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**Aspen Managing Agency Limited**

**Syndicate 4711**

**Report and accounts**

**For the year ended  
31 December 2015**

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## **Directors and Advisors**

### **Managing Agent:**

#### ***Managing Agent***

Aspen Managing Agency Limited

#### ***Directors***

H E Hutter (Chairman)

R J S Bucknall

M E Dean

K A Green

J F Hobbs

H Rose

K R L Vacher

P D Webster

#### ***Company secretary***

H Lipscomb

#### ***Managing Agent's registered office***

30 Fenchurch Street,

London, EC3M 3BD

United Kingdom

#### ***Managing Agent's registered number***

06459521

### **Syndicate:**

#### ***Active underwriter***

K R L Vacher

#### ***Bankers***

Citibank N.A.

RBC Dexia

#### ***Investment managers***

Conning Asset Management Limited

#### ***Registered Auditor***

KPMG Audit LLP

15 Canada Square

London

E14 5GL

## Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report in respect of Syndicate 4711 ("the Syndicate") for the year ended 31 December 2015.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Results

The result for the year ended 31 December 2015 is a loss of £21.3 million (2014 profit of £15.4 million) and is set out in the Profit and Loss Account on page 13.

### Principal activities

The principal activity of the Syndicate is the transaction of general insurance and reinsurance business at Lloyd's. A description of the Syndicate's business is as follows:

#### Marine, Aviation, Energy and Transportation Insurance:

Our marine, aviation, energy and transportation insurance segment comprises marine, energy and construction ("MEC") liability, onshore and offshore energy and construction physical damage, marine hull, specie, inland marine and ocean risks and aviation, written on a primary, excess, quota share, program and facultative basis.

- **MEC Liability:** The MEC liability business based in the UK includes marine liability cover mainly related to the liabilities of ship-owners and port operators, including reinsurance of Protection and Indemnity Clubs ("P&I Clubs"). It also provides liability cover globally (including the US) for companies in the oil and gas sector, both onshore and offshore and in the power generation and US construction sectors.
- **Onshore Energy and Construction Physical Damage:** Our established MEC property unit based in the US underwrites a variety of US and Latin American onshore energy and construction sector classes of business.
- **Offshore Energy Physical Damage:** coverage is offered to insureds principally for physical damage, control of well and other ancillary perils. The account is orientated towards the upstream sector, with coverage provided through all phases of the oil and gas process from the initial risks associated with exploration through subsequent construction, development, transportation and product processing phases.
- **Marine Hull:** Coverage consists primarily of navigating policies for ships, insuring the hull of the vessel and its machinery. Ancillary coverage includes building risks, war risks, port risks, total loss only cover and single voyages.
- **Specie:** The specie business line focuses on the insurance of high value property items on an all risks basis, including fine art, general and bank related specie, jewellers' block and armoured car.
- **Aviation:** The aviation team writes airline, hull deductible, war and aerospace business (comprising of airport and non-critical products business).

#### Financial and Professional Lines Insurance:

Our financial and professional lines comprise financial and corporate risks, professional indemnity, credit and political risks and kidnap and ransom, written on a primary, excess, quota share, program and facultative basis.

- **Financial and Corporate Risks:** Our financial institutions business is written on both a primary and excess of loss basis and consists of professional liability, crime insurance and directors' and officers' ("D&O") cover, with the largest exposure comprising risks headquartered in the UK, followed by Australia, the US and Canada. We cover financial institutions including commercial and investment banks, asset managers, insurance companies, stockbrokers and insureds. This account also includes a book of D&O insurance for commercial insureds located outside of the US and a worldwide book of representations and warranties and tax indemnity business.

- **Professional Indemnity Insurance:** Our professional indemnity business is written on both a primary and excess of loss basis focused on non-US domiciled insureds. We insure a wide range of professions including lawyers, accountants, architects and engineers.
- **Technology Liability:** This account includes a portfolio of worldwide technology liability and data protection insurance. The data protection insurance covers firms for first party costs and third party liabilities associated with their breach of contractual or statutory data protection obligations.
- **Credit and Political Risks:** The credit and political risks team writes business covering the credit and contract frustration risks on a variety of trade and non-trade related transactions, as well as political risks (including multi-year war on land cover). We provide credit and political risks cover worldwide, but with concentrations in a number of countries, such as Russia, China, Brazil, the Netherlands and United States.
- **Accident and Specialty:** The accident and specialty team writes kidnap and ransom insurance designed to protect individuals and corporations operating in high-risk areas around the world, including covering the shipping industry's exposure to acts of piracy. It also writes Terrorism insurance and a growing book of Accident and Health business.

Other, including:

- **Global Casualty Insurance:** Our casualty insurance comprises global excess casualty, which includes excess liability cover for the transport and life science sectors, US casualty insurance, and environmental liability. This is written on a primary, excess, quota share, program and facultative basis. The Syndicate also writes an international casualty portfolio underwritten through the DUAL managing general agent.
- **Reinsurance:** this account consists of various businesses requiring our Lloyd's capacity and includes space business written through consortium, Brazilian reinsurance treaty business, international property facultative and some Casualty business,

**2015 Performance**

Overall premium for the year has increased to £330.5m (2014 restated: £296.9m) although a loss for the financial year of £21.3m is more reflective of the challenging market conditions. Additional information on the Syndicate's classes of business is set out below.

Marine, Aviation, Energy and Transportation Insurance

Conditions in all of the markets in which the Syndicate operates have continued to soften. Gross written premium increased to \$309m from \$296m in 2014 due to a larger amount of Offshore Energy, Physical Damage and MEC business written. Overall performance in this segment in 2015 has deteriorated as a result of losses over most classes.

Financial and Professional Lines Insurance

Gross written premiums have decreased in the year to \$165 million from \$169 million in 2014. This is primarily due to strong competition witnessed in Professional Indemnity and Financial Institutions classes and most significantly in Credit and Political Risks. Performance for this segment has deteriorated as a result of losses across the portfolio notably in CPR and Professional Indemnity.

Other including Global Casualty Insurance and, Reinsurance

Gross written premium increased to \$34 million from \$24 million in 2014, primarily due to growth in the Global Casualty Insurance unit and Reinsurance casualty business. The performance of this segment has improved as a result of good claims experience for Global Casualty during the year.

## **Outwards reinsurance arrangements**

The Syndicate buys individual excess of loss reinsurances which protect the following accounts:

- MEC Liability
- Offshore Energy Physical Damage
- Marine Hull
- Specie
- Aviation
- Credit & Political Risk
- Accident and Specialty
- Financial and Corporate Risks
- Professional Indemnity
- Technology Liability
- Global Casualty Insurance

The financial and professional lines of business are protected under a multi-line and individual excess of loss reinsurance programmes.

The Marine, Energy and Aviation teams are protected under individual Excess of Loss Reinsurance programmes. The Syndicate also purchased an excess of loss reinsurance policy from Aspen Insurance UK Limited ("AIUK") for 2011 to 2014 to cover the MEC Liability account as well as providing similar coverage to AIUK for certain areas of its MEC Liability account. For the 2015 Underwriting year of account when all MEC business was agreed to be written to the Syndicate an additional 50% quota share with AIUK was purchased to reduce volatility.

The Global Casualty Account is protected under an individual excess of loss programme.

The Aviation (War), Credit & Political Risk and Global Casualty accounts also buy quota share protection in addition to their excess of loss insurance.

The Syndicate also purchased an excess of loss reinsurance policy from Aspen Insurance UK Limited ("AIUK") for 2011 to 2014 to cover the MEC Liability account as well as providing similar coverage to AIUK for certain areas of its MEC Liability account. For the 2015 Underwriting year of account when all MEC business was agreed to be written to the Syndicate an additional 50% quota share with AIUK was purchased to reduce volatility.

