25.5 million at 31 December 2014) protect the Syndicate's policyholders as required by U.S. regulators. Overseas deposits consist of funds contributed to joint trust funds which Lloyd's maintains to provide additional security to U.S. policyholders and third party claimants; the Syndicate cannot direct the investment of these funds. Both the U.S. situs trust funds and joint trust funds are unavailable for use in the Syndicate's operations. The Syndicate did not impair any of its investments during 2015 or 2014.

Notes to the Financial Statements (Continued)

31 December 2015

(8) Investments (Continued)

The tables below detail the placement in the fair value hierarchy of non-deposit related investments measured at fair value through profit or loss.

	2015 $000			
	Fair value measurements using			
	Quoted prices in active markets for identical investments (Class A)	Recent prices for identical investments (Class B)	Significant observable and unobservable market data (Class C)	Total
Shares and other variable yield securities	15,150	—	—	15,150
Debt securities and other fixed income securities	26,869	51,491	—	78,360
Deposits with credit institutions (overseas deposits)	414	142	—	556
Total	42,433	51,633	—	94,066

	2014 $000			
	Fair value measurements using			
	Quoted prices in active markets for identical investments (Class A)	Recent prices for identical investments (Class B)	Significant observable and unobservable market data (Class C)	Total
Shares and other variable yield securities	369	—	—	369
Debt securities and other fixed income securities	14,706	58,893	—	73,599
Deposits with credit institutions (overseas deposits)	71	403	—	— 474
Total	15,146	59,296	—	74,442

Included in Class A shares and other variable yield securities are money funds; pricing vendors price these securities using daily data from real time market sources.

Notes to the Financial Statements (Continued)

31 December 2015

(8) Investments (Continued)

Included in Class A debt securities and other fixed income securities are U.S. Treasury bills and notes; pricing vendors price these securities using daily data from real time market sources. Included in Class B are supranational securities and commercial paper. The Syndicate records the fair values of these securities based on pricing vendor valuations or observed trading levels and pricing curves or matrices from third parties when vendor valuations are unavailable; these estimates of fair value reflect the liquidity of these securities as they trade in active markets, where regularly quoted, and such quotes represent the value at which the trades execute.

(9) Debtors Arising out of Direct Insurance Operations

	2015 $000	2014 $000
Amounts due from associated intermediaries	14,179	13,154
Amounts due from other intermediaries	1,998	84
Inter-syndicate loan	3,321	—
Total	19,498	13,238

Note 17 details the terms and conditions of the inter-syndicate loan.

(10) Deferred Acquisition Costs

	2015 $000	2014 $000
Balance at 1 January	14,108	13,164
Change in deferred acquisition costs	4,739	944
Balance at 31 December	18,847	14,108

(11) Underwriting Year Account Payments of Profit to Members

The directors propose a $27.6 million open year profit release to the members of the 2014 underwriting year. At the end of 2014, the directors proposed a $26.3 million open year profit release to the members of the 2013 underwriting year. The Syndicate paid this amount in the second quarter of 2015. The 2013 underwriting year is now closed. The Syndicate will pay a further and final profit distribution of $2.8 million to members of the 2013 underwriting year in the second quarter of 2016.

	2015 $000	2014 $000
Release on open underwriting year	26,300	12,400
Final release on closed underwriting year	1,128	2,981
Payments of profit to members' personal reserve fund	27,428	15,381

Notes to the Financial Statements (Continued)
31 December 2015

(12) Technical Provisions

The tables below detail the changes in the Syndicate's claims outstanding.

	2015 $000 Gross	Reinsurers' share	Net
At 1 January 2015	9,132	(205)	8,927
Claims incurred during the year related to:			
Current underwriting year	20,208	(3,304)	16,904
Prior underwriting years	(3)	1,047	1,044
Total claims incurred during the year	20,205	(2,257)	17,948
Paid claims during the year	(17,216)	1,551	(15,665)
At 31 December 31 2015	12,121	(911)	11,210

	2014 $000 Gross	Reinsurers' share	Net
At 1 January 2014	9,578	(168)	9,410
Claims incurred during the year related to:			
Current underwriting year	12,461	(225)	12,236
Prior underwriting years	(1,319)	113	(1,206)
Total claims incurred during the year	11,142	(112)	11,030
Paid claims during the year	(11,588)	75	(11,513)
At 31 December 31 2014	9,132	(205)	8,927

The tables below detail the changes in the Syndicate's provision for unearned premiums.

