

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.



ICAT Syndicate 4242

Syndicate 2013 Underwriting Year Report and Accounts
Three Years Ended 31 December 2015

Table of Contents

	Page
Directors and Administration	2
Report of the Directors of the Managing Agent	4
Statement of Managing Agent's Responsibilities	9
Independent Auditor's Report	10
Underwriting Year Accounts:	
Statement of Profit and Loss – Technical Account – 2013 Underwriting Year	12
Statement of Profit and Loss – Non-technical Account – 2013 Underwriting Year	13
Balance Sheet – 2013 Underwriting Year	14
Statement of Members' Balances – 2013 Underwriting Year	15
Statement of Cash Flows – 2013 Underwriting year	16
Notes to the Underwriting Year Accounts	17
Seven Year Summary of Closed Year of Account Results	31
Notes to Seven Year Summary of Closed Year of Account Results	32

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

G E Butler (1 January 2013 through 31 December 2013)

M H McConnell (appointed 1 January 2014)

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

Report of the Directors of the Managing Agent Three Years Ended 31 December 2015

The directors of the Managing Agent (the directors) present their report below, together with audited 2013 underwriting year accounts for Syndicate 4242 (the Syndicate) on pages 12 to 30.

The directors prepared this report in accordance with Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) using the underwriting year basis of accounting required by Statutory Instruments No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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 accounts of the Managing Agent can be obtained by application to the Managing Agent's Registered Office listed on page 2.

Underwriting Year Results

The Syndicate generated profits of \$29.1 million after standard personal expenses on gross written premiums of \$125.0 million for the 2013 underwriting year resulting in a 22.3% return on insurance capacity.

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 protection against tornados, hail, and other windstorm risks. The Syndicate also offers limited flood coverage when purchased alongside hurricane or earthquake coverage and All Other Peril coverage. All Other Peril coverage provides protection against fires, theft, vandalism, water damage, and other covered property perils. The Syndicate also provides reinsurance to a U.S. insurance company covering Hawaii personal lines property risks against named hurricanes and earthquakes.

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

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 lines wholesale brokers and licensed retail agents. Though 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 is also engaged to provide 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.

Report of the Directors of the Managing Agent (Continued)

Three Years Ended 31 December 2015

The insurance services that ICAT Managers and Boulder Claims (collectively, ICAT) provide to the Syndicate account for 71.1% 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 a small amount of insurance business subject to oversight by ICAT.

2013 Underwriting Year Business Review

Business Summary

The Syndicate entered into a binding authority with ICAT to underwrite insurance business for the 2013 underwriting year. ICAT wrote this business in the underwriting regions of the U.S. below:

- i. Eastern Seaboard
- ii. Florida
- iii. Gulf Coast
- iv. Hawaii
- v. Earthquake (California, Pacific Northwest, New Madrid, Intermountain West, Alaska, Hawaii, Mississippi, New Jersey, South Carolina, Massachusetts, and Maryland)

ICAT further divided 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 \$1.7 million and an average premium of \$6,374. In certain areas the maximum insured value may be as low as \$1.5 million or as high as \$10.0 million. Small business policies account for 51.3% of the Syndicate's total business.
- ii. The MMBU provides coverage to middle market businesses on the lower end of the market that require customized and layered insurance solutions. Middle market properties have insured values of more than \$5.0 million, but typically less than \$35.0 million, with an average value of \$18.5 million and an average premium of \$39,891. Middle market policies account for 43.6% of the Syndicate's total business.

The Syndicate also provided proportional reinsurance to a U.S. insurance company (the Ceding Company) covering Hawaii personal lines risks (homeowners, renters, and condominium unit owners) against named hurricanes for the 2013 underwriting year. ICAT underwrote this coverage under a program manager agreement with the Ceding Company. The reinsurance arrangement includes ceding commission of 37.5% on inward reinsurance premiums. This reinsurance acceptance accounted for 4.8% of the Syndicate's total business for the 2013 underwriting year.

The Syndicate also has separate binding authority agreements with a third party coverholders to underwrite a small amount of policies covering high-value homes in the Northeast U.S. and earthquake policies in the Pacific Northwest U.S. These policies account for the rest of the Syndicate's total business. ICAT controls and monitors this business on behalf of the Syndicate.