Any of the above excess of loss reinsurance protections may be shared with one or all of AIUK, Aspen American Insurance Company, Aspen Bermuda Limited, Aspen American Insurance Company and Aspen Specialty Insurance Company, all being subsidiaries of Aspen Insurance Holdings Limited.

The Syndicate has an adverse development cover to protect against reserve deterioration over and above the 31 December 2008 net reserve position. Also, the Syndicate has a 20% whole account quota share for the years of account 2009 to 2015 to protect the net retained account. These reinsurances are placed with Aspen Bermuda Limited, a subsidiary of Aspen Insurance Holdings Limited.

All reinsurance is approved by the Board of AMAL as part of the annual business plan and managed with support from the Aspen Group Reinsurance Security Committee.

## Key performance indicators

The key financial performance indicators during the year were:

	(£ in millions)
Capacity	410
Gross written premium	331
Gross earned premium	314
Net earned premium	190
Investment return	1.6
Underwriting profit	(21.3)
Expense ratio	42.9%
Claims ratio	69.1%
Combined ratio	112.1%

## Risk review

Risk management has been embedded in the management and culture of the Aspen Group since its formation in 2002. Aspen Managing Agency Limited ("AMAL") and the Syndicate, as operating entities within the Aspen Group, benefit from the Group's established risk management practices.

During 2011 a Risk Universe was agreed for AMAL, which defines the different types of risk that AMAL faces and how they are monitored and measured. This framework has been applied and refined through 2012, 2013, 2014 and 2015. The risks are defined in the Risk Universe at 3 levels:

- Main risk classification
- Risk category
- Risk sub category

The main risks faced by AMAL are defined as follows:

Core risks - those risks inherent in the running of AMAL's business are listed below:

- 1) Insurance risk: the variation of actual technical results from their expected values other than as a result of execution, operational or counterparty risks.
- 2) Market risk: The risk of variation in the market value of AMAL's assets as a result of changes in the market prices of securities or foreign currencies.

Non-core risks are all risks other than core risks. These are quantified as far as possible and, wherever practical, minimised or avoided. These are listed below:

- 3) Credit risk: The risk of diminution in the value of insurance receivables as a result of counter-party default.
- 4) Liquidity Risk: The risk that AMAL is unable to make payments or provide collateral when required.
- 5) Operational Risk: The risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events.
- 6) Strategic Risk: The risk of adverse impact on shareholder value or income and capital of adverse business decisions, poor execution or failure to respond to market changes.
- 7) Emerging Risk: The risk that events not previously identified emerge and impact the profitability and/or balance sheet of AMAL.



Operational risk is the most complex of the major risk classifications because it includes multiple risk scenarios arising from multiple processes and circumstances. Because of this we record identified operational risks and their related risk assessments, owners and identified controls in a separate AMAL 'Operational Risk Register'. The Operational Risk Register continues to be maintained and monitored via a quarterly review process with key controls tested quarterly and non-key controls tested annually.

During 2011 the current approach to AMAL key risk limits was introduced. These key limits supplement the AMAL risk appetite statement which was first agreed in 2010 and ensure, amongst other things, that specific key accumulation risks faced by AMAL are measured and monitored.

Reporting against the AMAL Risk Appetite and Key Risk Limits has formed part of the quarterly Chief Risk Officer (CRO) reports to the AMAL Executive Committee and Board throughout 2015. The Risk Appetite and Key Risk Limits are formally reviewed annually as part of the business planning process. Changes to the Key Risk Limits throughout the year are reported on via the quarterly CRO reports.

The draft 2016 ORSA report was reviewed by the AMAL Board in March 2016 and a number of changes were requested to be made prior to its submission to Lloyd's at the end of March 2016.

### **Investment performance**

The investment policy of the Syndicate is set by the Board of AMAL and managed with support from the Aspen Group Treasury function. The Board monitors investment performance and approves the appointment of investment managers. Conning Asset Management Limited manage the Syndicate's investments.

As at 31 December 2015, the Syndicate was holding £188.4 million in investments which were located in various countries in Europe excluding the UK; being Austria, Denmark, France, Luxembourg, Netherlands, Sweden and Germany. All such investments had a Standard & Poor's rating of at least BBB+. Investment risk is analysed in note 5 to these accounts.

The Syndicate maintains funds in Sterling, US dollars, Euro and Canadian dollars.

The Syndicate's cash flow during the year was strong and at 31 December 2015 the total value of cash and investments was £263.3 million (2014: £250.0 million). Of the total value, 70% was held in US dollars, of which 8% was invested in money market funds and 28% was invested in Canadian and US government bonds. Overall the investment yield for the year was 0.6% on an annualised basis.

Further analysis of the Syndicate's investments can be found in the notes 11 and 12 to these accounts.

### **Future developments**

The Syndicate's capacity for 2016 has increased to £475 million (2015: £410 million).

In 2016 the Syndicate will look to develop its existing business in line with market conditions. It will also grow its business in Accident & Health as well as various reinsurance initiatives such as Chinese and South African treaty reinsurance business. In addition opportunities in Casualty delegated authority are also planned to be written.

The Syndicate plan for 2016 is to look to develop its existing business in line with market conditions. It will also grow its business in Accident & Health as well as various reinsurance initiatives such as Chinese and South African treaty reinsurance business. In addition opportunities in Casualty delegated authority are also planned to be written.

The Syndicate has also started to write business through the Lloyd's Asia Scheme. This was identified as a key region for establishing a presence in support of insurance diversification and growth plans. The initial focus will be on existing lines of business; MEA and FinPro.

## Directors

The directors of AMAL who served during the year ended 31 December 2015 are as follows:

		Date of Appointment	Date of Resignation
H E Hutter	Non-executive Chairman	28 <sup>th</sup> February 2008	
K A Green	Chief Executive Officer	26 <sup>th</sup> March 2008	
R C C Villers	Director	8 <sup>th</sup> June 2009	3 <sup>rd</sup> June 2015
K R L Vacher	Director	24 <sup>th</sup> February 2010	
N J D Terry	Director	14 <sup>th</sup> August 2013	30 <sup>th</sup> November 2015
R J S Bucknall	Non-executive Director	28 <sup>th</sup> February 2008	10 <sup>th</sup> March 2016
J F Hobbs	Non-executive Director	24 <sup>th</sup> July 2008	
P D Webster	Non-executive Director	14 <sup>th</sup> August 2013	
M E Dean	Director	21 <sup>st</sup> October 2015	
H Rose	Director	3 <sup>rd</sup> February 2016	

## Company Secretary

The secretary of the Company who served during the year ended 31 December 2015 is H Lipscomb.

## Disclosure of information to the Auditors

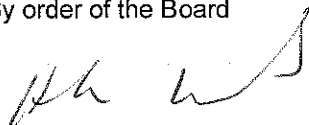
The directors each confirm that:

- So far as they are aware, there is no relevant audit information of which the Syndicate's auditors are unaware, and
- They have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

## Auditors

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

By order of the Board



Helen Lipscomb  
Secretary

10 March 2016

## Statement of Managing Agent's Responsibilities

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

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

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

- select suitable accounting policies and then apply them consistently, subject to changes arising on the adoption of new accounting standards in the year;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the annual accounts; and
- prepare the annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the Aspen website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



Helen Rose  
Chief Financial Officer

10 March 2016

## **Independent auditor's report to the member of Syndicate 4711**

We have audited the syndicate 4711 annual accounts for the year ended 31 December 2015, as set out on pages 13 to 44. 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 member 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 member 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's member 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 11, the Managing Agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the syndicate annual 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](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on syndicate annual accounts**

In our opinion the annual accounts:

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

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

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

### **Matters on which we are required to report by exception**

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

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



**Timothy Butchart (Senior Statutory Auditor)**  
for and on behalf of KPMG LLP, Statutory Auditor  
Chartered Accountants  
London