	2015 $000 Gross	Reinsurers' share	Net
At 1 January 2015	50,599	(4,861)	45,738
Premiums:			
Written	169,366	(60,465)	108,901
Earned	(154,037)	53,238	(100,799)
At 31 December 31 2015	65,928	(12,088)	53,840

Notes to the Financial Statements (Continued)

31 December 2015

(12) Technical Provisions (Continued)

	2014 $000 Gross	2014 $000 Reinsurers' share	2014 $000 Net
At 1 January 2014	48,067	(3,490)	44,577
Premiums:			
Written	135,173	(42,731)	92,442
Earned	(132,641)	41,360	(91,281)
At 31 December 31 2014	50,599	(4,861)	45,738

(13) Other Creditors

	2015 $000	2014 $000
Amounts owed to other syndicate (funds withheld)	1,866	—
Amounts owed to associated companies	1,716	667
Amounts owed to Managing Agent	219	190
Amounts due to others	52	5
Total	3,853	862

(14) Related Parties

Asta Managing Agency Ltd (Asta) is the Syndicate's Managing Agent.

This table details amounts expensed or payable to Asta.

	2015 $000	2014 $000
Managing Agent fees on insurance capacity	1,297	1,309
Service fees	2,412	3,188
Recharges (payroll costs and expenses)	119	210
Profit commissions	4,226	4,650
Total expenses	8,054	9,357
Balance payable (including expenses accrued but not yet due) to the Managing Agent at 31 December	384	427

Notes to the Financial Statements (Continued)

31 December 2015

(14) Related Parties (Continued)

Commissions paid or payable to ICAT for underwriting services totalled $38.0 million ($32.4 million in 2014), while fees paid or payable for claims administration services totalled $1.4 million in 2015 ($1.3 million in 2014) on $165.2 million ($125.4 million in 2014) of gross written premiums. The commission payable due to ICAT for underwriting service was $5.6 million at 31 December 2015 ($4.9 million at 31 December 2014), while $138,601 was due at 31 December 2015 ($114,917, at 31 December 2014) for claims administration services. ICAT provides accounting and capital modelling services to the Syndicate for an annual fee of $205,000.

ICAT is an indirect subsidiary of Paraline Group, Ltd (Paraline Group), a company registered in Bermuda that also provided 33.7% (33.1% for the 2014 underwriting year and 35.1% for 2013) of the Syndicate's insurance capacity through its indirectly owned Paraline and ICAT corporate members. Paraline Reinsurance, Ltd (Paraline Re), an indirectly owned Bermudian reinsurance company of Paraline Group supports the Paraline corporate member's participation on the Syndicate. Unrelated foreign reinsurers fully support the ICAT corporate members' participation. An affiliate of Paraline Group, Elliott CCM Limited, provided another 3.0% (3.6% for the 2014 underwriting year and 3.7% for 2013 underwriting year) of capacity.

The table below details the percentage of total Syndicate capacity provided by other parties by underwriting year.

	2015	2014	2013
Everest Corporate Member Limited	8.1%	8.1%	8.3%
Hampden Agencies Limited (MAPA 7217)	11.6%	11.6%	11.3%
IAT CCM Limited	8.5%	8.5%	7.5%
Labuan Re Underwriting Limited	14.6%	14.6%	14.6%
SCOR Underwriting Limited	12.0%	12.0%	12.0%
Taiping Re UK Ltd	8.5%	8.5%	7.5%
Total	63.3%	63.3%	61.2%

A reinsurance affiliate of Everest Corporate Member Limited, Everest Re, together with other reinsurers also provides non-proportional catastrophe reinsurance to the Syndicate to protect against the occurrence of large catastrophes. Everest Re's share of the Syndicate's catastrophe reinsurance coverage is .26% (.32% before 1 April 2015), accounting for .29% (.26% in 2014) of the Syndicate's overall reinsurance costs. The balance payable (including amounts accrued but not yet due) to Everest Re at 31 December 2015 was $55,342 ($71,151 at 31 December 2014).