Report of the Directors of the Managing Agent (Continued)

Three Years Ended 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 for the underwriting year.

	2013 Underwriting Year \$000
Gross written premiums:	
Eastern Seaboard	15,917
Florida	46,947
Gulf Coast	30,569
Hawaii (includes direct and inward reinsurance premiums)	6,383
Earthquake	25,210
Total gross written premiums	<u>125,026</u>
Outward reinsurance premiums	<u>(39,884)</u>
Profit for the closed year of account	<u>29,063</u>
Members' balances	<u>1,728</u>
Loss ratio	13.0%
Combined ratio (financial basis)	66.0%

The Syndicate executed a strategy to redeploy policy limit exposure to areas more favourable to profitability, without jeopardising its predetermined risk appetite. The Syndicate reduced its aggregate insured values in Louisiana by nearly 50% and redeployed the freed capacity in more desirable areas. Such areas include the west coast of the U.S. with its earthquake exposures. The Syndicate also contracted with another coverholder to expand its earthquake business in this area and achieved growth in the Eastern Seaboard region. Premium rates were generally strong throughout the year, particularly in the Florida and Gulf Coast regions, although competition increased and the Syndicate did not renew some policies where pricing did not meet established underwriting criteria.

Because of the inactive 2013 and 2014 Atlantic hurricane seasons with no significant storms making U.S. landfall the Syndicate did not suffer any significant catastrophe losses during the underwriting year. The Syndicate suffered minimal tornado, hail, and other windstorm losses as a result of the various inland U.S. windstorms during the year, though it did pay claims in connection with a large Texas hail storm. In the first quarter, the Syndicate experienced a number of large All Other Perils claims; loss activity, however, for this class of business normalised during the rest of the period.

The Syndicate took advantage of the increased capacity in the reinsurance market and restructured its catastrophe reinsurance program to provide more coverage at a decreased cost. The Syndicate also achieved cost savings through improved correlation of the reinsurance pricing to its insurance portfolio.

This table summarises the surpluses (deficits) from earlier underwriting years reinsured by the 2013 underwriting year by pure underwriting year.

Report of the Directors of the Managing Agent (Continued)

Three Years Ended 31 December 2015

	Pure Underwriting Years					
	2012	2011	2010	2009	2008	2007
	\$000	\$000	\$000	\$000	\$000	\$000
Surplus (deficit)	1,575	36	(7)	—	—	—

The positive development for 2012 and 2011 underwriting years is due to decreases in claim reserves for those years, while the adverse development for 2010 underwriting year is mostly due to an increase in the claim reserves for that year.

Non-financial Key Performance Indicators

	2013 Underwriting Year
Adherence to underwriting authority limits	100.0%

The Managing Agent contracted with ICAT to perform a majority of the Syndicate's activities. The Managing Agent's staff, reviewed and monitored the activities of ICAT and provided 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, though 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 had reinsurance to protect against the occurrence of large catastrophes, each with losses in excess of \$30 million up to \$300 million (\$240 million before 1 April 2014) (\$450 million in the aggregate (\$403 million before 1 April 2014)). Before 1 April 2014, the Syndicate also had additional inuring reinsurance protection for Louisiana policies (the Louisiana Carve-out) covering catastrophic events, each with losses in excess of \$5 million up to \$50 million for each event and in the aggregate.

The Syndicate had aggregate catastrophe reinsurance to protect against an accumulation of losses in excess of \$50 million from multiple smaller catastrophic events, each with losses up to \$30 million subject to a \$1.5 million deductible for each event. The Syndicate's purchased reinsurance limited the combined reinsurance recoveries under this coverage and a portion of the larger catastrophic event coverage (collectively, the Shared Limit Coverage) to \$60 million.

The Syndicate also purchased reinstatement protection on a portion of its catastrophe coverage.

All Other Peril Coverage – The Syndicate had reinsurance to protect against the occurrence of other events such as large fires. The Syndicate reinsures losses in excess of \$1.0 million for each building up to \$10.0 million. For multiple sinkhole collapse and terrorism events, total coverage was limited to \$27.0 million.