15 March 2016

**Profit and Loss Account: Technical and Non-Technical Account - General Business**  
for the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Gross premiums written	6	330,517	296,983
Outward reinsurance premiums	6	(135,844)	(100,008)
Net premiums written		194,673	196,975
Change in the provision for unearned premiums			
Gross amount	6, 16	(17,031)	(37,576)
Reinsurers' share	6, 16	11,865	15,908
Net change in provision for unearned premiums		(5,166)	(21,668)
<b>Earned premiums, net of reinsurance</b>		<b>189,507</b>	<b>175,307</b>
<b>Allocated investment return transferred from the non-technical account</b>	11	<b>1,623</b>	<b>1,481</b>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount	6	(122,743)	(95,131)
Reinsurers' share	6	25,351	24,751
Net claims paid		(97,392)	(70,380)
Change in the provision for claims			
Gross amount	6, 16	(86,309)	(44,899)
Reinsurers' share	6, 16	52,696	18,373
Net change in the provision for claims		(33,613)	(26,526)
Claims incurred, net of reinsurance		(131,005)	(96,906)
Net operating expenses	7	(81,389)	(64,489)
<b>Balance on the technical account - for general business</b>		<b>(21,264)</b>	<b>15,393</b>
<b>Non-Technical Account</b>			
Investment income	11	2,308	1,817
Realised losses on investments	11	(151)	(27)
Investment management charges	11	(157)	(95)
Unrealised losses on investments	11	(377)	(214)
Allocated investment return transferred to general business technical account	11	(1,623)	(1,481)
<b>(Loss)/Profit for the financial year</b>		<b>(21,264)</b>	<b>15,393</b>

All operations are continuing.

**Statement of Other Comprehensive Income**  
for the year ended 31 December 2015

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
(Loss)/Profit for the financial year	<b>(21,264)</b>	15,393
Foreign currency translation differences	<b>76</b>	43
<b>Total recognised gains and losses in the financial year</b>	<b><u>(21,188)</u></b>	<b><u>15,436</u></b>

**Balance sheet - Assets  
at 31 December 2015**

	Notes	2015 £000	2014 £000
<b>Investments</b>			
Financial investments	12	<u>209,674</u>	<u>231,974</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	18	74,147	60,535
Claims outstanding	18	<u>157,082</u>	<u>106,208</u>
		<b>231,229</b>	<b>166,743</b>
<b>Debtors - due within one year</b>			
Debtors arising out of direct insurance operations - intermediaries	13	110,675	116,483
Debtors arising out of reinsurance operations	14	52,626	38,922
Other Debtors		<u>1,519</u>	<u>—</u>
		<b>164,820</b>	<b>155,405</b>
<b>Debtors - due after one year</b>			
Debtors arising out of direct insurance operations - intermediaries	13	8,650	3,557
Debtors arising out of reinsurance operations	14	<u>3,716</u>	<u>1,188</u>
		<b>12,366</b>	<b>4,745</b>
<b>Other assets</b>			
Cash at bank and in hand	20	32,399	6
Other	20	<u>21,265</u>	<u>17,973</u>
		<b>53,664</b>	<b>17,979</b>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		45,868	40,699
Other prepayments and accrued income		<u>530</u>	<u>357</u>
		<b>46,398</b>	<b>41,056</b>
<b>TOTAL ASSETS</b>		<u><b>718,151</b></u>	<u><b>617,902</b></u>

**Balance Sheet - Liabilities**  
**at 31 December 2015**

	Notes	2015 £000	2014 £000
<b>Capital and reserves</b>			
Member's balance		(12,592)	8,298
<b>Technical provisions</b>			
Provision for unearned premiums	18	195,206	173,632
Claims outstanding	18	437,198	344,778
		<u>632,404</u>	<u>518,410</u>
<b>Creditors - due within one year</b>			
Creditors arising out of direct insurance operations - intermediaries	19	20,390	17,916
Creditors arising out of reinsurance operations	19	56,717	40,632
Other creditors	19	3,158	2,786
		<u>80,265</u>	<u>61,334</u>
<b>Accruals and deferred income</b>		18,074	29,860
<b>TOTAL LIABILITIES</b>		<u><u>718,151</u></u>	<u><u>617,902</u></u>

The financial statements on pages 19 to 44 were approved by the Board of Aspen Managing Agency Limited on 10 March 2016 and were signed on its behalf by:



Helen Rose  
Chief Financial Officer

10 March 2016



**Member's Balances  
at 31 December 2015**

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Member's balances at 1 January	<b>8,298</b>	3,087
Impact of change in accounting policy on adoption of FRS 102	—	43
Restated balance at 1 January	<b>8,298</b>	3,130
(Loss)/Profit for the financial year	<b>(21,264)</b>	15,393
Other recognised gains and losses relating to the financial year	<b>76</b>	—
Collection/(Payments) of Loss/(Profit) to member	<b>684</b>	(10,368)
Member's FIT	<b>(386)</b>	143
Member's balance carried forward at 31 December	<b>(12,592)</b>	8,298

Members participate on syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year in respect of their membership of a particular year.

**Cash Flow Statement**  
**for the year ended 31 December 2015**

	Notes	2015 £000	2014 £000
<b>Cash flows from operating activities</b>			
Operating result		(21,264)	15,393
Increase in gross technical provisions		113,994	99,351
Increase in reinsurers' share of gross technical provisions		(69,564)	(41,717)
Decrease in debtors		(17,303)	(47,272)
Decrease in creditors		7,144	8,960
Movement in other assets/liabilities		(386)	143
Other		76	43
<b>Net cash flows from operating activities</b>		<b>12,697</b>	<b>34,901</b>
<b>Cash flows from investing activities</b>			
Purchase of equity and debt instruments		(35,428)	(132,076)
Sale of equity and debt instruments		58,118	107,488
Investment income received/paid		(386)	4,809
<b>Cash flows from financing activities</b>			
Distribution profit (per RX04)		—	(10,368)
Distribution loss		684	—
<b>Net increase in cash and cash equivalents</b>		<b>35,685</b>	<b>4,754</b>
Cash and cash equivalents at 1 January		17,979	13,225
Cash and cash equivalents at 31 December		53,664	17,979
Cash at bank and in hand	20	32,399	6
Short term deposits with credit institutions	20	21,265	17,973
<b>Cash and cash equivalents at 31 December</b>		<b>53,664</b>	<b>17,979</b>

## Notes to the Accounts

### At 31 December 2015

#### 1. Basis of preparation

Syndicate 4711 ('The Syndicate') comprises a group of members of the Society of Lloyds that underwrites insurance business in the London Market. The address of the syndicate's managing agent is 30 Fenchurch Street, London, EC3M 3BD.

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

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

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

#### 2. Change to accounting policies

These are the first set of financial statements prepared by the Syndicate in accordance with FRS 102. In its transition to FRS 102 from old UK GAAP, the Syndicate has made measurement adjustments. An explanation of how the transition to FRS102 has affected the financial position & performance of the Syndicate is provided in note 22.

#### 3. Use of judgments and estimates

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

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

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, having regard to variations in business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions. In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

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

#### 4. Significant accounting policies

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

## Notes to the Accounts

At 31 December 2015

### Premiums written

Gross premiums written comprise premiums on contracts incepting during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Gross premiums include brokerage payable but exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

### Unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the balance sheet date.

### Reinsurance premium ceded

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related inwards business being reinsured.

### Claims

Gross claims incurred comprise the cost of all claims occurring during the year, whether reported or not, and include related direct and indirect claims handling costs and adjustments to claims outstanding from prior years.

The provision for claims outstanding is assessed on an individual case by case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported ('IBNR') at the balance sheet date based on statistical methods.