A reinsurance affiliate of SCOR Underwriting Limited, SCOR Global P&C SE (SCOR Global), together with other reinsurers also provides layered, non-proportional catastrophe reinsurance to the Syndicate to protect against the occurrence of large catastrophes. SCOR Global's share of the Syndicate's catastrophe reinsurance coverage is 3.3% (5.1% before 1 April 2015), accounting for 3.6% (4.1% in 2014) of the Syndicate's overall reinsurance costs. The balance payable (including amounts accrued but not yet due) to SCOR Global at 31 December 2015 was $230,449 ($450,724 at 31 December 2014).

Notes to the Financial Statements (Continued)

31 December 2015

(14) Related Parties (Continued)

An affiliate of Paraline Group, Pendulum Re II, Ltd, indirectly participates in the Syndicate's shared limit catastrophe reinsurance placement through a quota share retrocession agreement with a segregated cell of a Bermudian reinsurance company that reinsures half of the placement.

Paraline CCM Limited is the beneficiary of a catastrophe reinsurance brokerage sharing agreement with the Syndicate and received $0 million during the year ($0.8 million in 2014). The balance payable (including amounts accrued but not yet due) to Paraline CCM Limited was $1.4 million at 31 December 2015 ($221,587 at 31 December 2014).

Paraline International, a wholly owned subsidiary of Paraline Group, owns 30.21% of Asta's ultimate parent, Asta Capital Limited, a company incorporated in the U.K. and registered in England and Wales. Asta has an agreement with Paraline International to review and monitor the adherence of ICAT to the Syndicate's underwriting guidelines. The contingent commissions paid or payable to Paraline International for this oversight totalled $4.2 million ($2.8 million in 2014).

Pursuant to an inter-syndicate loan deed between the Syndicate and Special Purpose Syndicate 6123 (SPS 6123), the Syndicate may advance up to $10.0 million to SPS 6123; such advances accrue interest at an annual rate equal to the greater of:

(a) the Six Month U.S. Treasury Bill rate at the date of the advance, or

(b) the Syndicate's average investment yield earned during the period of the advance.

At 31 December 2015, the Syndicate held a loan receivable balance from SPS 6123 of $3.3 million (including accrued interest of $422), and included in debtors arising out of direct insurance operations. The Syndicate also owed SPS 6123 $1.9 million at 31 December 2015.

Asta is the Managing Agent for seven other Lloyd's Syndicates and three Special Purpose Syndicates (SPS). In addition to the Syndicate, Asta manages Syndicates 1686 (AXIS), 1729 (Dale Underwriting Partners), 1897 and SPS 6126 (Skuld), 1910 and SPS 6117 (Ariel), 2357 (Nephila), 2525 (D L Dale & Others), SPS 6123 (ICAT), and 2786 (Everest) on behalf of third party capital providers that with the exception of Everest are independent of the Syndicate's capital providers. Asta also provides administrative services to syndicates and performs a number of other ancillary roles for clients.

The syndicates that Asta manages may enter into reinsurance contracts with the Syndicate; these transactions are subject to Asta's internal controls, which ensure compliance with the Lloyd's Related Party Byelaw.

Notes to the Financial Statements (Continued)

31 December 2015

(15) Funds at Lloyd's

The Society of Lloyd's (Lloyd's) requires every member of the Syndicate to hold capital in trust, known as Funds at Lloyd's, to support their supplied insurance capacity. Lloyd's intends for these funds to mainly cover the participating members' underwriting liabilities if the Syndicate's assets prove to be inadequate. Paraline Group's corporate members held $51.6 million of such funds in trust at 31 December 2015, while Elliott CCM Limited held another $3.8 million. Since third parties supplied the rest of the funds, the directors did not disclose these funds in the financial statements since they are not under the control of the Managing Agent or its affiliates; the Managing Agent, however, can make calls on these funds along with the funds provided by the Paraline Group and Elliott corporate members to meet liquidity requirements or settle claims.

(16) Contingent Liabilities

The Syndicate is regularly involved in legal proceedings in the ordinary course of business. The directors believe the outcome of these proceedings will not have a material adverse effect on the Syndicate's financial condition or future profitability.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management

(a) Governance Framework

The Syndicate's risk and financial management framework aims to protect member 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 and processes in place.

Asta maintains a risk management function for the Syndicate with clear terms of reference from the Syndicate Board (the Board) that it appoints and from the Board's committees and subcommittees; Asta supplements this with a clear organisational structure with documented authorities and responsibilities from the Board to ICAT, who performs a majority of the Syndicate's 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 and by ICAT.