Investments

The Syndicate's investment strategy sought to preserve capital and maintain enough liquidity to support the underwriting activities of the 2013 underwriting year's business. The Managing Agent delegated the management of funds under its control in the U.S. situs trust funds to an external fund manager, General Re – New England Asset Management (GR-NEAM). The Managing Agent,

Report of the Directors of the Managing Agent (Continued)

Three Years Ended 31 December 2015

in consultation with ICAT, established investment guidelines for the fund manager to follow. Under these guidelines, the fund manager maintained an investment portfolio, which focused on credit quality in the selection of investments and avoided complex instruments and investments correlated to the Syndicate's loss exposures in areas prone to hurricanes and tropical storms.

The directors evaluated 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 slightly outperformed this benchmark by 0.02% during the last three years. 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 was not significant to the Syndicate, since the Syndicate transacted all of its business in U.S. Dollars.

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.

On behalf of the Board



Charmaine Chow
Company Secretary
22 March 2016

Statement of Managing Agent's Responsibilities

Three Years Ended 31 December 2015

The Managing Agent must prepare underwriting year accounts for the members of Syndicate 4242 (the Syndicate) in accordance with Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare underwriting year accounts for the Syndicate for each underwriting year closed by reinsurance to close at 31 December to give a true and fair view of the closed year's result.

In preparing underwriting year accounts for the Syndicate, the Managing Agent must:

- i. select suitable accounting policies and apply them consistently throughout each underwriting year and from one underwriting year to the next, subject to changes from newly adopted accounting standards. Where items affect more than one underwriting year, the Managing Agent must ensure that the Syndicate treats the affected member equitably. In particular, the premium charged for reinsurance to close should be equitable between the reinsured and reinsuring members of the Syndicate;
- ii. account for all income and charges for the closed underwriting year regardless of the date received or paid;
- iii. make reasonable and prudent judgments and accounting estimates; and
- iv. state whether they followed applicable accounting standards, subject to any material departures disclosed and explained in the notes to the underwriting year accounts.

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 underwriting year accounts 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 the business website. Legislation in the U.K. governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

To members of Syndicate 4242 2013 closed year of account.

We have audited the Syndicate underwriting year accounts for the 2013 year of account of Syndicate 4242 for the three years ended 31 December 2015, as set out on pages 12 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state 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 the auditor

As explained more fully in the statement of managing agent's responsibilities set out on page 9, the Managing Agent is responsible for the preparation of syndicate's underwriting year accounts 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 underwriting year accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of Syndicate underwriting year accounts

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

Opinion on syndicate underwriting year accounts

In our opinion the Syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2013 closed year of account;
- 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.

Independent auditor's report (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 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the Syndicate underwriting year accounts 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
22 March 2016

Statement of Profit and Loss - Technical Account - 2013 Underwriting Year
Three Years Ended 31 December 2015

	Note	<u>\$000</u>
Technical account - General business:		
Earned premiums, net of reinsurance:		
Gross premiums written	4	125,026
Outward reinsurance premiums		<u>(39,884)</u>
Earned premiums, net of reinsurance		85,142
Reinsurance to close premiums received, net of reinsurance		2,541
Allocated investment return transferred from the non-technical account	5	46
Claims incurred, net of reinsurance:		
Claims paid:		
Gross amount		(11,322)
Reinsurers' share		<u>100</u>
Claims paid		(11,222)
Reinsurance to close premium payable, net of reinsurance	13	<u>(2,352)</u>
Claims incurred, net of reinsurance		(13,574)
Net operating expenses	6, 7	<u>(45,092)</u>
Balance on technical account - general business	12	<u><u>29,063</u></u>

The underwriting year closed and therefore all items relate to discontinued activities.

The notes on pages 17 to 32 form part of these underwriting year accounts.

Statement of Profit and Loss - Non-technical Account - 2013 Underwriting Year
Three Years Ended 31 December 2015

	Note	<u>\$000</u>
Balance on the technical account - general business		29,063
Investment income	5	110
Unrealised gains on investments	5	2
Investment expenses and charges	5	(65)
Unrealised losses on investments	5	(1)
Allocated investment return transferred to general business technical account	5	<u>(46)</u>
Profit for the closed year of account		<u><u>29,063</u></u>

The underwriting year closed and therefore all items relate to discontinued activities.