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved.

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

The directors of the Managing Agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which adjustments are made. The methods used and the estimates made, are reviewed regularly.

### Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition cost deferred.

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

### Acquisition costs

Acquisition costs include direct costs such as commissions and brokerage paid to obtain the business written, indirect costs such as administrative expenses and Member's expenses connected with the processing and issuing of policies. Acquisition costs are earned in line with the gross written premium to which they relate.

## **Notes to the Accounts**

### **At 31 December 2015**

#### **Foreign currencies**

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

#### **Financial assets and liabilities**

Investments are stated at their market value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions are stated at cost.

#### **Investment return**

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and, net of investment expenses, charges and interest.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the beginning of the period, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect on investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been allocated in full to the technical account as all investments relate to underwriting business.

#### **Taxation**

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

The Syndicate will make payments on account of United States Federal Income Tax due on underwriting results and investment income on behalf of its Member. These payments are recorded under the heading 'other debtors' and are recovered by the Syndicate from its Member's.

#### **Member's expenses**

Member's expenses comprise managing agent's fees and profit commission, Lloyd's subscriptions and central fund contributions.

Managing agent's fees are recognised in full in the calendar year in which they are paid.

Lloyd's subscriptions and central fund contributions are earned in line with the gross premiums written to the same year of account.

## **5. Risk and capital management**

### ***Introduction and overview***

The Syndicate is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from insurance policies as they fall due. The most important

## Notes to the Accounts

At 31 December 2015

components of this financial risk are insurance risk, market risk (including interest rate risk and currency risk) credit risk, and liquidity risk.

### ***Risk Governance and Risk Management Strategy***

The Board of Directors of the Aspen Managing Agency Limited ("the Board") considers effective identification, measurement, monitoring, management and reporting of the risks facing our business to be key elements of its responsibilities. The Board ensures that the company operates an effective risk management and control framework which includes risk management, compliance and internal control systems. The Syndicate, as an operating entity within the Aspen Group, benefits from the Group's established risk management practices. The Group's risk management policies are established to identify and analyse the risks faced by the Group and the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Further details on the Group wide risk management strategy can be found in the consolidated financial statements of Aspen Insurance Holdings Limited ("AIHL") which are available to the public.

### ***Insurance Risk***

Insurance risk is defined as the risk that underwriting results vary from their expected amounts, including the risk that reserves established in respect of prior periods are understated.

Insurance risk includes the following:

- (a) Underwriting risk: The variation of accident year technical result from its expected value. Underwriting risk can be further split into sub-categories including:
  - Catastrophe accumulation risk: The risk that losses from natural catastrophes exceed expected levels.
  - Pricing calibration risk: The risk that actual technical results differ from expected values as a result of invalid assumptions, methodology or parameters used in the pricing process.
  - Large claims risk: The risk that losses from a single man-made event, or group of related events, exceed the expected levels.
  - Attritional risk: The risk that the total of all losses other than catastrophe and large losses exceeds the expected level.
  - Reinsurance mitigation risk: The risk that gross losses are not reduced by reinsurance recoveries to the extent expected.
- (b) Reserving risk: The variation in policyholder reserves for prior accident years.

### ***Processes for addressing risk***

We model our exposure to underwriting and reserving risks using the Internal Model to measure the associated capital requirements on both the one year Solvency Capital Requirement (SCR) measure stipulated by Solvency II and the ultimate SCR basis used by Lloyd's to set capital requirements. Our Internal Model has been assessed by Lloyd's as meeting the tests and standards for Solvency II approval. Lloyd's internal model of which our model is a part has been approved by the PRA. Modelling of insurance risk exposures is the key process for monitoring and managing insurance risk.

The Reserving policy and Aspen Group Underwriting Risk Policy evidence how Aspen manages the risk of loss or of adverse change in the values of insurance and reinsurance liabilities, resulting from inadequate pricing and provisioning assumptions.

The Underwriting Risk Policy requires and defines the use of Aspen Underwriting Principles ("AUPs") for each underwriting team, and similarly the Group Pricing Standard establishes the requirements that must be addressed by the Pricing Policy Document ("PPD") for each portfolio. AUPs set out a series of key principles translated into specific guidelines, requirements, processes and management controls, the compliance of which is mandatory for all Underwriters. The PPDs set out a series of standards and principles to apply to all business underwritten.

## Notes to the Accounts

At 31 December 2015

The Group Claims risk policy sets out the core risk management requirements for the Claims process. The Syndicate Claims Procedures apply to claims handling in respect of Syndicate claims. It covers the full claims cycle and is supported by a range of detailed procedures. It includes specific considerations in respect of the handling of Syndicate claims.

The Reinsurance Mitigation Policy defines Aspen's approach to managing the risk that gross losses are not reduced by reinsurance recoveries to the extent expected. The Insurance Accumulation Risk policy defines Aspen's approach to categorise, set tolerances and limit, measure, monitor, report and escalate Natural Catastrophe and Non Natural Catastrophe accumulations.

### Concentration of insurance risk

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

Year 2015	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total £000
UK	1,359	6,983	1,411	15,281	13,398	23,970	62,402
Asia	679	3,489	705	7,637	6,695	11,979	31,184
Europe	965	4,956	1,002	10,847	9,510	17,014	44,294
US	2,539	13,042	2,636	28,542	25,024	44,769	116,552
Other	1,657	8,514	1,721	18,632	16,335	29,226	76,085
Total	7,199	36,984	7,475	80,939	70,962	126,958	330,517

Year 2014	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total £000
UK	2,359	9,379	1,536	12,755	12,651	21,570	60,250
Asia	1,047	4,164	682	5,663	5,617	9,576	26,749
Europe	1,507	5,990	981	8,145	8,079	13,775	38,477
US	3,747	14,896	2,438	20,257	20,092	34,257	95,687
Other	2,969	11,803	1,933	16,051	15,920	27,144	75,820
Total	11,629	46,232	7,570	62,871	62,359	106,322	296,983

## Notes to the Accounts

### At 31 December 2015

#### Sensitivity of insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being written and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR).

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

	2015		2014	
	5 per cent increase	5 per cent decrease	5 per cent increase	5 per cent decrease
	£000	£000	£000	£000
Accident and Health	(235)	235	(110)	110
Marine, aviation and transport	(3,782)	3,782	(3,581)	3,581
Fire and other damage to property	(237)	237	(265)	265
Third party liability	(4,037)	4,037	(2,938)	2,938
Miscellaneous	(5,287)	5,287	(4,696)	4,696
	<u>(13,578)</u>	<u>13,578</u>	<u>(11,590)</u>	<u>11,590</u>

#### Market Risk

Market risk is the risk of variation in the income generated by, and the fair value of, our investment portfolio, cash and cash equivalents and derivative contracts including the effect of changes in foreign currency exchange rates. Within our Risk Universe we define six categories of market risk:

- (i) Foreign currency risk;
- (ii) Fixed Income Security risk which sub-divides into
  - interest rate risk; and
  - spread risk.
- (iii) Equity risk
- (iv) Market risk mitigation risk
- (v) Asset concentration risk
- (vi) Risk assets

#### Processes for addressing risk

As with Insurance risk, we model our exposure to market risks using the Internal Model to measure the associated capital requirements on both the one year Solvency Capital Requirement (SCR) measure stipulated by Solvency II and the ultimate SCR basis used by Lloyd's to set capital requirements.

The Investment Risk Policy describes the measurement of market risks, and specifically describes what is permissible with regards to the use of derivatives in order to manage currency positions, portfolio duration and hedge interest rate risk in the investment portfolio.

Use of derivatives is limited to interest rate swaps, forward rate transactions, bond options, interest rate futures, foreign exchange spot and forward transactions and currency options. As at 31 December 2015 Syndicate has not entered into any derivative transactions.