The Board approves the Syndicate's risk management policies and meets regularly to approve any commercial, regulatory, or 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 the underwriting and reinsurance strategies to the Syndicate's goals, and specify any reporting requirements. The Board places significant emphasis on the assessment and documentation of risks and controls, including the quantification of the Syndicate's risk appetite.

(b) Capital Management

(i) Capital Framework at Lloyd's

The Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework, regulates Lloyd's.

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

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

(ii) Lloyd's Capital Setting Process

In order to meet Lloyd's requirements, each syndicate must 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 the requirements of Solvency II. The Lloyd's Capital and Planning Group reviews and approves the SCRs of each syndicate.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(b) Capital Management (Continued)

(ii) Lloyd's Capital Setting Process (Continued)

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

(iii) Provision of Capital by Members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), assets held and managed within a syndicate (funds in syndicate), or as the member's share of the members' balances on each syndicate on which it participates. Accordingly, the ending members' balances reported in the Statement of Changes in Members' Balances on page 24, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance Risk

Insurance risk may either arise from an inaccurate assessment of the risks entailed in writing an insurance policy or from factors wholly out of the Syndicate's control. As a result, losses paid by the Syndicate may exceed earned premiums. The Syndicate tries to reduce insurance risk by basing its risk appetite on its maximum loss tolerance, geographically diversifying its business, and using appropriate underwriting processes, which include inspections of every property, to guide the pricing and acceptance of risks; this helps to ensure that premiums cover the expected levels of loss.

The Syndicate sets its tolerance for catastrophe losses based on nationwide and regional Exceedance Probabilities (EP) in the U.S., as well as on Realistic Disaster Scenarios (RDS) designed to stress test the Syndicate for material catastrophe risks at different probability levels by potential loss of capital. The EP is the probability that losses exceed a certain threshold for a catastrophic loss event at a selected probability of occurrence. The Syndicate generally quantifies its risk appetite at the 99.5% EP level or the 1 in 200 year loss.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(c) Insurance Risk (Continued)

ICAT developed the catastrophe model that the Syndicate uses to set its overall EP loss exposure limits by adjusting a model from a major vendor to better align it to the Syndicate's assessment of risk. ICAT's model adjustment methodology more precisely estimates building vulnerability, storm surge coverage leakage, losses from inland risks and coastal risks, and landfall frequency and severity than the standard vendor model. The Syndicate validates the results from ICAT's methodology against alternate models from other major vendors. ICAT uses its model adjustment methodology to model every property in the Syndicate's book of business monthly. In managing the Syndicate's risk appetite, ICAT allocates limits to various geographic zones. The identification and determination of each zone and its area as well as whether to include a particular policy within a zone's limits requires significant judgment. ICAT controls and limits the Syndicate's concentration of risk within these zones as well as the risk at the neighbourhood and street level using an accumulation tool.

The Syndicate monitors EP estimated gross losses and balances the offering of new and renewal accounts between low and high loss-driving areas. The Syndicate sets its tolerance for All Other Peril (AOP) losses at the building and location level. ICAT also monitors the Syndicate's loss exposures against its risk appetite using RDS modelling. RDS include the events below.

(i) Windstorm in the Northeastern U.S.

(ii) Windstorm in the Carolinas

(iii) Two separate Florida windstorms (Miami-Dade and Pinellas)

(iv) Windstorm in the U.S. Gulf

(v) Two separate California earthquakes (Los Angeles and San Francisco)

(vi) New Madrid area of the U.S. earthquake

(vii) Two separate Syndicate-specific scenarios (Mississippi windstorm and U.S. Pacific Northwest earthquake)

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(c) Insurance Risk (Continued)

The table below shows the hypothetical estimated gross losses after the application of the Syndicate's proportional reinsurance arrangement with SPS 6123, but before any other reinsurance, arising out of the RDS listed above based on the Syndicate's in-force exposures at 31 December 2015.