Syndicate 4242 had no recognised gains and losses for the 2013 underwriting year other than those included in the Profit and Loss Account. Therefore, the directors of the Managing Agent have not presented a separate Statement of Total Recognised Gains and Losses for the 2013 underwriting year.

The notes on pages 17 to 32 form part of these underwriting year accounts.

Balance Sheet - 2013 Underwriting Year
At 31 December 2015

	Note	<u>\$000</u>
Assets:		
Investments:		
Other financial investments	8	4,546
Debtors:		
Other debtors		9
Reinsurance recoveries anticipated on gross reinsurance to close premiums payable to close the account	13	—
Other assets	11	183
Prepayments and accrued income		<u>4</u>
Total assets		<u><u>4,742</u></u>
Liabilities:		
Amounts due to members		1,728
Reinsurance to close premiums payable to close the account - gross amount	13	2,352
Creditors:		
Creditors arising out of direct insurance operations		4
Creditors arising out of reinsurance operations		—
Other creditors	14	<u>50</u>
		54
Accruals and deferred income		<u>608</u>
Total liabilities		<u><u>4,742</u></u>

The board of Asta Managing Agency Ltd approved Syndicate 4242's underwriting year accounts on pages 12 to 32 on 8 March 2016, which the Director below signed on the board's behalf.



David J G Hunt
Director
22 March 2016

The notes on pages 17 to 32 form part of these underwriting year accounts.

Statement of Members' balances - 2013 Underwriting year
Three Years Ended 31 December 2015

	<u>\$000</u>
Profit for the closed year of account	29,063
Members' agent fees	(181)
U.S. federal income tax payments made on account of members	(929)
Other amounts due to members	75
Early payments of profit to members' personal reserve fund	<u>(26,300)</u>
Amounts due to members at 31 December 2015	<u><u>1,728</u></u>

The notes on pages 17 to 32 form part of these underwriting year accounts.

Statement of Cash Flows - 2013 Underwriting Year
Three Years Ended 31 December 2015

	Note	<u>\$000</u>
Cash flows from operating activities		
Profit for the closed year of account		29,063
Unrealised investment gains/losses		1
Increase in debtors		(3)
Increase in creditors		374
Non-cash consideration for net RITC received	9	(2,519)
RITC premium payable, net of reinsurance		<u>2,352</u>
		29,268
Cash flows from investing activities		(1,750)
Cash flows from financing activities		
Members agents fees		(181)
U.S. federal income tax and other balances		(854)
Early payment of profit to members' personal reserve fund		<u>(26,300)</u>
		(27,335)
Net increase in cash and cash equivalents		183
Cash and cash equivalent at 1 January 2013		<u>—</u>
Cash and cash equivalent at 31 December 2015	10	<u>183</u>

The notes on pages 17 to 32 form part of these underwriting year accounts.

Notes to the Underwriting Year Accounts Three Years Ended 31 December 2015

(1) Basis of Preparation

The directors of the Managing Agent (the directors) prepared these 2013 underwriting year accounts for Syndicate 4242 (the Syndicate) in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and accounting standards in the United Kingdom (U.K.) applicable to the Syndicate as if it were an insurance company formed and registered under the Companies Act 2006. These underwriting year accounts also comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 and amended in December 2006.

Members participate in the Syndicate on an underwriting year basis under agency agreements with the Managing Agent; each underwriting year is a separate annual venture. Agency agreements grant underwriting control to the Managing Agent; members have no access to funds controlled by the Syndicate. The Managing Agent normally keeps each underwriting year open for three calendar years before determining the result for the year and potentially releasing funds to the members of the year. The Managing Agent assesses the result and net assets for each underwriting year based on the insurance policies incepting in that year for the membership of that year. The directors may also release funds early on open underwriting years if they can determine the ultimate profitability of the year with enough accuracy (generally at the end of two calendar years).