The Asset and Liability Management Policy defines Aspen's approach to duration and currency matching. Management monitors the value, currency and duration of cash and investments held by the Company to ensure that the Company is able to meet the insurance and other liabilities as they become due. The following components of both cash matching and duration matching are employed to manage the investment portfolio:

- The average duration of liabilities;



## Notes to the Accounts

At 31 December 2015

- The outlook for interest rates and the yield curve;
- The need for cash to pay claims;
- Total return.

As with Insurance risks market risk is inherently unpredictable. It is difficult to predict the frequency of events of this nature and to estimate amount of loss that any given occurrence will generate. As with Insurance risks as well as modelling our exposures and the capital required to address potential market risks using our internal model we define and monitor a number of key Risk limits to measure and manage our Market risk exposure.

Key Risk limits regarding the shape (in terms of limits on asset type concentrations), overall credit rating and volatility of the Syndicate investment portfolio have been defined by management and approved by the AMAL Board. The Investment Guidelines are reviewed and approved annually by the AMAL Board and define additional investment limits for the Syndicate.

The Key Risk limits are monitored and reported in the Chief Risk Officer's ("CRO's") report to the AMAL Board.

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

	<b>Sterling</b>	<b>Euro</b>	<b>US dollar</b>	<b>Other</b>	<b>Total</b>
<b>Year 2015</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Financial investments:</b>					
<b>Shares and other variable yield securities and units in unit trusts</b>	—	—	11,972	9,302	21,274
<b>Debt securities and other fixed income securities</b>	—	—	171,157	17,243	188,400
	—	—	183,125	26,549	209,674
<b>Reinsurers' share of technical provisions</b>	144	51	231,034	—	231,229
<b>Debtors</b>	5,078	—	121,840	48,749	175,667
<b>Cash and cash equivalents</b>	41,314	5,024	2,899	4,427	53,664
<b>Other assets</b>	3,243	2,349	40,474	1,851	47,917
<b>Total Assets</b>	<b>49,779</b>	<b>7,424</b>	<b>579,372</b>	<b>81,576</b>	<b>718,151</b>
<b>Technical provisions</b>	(56,684)	(26,408)	(507,090)	(42,222)	(632,404)
<b>Creditors</b>	(29,777)	(3,369)	(43,953)	(8)	(77,107)
<b>Other Creditors</b>	(1,051)	(1,152)	(15,992)	(3,037)	(21,232)
<b>Total liabilities</b>	<b>(87,512)</b>	<b>(30,929)</b>	<b>(567,035)</b>	<b>(45,267)</b>	<b>(730,743)</b>
<b>Net assets</b>	<b>(37,733)</b>	<b>(23,505)</b>	<b>12,337</b>	<b>36,309</b>	<b>(12,592)</b>

The sterling liability balances above include liabilities in other currencies that will be settled in sterling.

## Notes to the Accounts

At 31 December 2015

	Sterling £000	Euro £000	US dollar £000	Other £000	Total £000
Year 2014					
Financial investments:					
Shares and other variable yield securities and units in unit trusts	35,280	13,788	25,922	9,836	84,826
Debt securities and other fixed income securities	—	—	132,693	14,455	147,148
	35,280	13,788	158,615	24,291	231,974
Reinsurers' share of technical provisions	261	—	166,481	1	166,743
Debtors	11,924	—	148,003	223	160,150
Cash and cash equivalents	10,543	—	2,657	4,779	17,979
Other assets	5,959	2,084	32,380	633	41,056
Total Assets	63,967	15,872	508,136	29,927	617,902
Technical provisions	(65,248)	(18,196)	(422,819)	(12,149)	(518,412)
Creditors	(586)	—	(57,962)	—	(58,548)
Other Creditors	(7,420)	(235)	(24,815)	(174)	(32,644)
Total liabilities	(73,254)	(18,431)	(505,596)	(12,323)	(609,604)
Net assets	(9,287)	(2,559)	2,540	17,604	8,298

### Foreign currency risk

The Company manages its foreign exchange risk against its functional currency. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

In order that Syndicate can manage the currency mismatch risks within the regulatory parameters required, a limit approved by the AMAL Board, is in force. This limit ensures that, including FX hedges, the value of assets in each currency is above 85% of the value of insurance liabilities in that currency, subject to these assets exceeding 5% of the value of assets in all currencies. This ensures that Syndicate's compliance with the only Lloyd's regulatory requirement identified. In March 2016 the AMAL Board approved a change to this risk limit to make it symmetrical requiring the value of assets in each currency to also be less than 115% of the value of insurance liabilities in that currency, subject to these assets exceeding 5% of the value of assets in all currencies.

The Syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than the U.S. Dollar, the Syndicate's functional currency. Other significant currencies to which the Company is exposed are the Pound Sterling, Australian Dollars, Canadian Dollars and the Euro. The Company seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

At 31st December 2015, if there had been a 50 basis point shift in yield curves with all other variables held constant, profit for the year would have been £1.3m (2014: £1.9m) higher / lower.

At the 31st December 2015, if the U.S. Dollar had weakened / strengthened by 10 percent with all other variables held constant then profit for the year would have been £1.2m (2014: £2.0m) / £0.1m (2014: £2.4m) higher / lower. Mainly as a result of foreign exchange gains / losses on the translation of non U.S. Dollar denominated financial assets, and foreign exchange losses / gains on translation of non U.S. Dollar denominated insurance liabilities.

## Notes to the Accounts

At 31 December 2015

### *Fixed Income Securities - Interest rate risk*

The Company's investment portfolio consists primarily of fixed income securities. Fluctuations in interest rates have a direct impact on the market valuation of these securities. The Company manages interest rate risk by maintaining a short to medium duration financial assets to reduce the effect of interest rate changes on fair value, and taking out interest rate swaps where appropriate.

The Syndicate's sensitivity to Interest rate risk is shown below:

	2015 Profit or loss for the year £000	2014 Profit or loss for the year £000
<b>Interest rate risk</b>		
=+ 50 basis points shift in yield curves	1,342	1,852
=- 50 basis points shift in yield curves	(1,342)	(1,852)
<b>Currency risk</b>		
10 percent increase in GBP/US dollar exchange rate	(1,165)	(1,995)
10 percent decrease in GBP/US dollar exchange rate	1,424	2,439

### *Fixed Income Securities - Spread Risk*

The yield of a non-government fixed income security can be divided into two parts:

- The 'risk free' rate, being the yield of the treasury security issued by the country in which the issuer operates which is closest to it in maturity
- The 'spread' of the yield over the risk free rate (= total yield -risk free rate)

The spread is normally positive because it represents the extra consideration required by the market to compensate for the greater risk (compared to the Government issuer) of default on interest or redemption. The spread may also be influenced by the actual or perceived liquidity or marketability of the security.

The spread of a bond also adjusts over time to reflect the spread required on similar new issues. This movement up or down in spread therefore also contributes to overall market risk and we call this 'spread risk'. We also include within spread risk the risk that a security falls in value as a result of being downgraded by a rating agency as this will also cause the spread to increase. We also include the risk of actual default on interest or redemption as a special case of spread risk. This default risk is actually a type of credit risk but it is convenient to deal with it here under market risk because of the way we model it in the Internal Model as an extreme case of downgrade risk.

We manage spread risk by limiting the overall credit quality of our investment portfolio and the concentrations of investments with specific issuers of investments. This risk is mitigated by limiting exposure to any single counterparty

### *Equity Risk*

We define Equity risk as the risk of adverse movements in the market price of investments (or their derivatives) other than fixed income securities. Unlike fixed income Securities the value of equities is not directly linked too interest rates and spreads, there are many factors that affect the value of investments.

The Syndicate does not invest in equities so this risk is not currently relevant to the Syndicate.