	Estimated gross losses $000
Windstorm in the Northeastern U.S.	117,134
Windstorm in the Carolinas	92,733
Florida windstorm (Miami-Dade)	191,195
Florida windstorm (Pinellas)	216,994
Windstorm in the U.S. Gulf	216,001
California earthquake (Los Angeles)	256,937
California earthquake (San Francisco)	232,033
New Madrid area of the U.S. earthquake	83,938
Syndicate-specific scenario (Mississippi windstorm)	109,794
Syndicate-specific scenario (U.S. Pacific Northwest earthquake)	198,288

Also, the Syndicate periodically evaluates and adjusts its reinsurance protection to manage its overall retention of insurance risk. The Syndicate has layered catastrophe reinsurance from a diversified group of secure reinsurers among other reinsurance to protect it against an adverse accumulation of the losses from multiple policies as a result of catastrophic events, each with losses of up to $535 million ($785 million in the aggregate). This reinsurance helps to limit the Syndicate's risk of insolvency from a single large catastrophe or multiple smaller catastrophes.

ICAT controls the underwriting of the Syndicate's business, including the underwriting of original risks for all of Syndicate's inward reinsurance. ICAT sets and controls the underwriting authority of each of its underwriters. Underwriters adhere to daily monitored regional blueprints, which identify where the Syndicate's insurance capacity should be deployed. These blueprints, with their defined underwriting guidelines alongside modelling and pricing practices, determine the prescribed range of rates at which ICAT may sell the Syndicate's insurance capacity. Underwriters must refer underwriting decisions for risks outside of those outlined in the blueprints or in excess of their authority limit to higher levels of authority. ICAT audits the individuals who have binding authority on a regular basis to ensure adherence to established underwriting authority limits. ICAT also conducts other underwriting audits on an ad-hoc basis and reviews significant risks written each month. Asta also has its own controls.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(c) Insurance Risk (Continued)

Asta has a governance structure in place to monitor the underwriting and loss exposure management controls of ICAT. The Board ensures the appropriate management of the Syndicate in accordance with the Managing Agent's responsibilities. The Board meets quarterly and has delegated authority to approve underwriting related matters, including:

(i) non-material changes to the business plan,

(ii) underwriting authority levels and guidelines,

(iii) operational and coverholder procedures,

(iv) risk policies, the risk register, and all other risk management matters, and

(v) the Syndicate's compliance plan.

Asta also monitors the Syndicate's performance against its underwriting risk appetite in several ways, including regular meetings with the Active Underwriter and participation in the monthly meetings of the Production Risk Management Committee (the Committee), which is a subcommittee of the Board, that considers reports from the Active Underwriter and other areas of the business. The Committee also reviews underwriting related matters, including:

(i) progress against the business plan or forecast,

(ii) premium rates and volumes,

(iii) overall loss exposures,

(iv) significant product and premium rate changes;

(v) market conditions, and

(vi) the outcome of underwriting audits covering the operations of ICAT.

Furthermore, Paraline International provides oversight of the underwriting policies adopted by the Active Underwriter. Paraline International identifies key underwriting guidelines and limitations in the binding authority agreement between ICAT and the Syndicate and monitors ICAT adherence to these underwriting guidelines including consideration of material changes in underwriting authority, risk profile, reinsurance, and any breaches of the ICAT binding authority agreement.

The Syndicate's annual business planning process sets the targets for written premiums and overall profitability for the coming year. Factors taken into account in determining these targets include the risk appetite of the Syndicate's capital providers, anticipated pricing, insurance policy terms and conditions, and other risk metrics.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(c) Insurance Risk (Continued)

The Syndicate hires qualified third party claims administrators that have specialised adjusters and forensic engineers to set reserves on notified damaged properties and incidental liability claims. Both ICAT and Asta review these reported claims monthly. The Syndicate also employs standard actuarial methods to assess its overall best estimate of reserves for each underwriting account quarterly using historical losses loaded for future uncertainty in areas where reserves may prove to be materially inadequate; this assessment process requires ongoing discussions between the Syndicate's actuaries and the underwriters and claims adjusters of ICAT, and includes various levels of approval supplemented by external actuarial validation. The Syndicate's actuaries track projected loss ratios quarterly and may reassess their reserving methods if necessary. The Board approves the reserves of the Syndicate quarterly, after considering the recommendation of the Reserve Committee (a subcommittee of the Board).

The tables below detail the Syndicate's liabilities for claims outstanding by class of business.