The directors prepared these accounts for the 2013 underwriting year, which closed on 31 December 2015 by payment of a reinsurance to close (RITC) premium to the 2014 underwriting year, on an underwriting year basis. Therefore, the profit and loss account reflects transactions on the 2013 underwriting year over the last three years. The balance sheet shows the ending assets and liabilities of the 2013 underwriting year at the closure of the year.

(2) Managing Agent

The Managing Agent for the Syndicate is Asta Managing Agency Ltd (Asta).

(3) Accounting Policies

The directors consistently applied the material accounting policies below in preparing these underwriting year accounts.

(a) *Gross Premiums*

Gross premiums consist of premiums on insurance contracts bound during the underwriting year. Gross premiums also include inward reinsurance premiums from ceding insurance companies on the underlying policies bound during the underwriting year, an inward portfolio transfer from the last underwriting year and an outward portfolio transfer to the next underwriting year. The Syndicate shows premiums gross of coverholder commissions and excludes taxes and fees levied on them.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(3) Accounting Policies (Continued)

(b) *Outward Reinsurance Premiums*

Outward reinsurance premiums include premiums on outward reinsurance contracts that reduce the underwriting year's exposure to losses from catastrophes and all other property perils. The directors allocate catastrophe reinsurance premiums to underwriting years based on each year's contribution to the weighted average modelled losses of the reinsurance contracts. The directors charge the costs of reinsurance for all other property perils to underwriting years based on when the reinsured policies incept. Reinsurance transactions do not relieve the Syndicate of its primary obligations to its policyholders.

(c) *Claims Paid, Net of Reinsurance Recoveries*

Gross claims paid include the settlement costs of claims against insurance contracts bound during the underwriting year and related claims handling expenses. The directors allocate catastrophe reinsurance recoveries to underwriting years based on each year's share of the underlying losses from the affected insurance contracts triggering the recoveries. The directors credit recoveries against all other property perils to underwriting years based on when the reinsured policies incept.

(d) *RITC Premium Payable*

The directors determine RITC premiums based on the cost of settling all notified but not settled claims outstanding at the closure of the underwriting year. RITC premiums also include a provision for the estimated cost of claims incurred but not reported (IBNR) at the closure of the underwriting year 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 used the findings of the Syndicate's actuaries, which included 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 and all other property perils, the Syndicate's actuaries apply Initial Expected Loss Ratios (IELRs) for each class of business, which is segmented by homogeneous regions and/or policy types. The Syndicate's actuaries develop these IELRs against catastrophe models, market data, and past claims on similar classes of business.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(3) Accounting Policies (Continued)

(d) RITC Premium Payable (Continued)

The provision for claims outstanding is subject to significant variability. While the directors believe that the determined 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 amount RITC premiums determined at the closure of the underwriting year. The nature, however, of short tail claims, such as the property insurance that the Syndicate underwrites, where policyholders typically notify the Syndicate of their claims within an average of 25 days and the Syndicate typically settles these claims within a short time period 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 based 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 used statistical methods to help them make these estimates.

(e) Investments

Investments consist of shares and other variable yield securities and debt and other fixed income securities. The Syndicate carries investments at current or market value.

(f) 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 Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(3) Accounting Policies (Continued)

(f) *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.

(g) *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. Movements in unrealised gains and losses on investments represent the difference between the carrying value of investments at the balance sheet date and the purchase price of investments in earlier accounting periods, after considering investment disposals. Investment management expenses consist of investment custodian and fund management fees.

The directors credit the investment return on the joint trust funds to underwriting years based on the advice of Lloyd's. The directors allocate the calendar year investment return on all other investments to underwriting years open during the calendar year in proportion to the average funds available for investment from each underwriting year.

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

(h) *Net Operating Expenses*

The directors charge operating expenses to the underwriting year that the Syndicate incurred them for. Operating expenses include acquisition costs, administrative expenses, and reinsurance commissions and profit participation. Acquisition costs consist of coverholder and ceding commissions (on inward reinsurance acceptances) primarily related to the production of new and renewal business. 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

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(3) Accounting Policies (Continued)

to a two-calendar-year deficit carry-forward provision. The Syndicate charges commissions to expense when incurred. The Syndicate receives a share of brokerage from reinsurance brokers and recognises it, 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 the contract formulas. The Syndicate's contingent profit commission calculations include a provision for IBNR.