### *Market risk mitigation risk*

We define Market risk mitigation risk as the risk of variation in the value or effectiveness of hedging positions. The Syndicate does not currently use any hedging instruments

## **Notes to the Accounts**

### **At 31 December 2015**

#### ***Asset concentration risk***

The aggregate value of our investment portfolio may be at greater risk if it is over exposed to the same asset or a group of similar assets with similar risk dynamics.

Concentrations which we seek to manage for this reason include types of asset (e.g. mortgage backed securities), economic sector of issuer and securities of the same issuer

#### ***Risk assets***

Risk assets are those assets we consider inherently more volatile, in terms of value, and we limit our exposure to such assets as a proportion of our investment portfolio. We define risk assets as Emerging Market Debt, (EMD) below investment grade securities, (high yield & bank loans), equities and hedge funds. The Syndicate does not currently invest in Risk Assets.

#### **Credit Risk**

Credit risk is the risk of loss to the Syndicate if counterparty to a financial instrument or reinsurance agreement fails to meet its contractual obligations. The Syndicate is exposed to credit risk through its investment holdings (cash, debt securities and other fixed income securities), its reinsurers' shares of insurance liabilities and amounts due from reinsurers in respect of claims already paid. As already stated within our Internal Model and our management process we treat credit risk relating to our fixed Income security investments as part of Market risk

The Syndicate is also exposed to credit risk through the diminution in the value of insurance receivables as a result of counterparty default. This principally comprises default and concentration risks relating to amounts receivable from intermediaries, policyholders and reinsurers. Reinsurance and retrocession does not isolate the Syndicate from its obligations to policyholders. In the event that a reinsurer or retrocessionaire fails to meet its obligation, the Syndicate's obligations remain.

#### ***Processes for addressing risk***

As with Insurance risk, we model our exposure to credit risks using the Internal Model to measure the associated capital requirements on both the one year Solvency Capital Requirement (SCR) measure stipulated by Solvency II and the ultimate SCR basis used by Lloyd's to set capital requirements.

The processes for addressing credit risk in relation to financial Instruments has already been dealt with as part of the explanation of our processes to address Market Risk. This Group Insurance Credit Risk policy defines the processes for assessing, monitoring and managing credit exposure to intermediaries, policyholders and reinsurance counterparties. The Syndicate manages the levels of credit risk by placing limits on its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review.

The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy.

## Notes to the Accounts

At 31 December 2015

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the balance sheet, with analysis by credit ratings of the counterparties issued by Standard and Poor's. AAA is the highest possible rating.

Year 2015	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
<b>Financial Investments:</b>						
Shares and other variable yield securities and unit trusts	—	—	—	—	21,274	21,274
Debt securities	35,604	86,587	57,748	8,461	—	188,400
Overseas deposits as investments	—	—	—	—	21,265	21,265
	<b>35,604</b>	<b>86,587</b>	<b>57,748</b>	<b>8,461</b>	<b>42,539</b>	<b>230,939</b>
 Reinsurer' share of claims outstanding	 —	 23,778	 132,560	 744	 —	 157,082
Cash at bank and in hand	—	—	—	—	32,399	32,399
<b>Total</b>	<b>35,604</b>	<b>110,365</b>	<b>190,308</b>	<b>9,205</b>	<b>74,938</b>	<b>420,420</b>

Year 2014	AAA £000	AA £000	A £000	BBB £000	Not rated £000	Total £000
<b>Financial Investments:</b>						
Shares and other variable yield securities and unit trusts	—	—	—	—	84,826	84,826
Debt securities	43,844	57,287	40,928	5,089	—	147,148
Overseas deposits as investments	—	—	—	—	17,973	17,973
	<b>43,844</b>	<b>57,287</b>	<b>40,928</b>	<b>5,089</b>	<b>102,799</b>	<b>249,947</b>
 Reinsurer' share of claims outstanding	 —	 13,569	 92,639	 —	 —	 106,208
Cash at bank and in hand	—	—	—	—	6	6
<b>Total</b>	<b>43,844</b>	<b>70,856</b>	<b>133,567</b>	<b>5,089</b>	<b>102,805</b>	<b>356,161</b>

## Notes to the Accounts

### At 31 December 2015

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. The Syndicate do not consider these debtors to be impaired on the basis of stage of collection of amount owed to Syndicate.

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

	Debtors arising from direct insurance £000	Debtors arising from reinsurance operations £000
<b>Year 2015</b>		
<b>Past Due but not impaired financial assets:</b>		
<b>Past due by:</b>		
1 to 30 days	86,420	42,205
31 to 90 days	19,382	8,327
91 to 180 days	4,873	2,094
More than 180 days	8,650	3,716
<b>Past Due but not impaired financial assets:</b>	<b>119,325</b>	<b>56,342</b>
<b>Gross value of past due and impaired financial assets</b>	<b>119,325</b>	<b>56,342</b>
<b>Net carrying value of past due and impaired financial assets</b>	<b>119,325</b>	<b>56,342</b>
<b>Net carrying value</b>	<b>119,325</b>	<b>56,342</b>
	Debtors arising from direct insurance operations £000	Debtors arising from reinsurance operations £000
<b>Year 2014</b>		
<b>Past Due but not impaired financial assets:</b>		
<b>Past due by:</b>		
1 to 30 days	102,009	34,086
31 to 90 days	7,881	2,633
91 to 180 days	6,593	2,203
More than 180 days	3,557	1,188
<b>Past Due but not impaired financial assets:</b>	<b>120,040</b>	<b>40,110</b>
<b>Gross value of past due and impaired financial assets</b>	<b>120,040</b>	<b>40,110</b>
<b>Net carrying value of past due and impaired financial assets</b>	<b>120,040</b>	<b>40,110</b>
<b>Net carrying value</b>	<b>120,040</b>	<b>40,110</b>

### Liquidity Risk

Liquidity risk is defined as the risk of failing to maintain sufficient liquid financial resources to meet liabilities as they fall due or to provide collateral as required for commercial or regulatory purposes.

Liquidity risk includes the following:

- (a) Payment default risk: The risk that there is insufficient cash to make payments when due and that no additional cash can be made available by borrowing, sale of assets or capital raising.
- (b) Risk of unplanned asset realisation losses: The risk that securities are required to be sold at a loss to meet liquidity requirements.
- (c) Risk of failure of credit facility: The risk that advances from the credit facility are unavailable.

## Notes to the Accounts

At 31 December 2015

- (d) Group liquidity risk: The risk that liquidity cannot be secured for a Group company from elsewhere in the Group.
- (e) Collateral risk The risk that the Syndicate is unable to provide collateral to a third party when contractually required to do so.

### Processes for addressing risk

Unlike Insurance, Market and Credit Risk we do not model and manage liquidity risk using our internal model. This is because it is not a risk that is mitigated by holding capital against it.

The Managing Agency's annual Stress & Scenario Testing (SST) process is used to determine the basis of the Key Liquidity risk limit. The Liquidity Risk policy provides further details of how Liquidity risks are identified, monitored, managed and modelled. This includes details of an escalation process for a breach of the minimum free funds limit.

The Liquidity Risk Policy highlights the measures that Aspen have put in place in order to maintain an agreed amount of assets in cash and cash equivalents. These measures include concentration limits to ensure the liquidity of assets, appropriateness of the marketability or realisability of assets and a liquidity contingency funding plan.

Liquidity stress testing is carried out against the Syndicate & Group's risk profile at least annually by the Risk Management and Analytics function as part of the Stress and Scenario Testing programme. This allows management to identify the potential strains on the Syndicate's liquidity as a result of the scenarios assessed as well as gaining understanding of the Group's ability to support the liquidity needs of entities such as the Syndicate as the need arises.