	2015		
	Gross $000	Reinsurance $000	Net $000
Fire and other damage to property	11,234	(599)	10,635
Third party liability	390	(312)	78
Reinsurance accepted	497	—	497
Total	12,121	(911)	11,210

	2014		
	Gross $000	Reinsurance $000	Net $000
Fire and other damage to property	8,612	(185)	8,427
Third party liability	25	(20)	5
Reinsurance accepted	495	—	495
Total	9,132	(205)	8,927

The liabilities in the tables above may be significantly greater or less than the ultimate cost of settling the associated claims; this level of uncertainty varies by class of business. The Syndicate considers a five percent increase or decrease in the ultimate cost of settling its outstanding claim liabilities reasonably possible at the balance sheet date.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(c) Insurance Risk (Continued)

The tables below show how a five percent increase or decrease in net claim liabilities would affect the Syndicate's profit for the financial year and its members' balances.

	2015	
	Five percent increase $000	Five percent decrease $000
Fire and other damage to property	(532)	532
Third party liability	(4)	4
Reinsurance accepted	(25)	25
Total	(561)	561

	2014	
	Five percent increase $000	Five percent decrease $000
Fire and other damage to property	(421)	421
Third party liability	—	—
Reinsurance accepted	(25)	25
Total	(446)	446

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.

Underwriting year	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	Total
Estimate of cumulative claims incurred:						
At end of underwriting year	8,340	14,929	6,794	5,822	12,074	12,074
One year later	13,985	23,171	11,080	13,749		13,749
Two years later	11,569	22,947	11,459			11,459
Three years later	11,534	21,260				21,260
Four years later	11,500					11,500
Less cumulative paid	(11,277)	(20,999)	(9,591)	(10,019)	(6,035)	(57,921)
Liability for gross outstanding claims (2011 to 2015)	223	261	1,868	3,730	6,039	12,121
Liability for gross outstanding claims (2010 and before)	—	—	—	—	—	—
Total						12,121
Percent surplus/(deficiency) of initial gross reserve after two years	*17.8%*	*8.2%*	*-3.4%*			

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(c) Insurance Risk (Continued)

Underwriting year	2011 $000	2012 $000	2013 $000	2014 $000	2015 $000	Total
Estimate of cumulative net claims incurred:						
At end of underwriting year	8,144	14,695	6,634	5,594	10,863	10,863
One year later	13,505	22,151	10,980	12,472		12,472
Two years later	10,997	21,868	11,359			11,359
Three years later	10,974	20,281				20,281
Four years later	10,940					10,940
Less cumulative net paid	(10,717)	(20,017)	(9,491)	(9,237)	(5,243)	(54,705)
Liability for net outstanding claims (2011 to 2015)	223	264	1,868	3,235	5,620	11,210
Liability for net outstanding claims (2010 and before)	–	–	–	–	–	–
Total						11,210
Percent surplus/(deficiency) of initial gross reserve after two years	*19.0%*	*8.4%*	*-3.5%*			

The Syndicate took advantage of the transitional FRS 103 rules that permit the disclosure of only five years of information. The Syndicate will increase the claims development information that it discloses from five years to 10 years over 2016 to 2020.

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.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(d) Financial Risk

(i) Market Risk

Market risk is the risk that the fair value or future cash flows of the Syndicate's financial assets will fluctuate because of changes in the market. Market risk consists of the three risks below.

1. *Interest Rate Risk*

Increasing market interest rates reduce the value of the Syndicate's fixed maturities. The Syndicate may realise a loss if it sells fixed maturities whose value has fallen below their acquisition cost. Declining market interest rates may reduce the Syndicate's investment income, as it invests proceeds from positive operating cash flows and reinvests proceeds from maturing or sold investments in new investments that may yield less than the investment portfolio's historical average rate of return. Interest rates are highly sensitive to many factors, including government monetary policies, domestic and international economic and political conditions, and other factors beyond the Syndicate's control. The Syndicate significantly reduces this risk by maintaining high quality investments (rated AA or better on average by Standard & Poor's) with an average duration of one year or less in its investment portfolio to provide downside protection against increases in interest rates; accordingly, the Syndicate does not have material interest rate risk.

2. *Currency Risk*

The Syndicate writes all its business in U.S. Dollars, which is its functional currency. The Syndicate also keeps all of its reinsurance balances and investments in U.S. Dollars. The Syndicate has Great British Pound expenses; these expenses, however, do not create material currency risk for the Syndicate. The Syndicate has no exposure to other currencies.