(i) *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 for the 2013 underwriting year. The Syndicate's members pay these taxes alongside the U.K. income taxes resulting from the Syndicate's trading and investment income for the underwriting years they participate on. The Syndicate includes any tax payments made on account of its members for the underwriting year in members' balances.

(j) *Foreign Currency Translation*

The Syndicate's functional and reporting currency is the U.S. Dollar. The directors measured foreign currency assets and liabilities for the 2013 underwriting year at the closing exchange rate in effect at the closure of the year, while they measured foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(4) Segment Reporting

The table below details the underwriting year result before investment return by class of business.

	2013 Underwriting Year					Total
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance Balance	
Fire and other damage to property	125,026	125,026	(11,133)	(45,868)	(39,008)	29,017
RITC acceptance	2,541	2,541	(2,541)	—	—	—
Total	<u>127,567</u>	<u>127,567</u>	<u>(13,674)</u>	<u>(45,868)</u>	<u>(39,008)</u>	<u>29,017</u>

Included in the reinsurance balance are reinsurance commissions and profit participation of \$776,324.

Gross claims incurred consist of gross claims paid and gross RITC premiums payable. The reinsurance balance consists of outward reinsurance premiums less reinsurance recoveries on gross claims paid and anticipated reinsurance recoveries on gross RITC premiums payable.

The Syndicate only wrote business in the U.S.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(5) Investment Return

	2013 Underwriting Year \$000
Income from investments	103
Gains on realisation of investments	8
Loss on realisation of investments	(1)
Unrealised gains on investments	2
Unrealised losses on investments	(1)
Investment management expenses	(65)
Total	<u>46</u>

This table details the average funds available for investment, investment return, and investment yield for the underwriting year. The Syndicate held all of its investments in U.S. Dollars.

	2013 Underwriting Year \$000
Average funds available for investment	18,539
Investment return	103
Investment yields	0.6%

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(6) Net Operating Expenses

	2013 Underwriting Year \$000
	<u> </u>
Acquisition costs	34,308
Administrative expenses	11,560
Reinsurance commissions and profit participations	<u>(776)</u>
Total	<u><u>45,092</u></u>

This table details administrative expenses included in net operating expenses for the underwriting year.

	2013 Underwriting Year \$000
	<u> </u>
Operating costs (includes Managing Agent recharges)	2,447
Managing Agent fees and profit commissions	8,936
Lloyd's membership costs	882
Auditor remuneration - audit fees	365
Brokerage sharing	<u>(1,070)</u>
Total	<u><u>11,560</u></u>

Managing Agent fees consist of the service fees paid to the Managing Agent. Fees paid to the Syndicate's auditor were primarily in relation to the audit of annual and underwriting year accounts of the Syndicate and the audit of Lloyd's regulatory returns. Audit fees also include fees for the Syndicate's half year reviews of \$36,198.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(7) Key Management Personnel Compensation

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

Asta employed an average of 10 people that worked for the Syndicate. Asta recharged the Syndicate for the payroll costs of one of these employees. Service fees paid to Asta 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. ICAT also compensates the Syndicate’s Active Underwriter, an employee it transferred to the Managing Agent. ICAT recharged a portion of the Active Underwriter’s payroll expense, together with the payroll expenses of the Vice President of Underwriting, to the Syndicate.

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

	2013 Underwriting Year \$000
Wages and salaries	360
Social security costs	22
Other pension costs	11
Total	<u>393</u>

An external fund manager provides investment services to the Syndicate.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(8) Other Financial Investments

	2013 Underwriting Year \$000	
	Market value	Cost
Shares and other variable yield securities	784	784
Debt securities and other fixed income securities	3,704	3,766
Deposits with credit institutions (overseas deposits)	58	58
Total	<u>4,546</u>	<u>4,608</u>

	2013 Underwriting Year \$000 Fair Value Hierarchy			
	Level 1	Level 2	Level 3	Total
Shares and other variable yield securities	784	—	—	784
Debt securities and other fixed income securities	1,270	2,434	—	3,704
Deposits with credit institutions (overseas deposits)	43	15	—	58
Total	<u>2,097</u>	<u>2,449</u>	<u>—</u>	<u>4,546</u>

The Syndicate holds all of its debt and other fixed-income securities in the Lloyd's Dollar Trust Fund and the U.S. situs trust funds. Funds are required to be held in the U.S. situs trust funds to protect its policyholders as required by U.S. regulators; all of these securities are listed. Overseas deposits consist of funds contributed to joint asset 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 write-down any of the 2013 underwriting year's allocated investments.