The table below analyses the Syndicate's monetary assets into their relevant maturity groups based on the period remaining at the year end to their contractual maturities or expected settlement dates:

	Carrying amount	Total cash flows	Undiscounted net cash flows			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
Year 2015	£000	£000	£000	£000	£000	£000
<b>Financial investments:</b>						
Shares and other variable yield securities and units in unit trusts	21,274	21,274	21,274	—	—	—
Debt securities	188,400	188,400	188,400	—	—	—
Reinsurers share of technical provisions	231,229	231,229	19,801	126,647	58,091	26,690
Debtors and accrued interest	177,716	177,716	165,350	12,366	—	—
Cash at bank and in hand	32,399	32,399	32,399	—	—	—
Other	21,265	21,265	21,265	—	—	—
<b>Total assets</b>	<b>672,283</b>	<b>672,283</b>	<b>448,489</b>	<b>139,013</b>	<b>58,091</b>	<b>26,690</b>
<b>Technical provisions</b>	<b>632,404</b>	<b>632,404</b>	<b>85,817</b>	<b>179,182</b>	<b>241,221</b>	<b>126,196</b>
<b>Creditors</b>	<b>80,265</b>	<b>80,265</b>	<b>80,265</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total Liabilities</b>	<b>712,669</b>	<b>712,669</b>	<b>166,082</b>	<b>179,182</b>	<b>241,221</b>	<b>126,196</b>

## Notes to the Accounts

At 31 December 2015

	Carrying amount	Total cash flows	Undiscounted net cash flows			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
Year 2014	£000	£000	£000	£000	£000	£000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	84,826	84,826	84,826	—	—	—
Debt securities	147,148	147,148	147,148	—	—	—
Reinsurers share of technical provisions	166,743	166,743	10,728	79,573	50,645	25,797
Debtors and accrued interest	160,507	160,507	155,762	4,745	—	—
Cash at bank and in hand	6	6	6	—	—	—
Other	17,973	17,973	17,973	—	—	—
Total assets	577,203	577,203	416,443	84,318	50,645	25,797
Technical provisions	518,412	518,412	58,375	243,490	143,419	73,128
Creditors	61,334	61,334	61,334	—	—	—
Total Liabilities	579,746	579,746	119,709	243,490	143,419	73,128

### Capital Management

#### Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 5555 is not disclosed in these financial statements.

#### Lloyd's capital setting process

MB Y4856 In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

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



## Notes to the Accounts

At 31 December 2015

not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

### Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), assets held and managed within a syndicate (funds in syndicate), or as the member's share of the members' balances on each syndicate on which it participates. Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet on page 15, represent resources available to meet members' and Lloyd's capital requirements.

## 6. Analysis of UW Result

An analysis of the underwriting result before investment return is presented in the table below:

2015

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Marine aviation and transport	36,984	41,710	(15,597)	(6,828)	(11,174)	8,111
Energy	47,834	39,231	(41,523)	(8,831)	3,560	(7,563)
Fire and other damage to property	7,475	7,237	2,669	(1,380)	(4,061)	4,465
Third party liability	80,939	73,395	(42,078)	(14,942)	(10,571)	5,804
Pecuniary loss	23,128	21,135	(9,097)	(4,270)	(7,327)	441
Accident & health	7,199	6,002	(5,536)	(1,329)	(783)	(1,646)
Total direct	203,559	188,710	(111,162)	(37,580)	(30,356)	9,612
Reinsurance	126,958	124,776	(97,891)	(23,471)	(35,913)	(32,499)
Total	330,517	313,486	(209,053)	(61,051)	(66,269)	(22,887)

2014

	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Gross operating expenses £000	Reinsurance balance £000	Total £000
Direct insurance:						
Marine aviation and transport	46,232	36,714	(18,340)	(12,264)	(735)	5,375
Energy	40,528	32,644	(19,562)	(10,751)	(7,802)	(5,471)
Fire and other damage to property	7,570	6,835	(3,939)	(2,008)	(1,201)	(313)
Third party liability	62,871	59,050	(33,186)	(16,678)	(4,008)	5,178
Pecuniary loss	21,831	15,504	(11,558)	(5,791)	(2,579)	(4,424)
Accident & health	11,629	10,280	(2,263)	(3,085)	(1,886)	3,046
Total direct	190,661	161,027	(88,848)	(50,577)	(18,211)	3,391
Reinsurance	106,322	98,381	(51,182)	(28,233)	(8,443)	10,523
Total	296,983	259,408	(140,030)	(78,810)	(26,654)	13,914

All premiums were underwritten in the UK.

## Notes to the Accounts

At 31 December 2015

### 7. Net operating expenses

	2015	2014
	£000	£000
Brokerage and commissions	(62,580)	(59,700)
Other acquisition costs	(15,094)	(12,887)
Change in deferred acquisition costs	4,341	10,249
Administrative expenses	(24,347)	(17,835)
Reinsurers' commissions and profit participations	20,338	14,322
(Loss)/Gain on exchange	(4,047)	1,362
	<u>(81,389)</u>	<u>(64,489)</u>
	2015	2014
	£000	£000
<i>Administrative expenses include:</i>		
Auditors' remuneration:		
Fees payable to the Syndicate's auditors for the audit of these financial statements	118	111
Fees payable to the Syndicate's auditors and its associates in respect of other services pursuant to legislation	106	100
Managing agent's fees	(2,466)	(2,198)

Total commissions for direct insurance business for the year amounted to £41.2million (2014: £40.3million).

### 8. Claims

The table below illustrates the movement in the past year's provision for net claims outstanding less paid claims during the year. These arose in respect of the following classes of business

	2015	2014
	£000	£000
Accident & Health	373	(673)
Marine, Aviation and Transport	(36,110)	(30,955)
Fire and other damage to property	(3,758)	(1,192)
Third party liability	11,332	14,976
Miscellaneous	(29,474)	(20,159)
	<u>(57,637)</u>	<u>(38,003)</u>

## Notes to the Accounts

At 31 December 2015

### 9. Key management personnel compensation

The directors of AMAL received £1,225k (2014: £898k) aggregate remuneration which has been charged to the Syndicate and included within net operating expenses:

No other compensation was payable to key management personnel.

The active underwriter received the following remuneration charged as a Syndicate expense:

	2015	2014
	£000	£000
<b>Emoluments</b>	<b>436</b>	<b>213</b>

### 10. Staff numbers and costs

The Company has no employees of its own. All of the personnel employed in the Company's business are employed by Aspen Insurance UK Services Limited ("AIUKS"), a fellow group subsidiary.

AIUKS encourages its employees to develop their full potential by providing opportunities for training and professional development. Such opportunities, as well as career development and promotion, are equally available to disabled employees, whether newly recruited or existing employees who become disabled whilst in AIUKS's employment.

AIUKS's equal opportunities policy aims to ensure that no potential or existing employee receives less favourable treatment because of his / her sex, actual or perceived sexual orientation, gender (including gender reassignment), marital or family state, age, ethnic origin, disability, race, colour, nationality, national origin, creed, political affiliation, part-time status, or any other condition, unless it can be shown to be legally justifiable.