3. *Investment Price Risk*

Disruptions in the public debt market, including widening credit spreads, bankruptcies, and government intervention in large financial institutions, may result in significant realised and unrealised losses in the Syndicate's investment portfolio. Also, market conditions and other factors beyond the Syndicate's control could cause the credit quality ratings of its investments to deteriorate. If the Syndicate liquidates these securities during a period of tightening credit in the financial markets, it may realise a loss. The Syndicate significantly limits this risk by purchasing short-term, high quality investments consisting mostly of money funds, commercial paper, and U.S. Treasury bills, and generally holding them to maturity; accordingly, the Syndicate does not have material investment price risk.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(d) Financial Risk (Continued)

(ii) Credit Risk

Credit risk is the risk that other parties, including issuers of investments, fail to honor their obligations to the Syndicate.

Asta delegates the management of funds under its control in the U.S. situs trust funds and the Lloyd's Dollar Trust Fund to an external fund manager, General Re – New England Asset Management (GR-NEAM). Asta, in consultation with ICAT, established investment guidelines for the fund manager to follow. Under these guidelines, the fund manager maintains an investment portfolio, which focuses on credit quality in the selection of investments and avoids complex instruments and investments correlated to the Syndicate's loss exposures in areas prone to hurricanes and tropical storms.

Bankruptcy, liquidity problems, distressed financial condition, or the general effects of today's economic environment may increase the risk that policyholders or intermediaries, such as insurance agents and brokers, may not pay a part of or the full amount of premiums owed to the Syndicate's coverholders, despite an obligation to do so. If non-payment becomes widespread, whether as a result of bankruptcy, lack of liquidity, adverse economic conditions, operational failure, or otherwise, it may affect the coverholders' ability to pay the premiums they in turn owe to the Syndicate. No single agent, broker, or policyholder accounted for more than 13.1% (11.0% in 2014) of the premiums that the coverholders wrote for the Syndicate and 13.4% of premium balances due at 31 December 2015 (10.5% at 31 December 2014). Further, insurance policies may be cancelled for non-payment from policyholders.

The Syndicate transfers significant amounts of insurance risk to reinsurers. If these reinsurers fail to honor their obligations, the Syndicate's financial condition, profitability, and cash flows could be adversely affected. The Syndicate tries to reduce the risk of reinsurers failing to honor their obligations by setting maximum exposure and credit limits for each of its reinsurers based on their industry credit rating and net asset balance. The Syndicate regularly evaluates the financial condition and payment performance of its reinsurers with the help of outside brokers; evaluations include reviewing credit ratings and monitoring concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics to minimise the Syndicate's exposure to significant losses from reinsurer insolvencies. The Syndicate mostly purchases reinsurance from reinsurers with an A.M. Best or Standard & Poor's rating of A or better. If a reinsurer does not have an A or better rating, the Syndicate may obtain U.S. Dollar denominated collateral from the reinsurer to secure their reinsurance obligations. The Syndicate had collateral of $173.9 million from certain reinsurers at 31 December 2015 to secure their obligations. No single reinsurer accounted for more than 18.5% of reinsurance balances recoverable at 31 December 2015 (23.5% at 31 December 2014). There were no catastrophe reinsurance recoveries outstanding at 31 December 2015. There were, however, $1.3 million in outstanding AOP and liability recoveries on paid claims, $1.1 million of which the Syndicate collected on 6 January 2016.

Notes to the Financial Statements (Continued)

31 December 2015

(17) Risk Management (Continued)

(d) Financial Risk (Continued)

(ii) Credit Risk (Continued)

The tables below show the maximum exposure that the Syndicate's assets have to credit risk, before applying any obtained collateral.

	2015 $000			
	Neither Past due nor impaired	Past due	Impaired	Total
Other financial investments	94,066	—	—	94,066
Reinsurers' share of claims outstanding	911	—	—	911
Debtors arising out of direct insurance operations	19,498	—	—	19,498
Debtors arising out of reinsurance operations	2,415	876	—	3,291
Other debtors	707	—	—	707
Cash and cash equivalents	737	—	—	737
Total	118,334	876	—	119,210

	2014 $000			
	Neither Past due nor impaired	Past due	Impaired	Total
Other financial investments	74,442	—	—	74,442
Reinsurers' share of claims outstanding	205	—	—	205
Debtors arising out of direct insurance operations	13,238	—	—	13,238
Debtors arising out of reinsurance operations	844	991	—	1,835
Other debtors	541	—	—	541
Cash and cash equivalents	11,467	—	—	11,467
Total	100,737	991	—	101,728

Past due balances were less than three months past due at 31 December.