(9) Non Cash Consideration for Net RITC Received

	2013 Underwriting Year \$000
Non cash consideration for Net RITC received comprised	
Financial Investments	2,797
Debtors	10
Creditors	(288)
	<u>2,519</u>

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(10) Movement in Cash and Financial Investments

	2013 Underwriting Year				At 31 December 2015 \$000
	At January 2013 \$000	Received within RITC premium \$000	Cash flow \$000	Changes to fair value \$000	
Shares and other variable yield securities	—	346	438	—	784
Debt securities and other fixed income securities	—	1,793	1,912	(1)	3,704
Deposits with credit institutions (overseas deposits)	—	658	(600)	—	58
	—	2,797	1,750	(1)	4,546
Cash at bank and in hand	—	69	114	—	183
Total cash and financial investments	—	2,866	1,864	(1)	4,729

(11) Other Assets

	2013 Underwriting Year \$000
Cash at bank and in hand	183

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(12) Balance on Technical Account – General Business

	2013 Underwriting Year \$000
Profit for the closed year of account, excluding surpluses (deficits) from earlier underwriting years reinsured, net operating expenses, and allocated investment return transferred from the non-technical account	72,505
Surpluses (deficits) from earlier underwriting years reinsured:	
2012 pure underwriting year	1,575
2011 pure underwriting year	36
2010 pure underwriting year	(7)
2009 pure underwriting year	—
2008 pure underwriting year	—
2007 pure underwriting year	—
Total surpluses (deficits) from earlier underwriting years reinsured	1,604
Net operating expenses	(45,092)
Allocated investment return transferred from the non-technical account	46
Balance on technical account - general business	<u>29,063</u>

(13) Net RITC Premium Payable

	2013 Underwriting Year \$000		
	Gross	Reinsurers' share	Net RITC Premium Payable
Claims notified	760	—	760
Claims IBNR	1,592	—	1,592
Total	<u>2,352</u>	<u>—</u>	<u>2,352</u>

(14) Other Creditors

	2013 Underwriting Year \$000
Amounts owed to associated companies	<u>50</u>

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(15) Risk Management

The board of directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk and capital management. Effective from 31 December 2015, the RITC process means that Insurance, Financial, Credit, Liquidity, Market and Capital risks are transferred to the accepting 2014 Year of Account of the syndicate. Accordingly, these Underwriting Year accounts do not have any associated disclosures as required by section 34 of FRS 102. Full disclosures relating to these risks are provided in the main Annual accounts of the syndicate.

(16) Related Parties

Asta is the Managing Agent of the Syndicate.

This table details amounts paid to Asta on the underwriting year.

	2013 Underwriting Year \$000
Managing Agent fees on insurance capacity	1,243
Service fees	3,541
Recharges (payroll costs and expenses)	72
Profit commissions	<u>3,757</u>
Total paid	<u><u>8,613</u></u>

Commissions paid to ICAT for underwriting services totalled \$31.9 million on gross written premiums of \$125.0 million for the 2013 underwriting year. Fees paid to Boulder Claims for claims administration services totalled \$1.2 million for the 2013 underwriting year.

ICAT is an indirect subsidiary of Paraline Group, Ltd. (Paraline Group), a company registered in Bermuda that also provided 35.1% of the Syndicate's insurance capacity for the 2013 underwriting year through its indirectly owned Paraline and ICAT corporate members. Paraline Reinsurance, Ltd. (Paraline Re), an indirectly owned Bermudian reinsurance company of Paraline Group supported the Paraline corporate member's participation on the Syndicate for the 2013 underwriting year, while unrelated foreign reinsurers fully supported the ICAT corporate members' participation. An affiliate of Paraline Group, Elliott CCM Limited, provided another 3.7% of capacity. The table below details the percentage of total Syndicate capacity provided by other parties.