The Syndicate included inward reinsurance premium balances receivable of $2.0 million at 31 December 2015 and $1.8 million at 31 December 2014 in debtors arising out of reinsurance operations in the tables above, while Lloyd's return includes such balances in debtors arising out of direct insurance operations. Also, debtors arising out of insurance operations in the tables above includes the inter-syndicate loan balance of $3.3 million at 31 December 2015, while similar disclosures in the Lloyd's return exclude this balance.

Notes to the Financial Statements (Continued)
31 December 2015

(17) Risk Management (Continued)

(d) Financial Risk (Continued)

(ii) Credit Risk (Continued)

The tables below classify the exposure that the Syndicate's assets have to credit risk by the Standard & Poor's credit ratings of the investments and parties involved.

2015 $000	AAA	AA	A	BBB	Not Rated	Total
Other financial investments	67,074	26,878	97	17	—	94,066
Reinsurers' share of claims outstanding	—	55	856	—	—	911
Debtors arising out of direct insurance operations	—	—	—	—	19,498	19,498
Debtors arising out of reinsurance operations	—	3	1,978	—	1,310	3,291
Other debtors	—	—	—	—	707	707
Cash and cash equivalents	—	—	737	—	—	737
Total	67,074	26,936	3,668	17	21,515	119,210

2014 $000	AAA	AA	A	BBB	Not Rated	Total
Other financial investments	59,408	14,922	95	—	17	74,442
Reinsurers' share of claims outstanding	—	4	201	—	—	205
Debtors arising out of direct insurance operations	—	—	—	—	13,238	13,238
Debtors arising out of reinsurance operations	—	—	343	—	1,492	1,835
Other debtors	—	—	—	—	541	541
Cash and cash equivalents	10,442	—	1,025	—	—	11,467
Total	69,850	14,926	1,664	—	15,288	101,728

Not rated reinsurers fully collateralise their reinsurance balances to the Syndicate.

(iii) 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 Syndicate settles its payment obligations in accordance with the vendor terms of each transaction. At 31 December 2015 billings were 22 days outstanding (20 days at 31 December 2014). The Syndicate holds any excess funds in cash or invests them in money funds readily convertible to cash without excessive cost to the business. The Syndicate also has a $35.0 million letter of credit facility from Barclays that it collateralised with reinsurance balances recoverable and premiums receivable.

Notes to the Financial Statements (Continued)
31 December 2015

(17) Risk Management (Continued)

(d) Financial Risk (Continued)

(iii) Liquidity Risk (Continued)

The tables below summarise the Syndicate's future expected cash obligations on its undiscounted liabilities, including payments of its outstanding claim liabilities based on historical settlement patterns.

	2015 $000				
	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Claims outstanding	10,868	1,063	182	8	12,121
Creditors arising out of insurance operations	32	—	—	—	32
Creditors arising out of reinsurance operations	13,295	—	—	—	13,295
Other creditors	1,987	1,866	—	—	3,853
Total	26,182	2,929	182	8	29,301

	2014 $000				
	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Claims outstanding	8,188	800	137	7	9,132
Creditors arising out of insurance operations	108	—	—	—	108
Creditors arising out of reinsurance operations	9,338	—	—	—	9,338
Other creditors	862	—	—	—	862
Total	18,496	800	137	7	19,440

(18) Subsequent Event

The directors evaluated other events subsequent to the balance sheet date through 15 March 2016, the date the Syndicate issued these financial statements, and determined that no other items require disclosure.

(19) Transition to FRS 102 and FRS 103 from Old UK GAAP

The Syndicate's measurement of it investments is the only accounting policy that changed as a result of the transition to FRS 102 and FRS 103. Under FRS 102, the Syndicate measures its investments at fair value. Under old UK GAAP, the Syndicate measured its investments at current value. This change had no impact on the Syndicate's previously reported assets. FRS 102 and FRS 103, however, did introduce a number of new disclosure requirements, including fair value hierarchy tables, claims development tables, and risk management information.