Notes to the Underwriting Year Accounts (Continued)

Three Years Ended 31 December 2015

(14) Related Parties (Continued)

	2013 Underwriting Year
Everest Corporate Member Limited	8.3%
Hampden Agencies Limited (MAPA 7217)	11.3%
IAT CCM Limited	7.5%
Labuan Re Underwriting Limited	14.6%
SCOR Underwriting Limited	12.0%
Taiping Re UK Ltd	7.5%
Total	<u>61.2%</u>

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 without prepaid reinstatement to the Syndicate to protect against the occurrence of large catastrophes. SCOR Global's share of the Syndicate's catastrophe reinsurance coverage is 5.6% (2.7% before 1 April 2013), accounting for 5.2% of the Syndicate's overall reinsurance costs.

Before 1 April 2013, Paraline Re, a wholly owned subsidiary of Bermuda-based Paraline International, Ltd (Paraline International) together with other reinsurers provided layered, non-proportional catastrophe reinsurance premium protection to the Syndicate to cover potential reinstatement premiums; Paraline Re's share of this coverage was 14.7%, accounting for 2.5% of the Syndicate's overall reinsurance costs.

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 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.

(15) Subsequent Event

The Syndicate will make a final profit distribution of \$2.8 million to 2013 underwriting year's participating members in the second quarter of 2016.

Asta Report – Syndicate 4242

Seven Year Summary of Closed Year of Account Results
31 December 2015

	Closed Year of Account						
Note	2013	2012	2011	2010	2009	2008	2007
Syndicate insurance capacity (£000)	80,000	80,000	80,000	99,000	83,637	83,646	83,616
Syndicate insurance capacity (\$000)	124,272	124,000	125,600	159,390	129,637	131,324	134,622
Number of underwriting members	10	12	10	7	7	7	7
Earned premiums, net of reinsurance and acquisition costs (\$000)	50,834	43,635	36,900	39,299	36,821	33,813	27,549
Results for an illustrative share of £10,000 of insurance capacity							
Gross premiums written	15,628	14,805	13,409	10,500	14,513	14,303	8,746
Earned premiums, net of reinsurance and acquisition costs	6,354	5,454	4,613	3,970	4,402	4,042	3,295
Premium for the reinsurance to close an earlier year of account	318	94	104	(47)	(147)	103	—
Claims paid, net of reinsurance	(1,403)	(2,669)	(1,627)	(1,368)	(409)	(4,919)	(488)
Premium for the reinsurance to close the year of account	(294)	(318)	(94)	(84)	56	147	(101)
Profit (loss) on foreign exchange	(6)	(5)	4	(1)	(1)	(104)	21
Operating expenses	(38)	(327)	(146)	(270)	(99)	(165)	(185)
Balance on technical account	4,931	2,230	2,854	2,200	3,802	(896)	2,542
Investment return	6	1	5	24	39	17	73
Profit (loss) for the closed year	4,937	2,231	2,859	2,224	3,841	(879)	2,615
Illustrative profit commission - Managing Agent's share	(519)	(242)	(289)	(251)	(308)	—	(287)
Illustrative personal expenses	(785)	(474)	(547)	(219)	(331)	(414)	(651)
Profit (Loss) after illustrative profit commission and personal expenses	3,633	1,515	2,023	1,754	3,202	(1,293)	1,677
Profit (Loss) after illustrative profit commission and personal expenses	£ 2,454	£ 975	£ 1,219	£ 1,076	£ 2,065	£ (823)	£ 1,041

(1) Illustrative Personal Expenses

Illustrative personal expenses include Managing Agent fees on insurance capacity and Lloyd's membership costs (members' subscriptions and contribution to the New Central Fund).

(2) Profit (Loss) After Illustrative Profit Commission and Personal Expenses

Syndicate 4242's functional currency is the U.S. Dollar (see note (3)(i) to the underwriting year accounts); the directors therefore presented the Six Year Summary of Closed Year of Account Results in U.S. Dollars.