### 11. Investment return

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

	2015	2014
	£000	£000
<b>Investment income</b>	<b>2,308</b>	<b>1,817</b>
Realised losses on investments	(151)	(27)
Unrealised losses on investments	(377)	(214)
Investment management charges	(157)	(95)
	<b>1,623</b>	<b>1,481</b>

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

	2015	2014
	£000	£000
Interest income	2,308	1,817
Interest expense	(528)	(241)
Investment management expenses excluding interest	(157)	(95)
<b>Total investment return</b>	<b>1,623</b>	<b>1,481</b>

## Notes to the Accounts

### At 31 December 2015

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

	2015 £000	2014 £000
Average amount of syndicate funds available for investment during year:		
Sterling	41,314	42,012
Euro	5,024	16,062
US dollar	186,024	156,843
Canadian dollar	30,976	26,840
	<b>263,338</b>	<b>241,757</b>
Gross calendar year investment yield:	%	%
Sterling	0.40	0.48
Euro	—	0.01
US dollar	0.56	1.00
Canadian dollar	1.23	2.21
Combined in Sterling	0.62	0.61

## 12. Financial Investments

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

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

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

	Market value		Cost	
	2015 £000	2014 £000	2015 £000	2014 £000
Shares and other variable yield securities and units in unit trusts	21,274	84,826	21,274	84,879
Debt securities and other fixed income securities	188,400	147,148	189,023	150,110
	<b>209,674</b>	<b>231,974</b>	<b>210,297</b>	<b>234,989</b>

All debt securities and other fixed income securities are listed, which makes up 100% of total investments.

## Notes to the Accounts

At 31 December 2015

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>2015</b>				
Shares and other variable yield securities and units in unit trusts	—	21,274	—	21,274
Debt securities and other fixed income securities	36,011	—	152,389	188,400
Loans and deposits with credit institutions	21,265	—	—	21,265
<b>Total</b>	<b>57,276</b>	<b>21,274</b>	<b>152,389</b>	<b>230,939</b>

	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
<b>2014</b>				
Shares and other variable yield securities and units in unit trusts	—	84,826	—	84,826
Debt securities and other fixed income securities	18,613	—	128,535	147,148
Loans and deposits with credit institutions	17,973	—	—	17,973
<b>Total</b>	<b>36,586</b>	<b>84,826</b>	<b>128,535</b>	<b>249,947</b>

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

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

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

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

### 13. Debtors arising out of direct insurance operations

	2015	2014
	£000	£000
Amounts due from intermediaries:		
Due within one year	110,675	116,483
Due after one year	8,650	3,557
	<b>119,325</b>	<b>120,040</b>

## Notes to the Accounts

At 31 December 2015

### 14. Debtors arising out of direct reinsurance operations

	2015	2014
	£000	£000
Due within one year	52,626	38,922
Due after one year	3,716	1,188
	<b>56,342</b>	<b>40,110</b>

### 15. Deferred acquisition costs

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

	2015	2014
	£000	£000
Balance at 1 January	40,699	29,158
Amortisation	4,341	10,249
Effect of movements in exchange rates	830	1,292
Balance at 31 December	<b>45,870</b>	<b>40,699</b>

### 16. YOA Development

	2011	2012	2013	2014	2015	Profit before members' agents fees
Year of Account	£000	£000	£000	£000	£000	£000
2010	19,587	7,867				27,454
2011	(5,294)	7,782	7,880			10,368
2012		(1,829)	(1,771)	2,916		(684)
2013			(3,479)	14,225	(10,781)	(35)
2014				(1,503)	3,375	1,872
2015					(13,781)	(13,781)
Calendar year result	<b>14,293</b>	<b>13,820</b>	<b>2,630</b>	<b>15,638</b>	<b>(21,187)</b>	

The members will be asked for a cash call of £34k in relation to the 2013 year of account (2014: £684k in relation to the 2012 year of account).

### 17. Claims Development

Reserves are required owing to the time between the occurrences, reporting and eventual settlement of a loss, which, for some lines of business, can be several years. Since reserves are an estimate of the likely outcome of these future events, they are subject to a degree of volatility. That is, the actual emergence of ultimate losses

## Notes to the Accounts

### At 31 December 2015

can be expected to differ, perhaps materially, from any estimate of such losses. Therefore, while this claims development table will provide additional insight into the diversity and loss characteristics of many areas of the Company business, it is by necessity summary information. The users should be aware that loss payment and loss reporting patterns are not the only considerations in establishing loss reserves.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

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

The Company has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption.

#### Gross

	2011	2012	2013	2014	2015	Total
	£000	£000	£000	£000	£000	£000
<b>Pure underwriting year</b>						
<b>Estimate of gross claims</b>						
at end of underwriting year	64,295	66,349	77,532	68,191	84,780	
one year later	149,949	137,947	151,466	144,748		
two years later	143,967	152,239	122,726			
three years later	142,881	144,780				
four years later	124,226					
<b>Less gross claims paid</b>	98,329	61,133	41,448	2,508	—	
<b>Gross reserve</b>	25,896	83,648	81,278	142,240	84,780	417,842
<b>Gross claims reserve for 2010 and prior years</b>						19,356
<b>Gross claims reserves</b>						437,198

#### Net

	2011	2012	2013	2014	2015	Total
	£000	£000	£000	£000	£000	£000
<b>Pure underwriting year</b>						
<b>Estimate of net claims</b>						
at end of underwriting year	49,469	49,363	58,917	50,249	45,364	
one year later	91,954	102,047	109,097	99,218		
two years later	85,087	111,526	87,730			
three years later	81,074	104,942				
four years later	68,949					
<b>Less net claims paid</b>	58,068	46,736	33,275	1,736	—	
<b>Net reserve</b>	10,880	58,206	54,455	97,482	45,364	266,387
<b>Net claims reserve for 2010 and prior years</b>						13,729
<b>Net claims reserves</b>						280,116

## Notes to the Accounts

At 31 December 2015

### 18. Technical provisions

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

	2015			2014		
	Gross provision £000	Reinsurance assets £000	Net £000	Gross provision £000	Reinsurance assets £000	Net £000
<b>Claims outstanding</b>						
Balance at 1 January	344,778	(106,208)	238,570	288,174	(83,115)	205,059
Change in claims outstanding	86,309	(52,696)	33,613	45,701	(18,373)	27,328
Effect of movements in exchange rates	6,111	1,822	7,933	10,903	(4,720)	6,183
Balance at 31 December	<u>437,198</u>	<u>(157,082)</u>	<u>280,116</u>	<u>344,778</u>	<u>(106,208)</u>	<u>238,570</u>
Claims notified	197,074	(20,277)	176,797	140,998	(4,300)	136,698
Claims incurred but not reported	240,124	(136,805)	103,319	203,780	(101,908)	101,872
Balance at 31 December	<u>437,198</u>	<u>(157,082)</u>	<u>280,116</u>	<u>344,778</u>	<u>(106,208)</u>	<u>238,570</u>
<b>Unearned premiums</b>						
Balance at 1 January	173,632	(60,535)	113,097	130,885	(41,910)	88,975
Change in unearned premiums	17,031	(11,865)	5,166	37,576	(15,908)	21,668
Effect of movements in exchange rate	4,543	(1,747)	2,796	5,171	(2,717)	2,454
Balance at 31 December	<u>195,206</u>	<u>(74,147)</u>	<u>121,059</u>	<u>173,632</u>	<u>(60,535)</u>	<u>113,097</u>

### 19. Creditors

	2015	2014
	£000	£000
Creditors arising out of direct insurance operations	20,390	17,916
Creditors arising out of reinsurance operations	56,717	40,632
Other creditors	3,158	2,786
<b>Total financial liabilities at amortised cost</b>	<u>80,265</u>	<u>61,334</u>



## Notes to the Accounts

At 31 December 2015

### 20. Cash

	2015	2014
	£000	£000
Cash at bank and in hand	32,399	6
Deposits with credit institutions	21,265	17,973
<b>Total cash and cash equivalents</b>	<b>53,664</b>	<b>17,979</b>

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

### 21. Related parties

AMAL is the managing agency of the Syndicate. The Syndicate has paid the following amounts to AMAL in the year:

	2015	2014
	£000	£000
Managing agency fees	2,466	2,198

The Syndicate is supported by Aspen Underwriting Limited ("AUL"), who provides 100% of its underwriting capacity.

The ultimate holding company and controlling party of AMAL and AUL is AIHL.

Aspen Insurance UK Services Limited provides services to the Syndicate. The amounts charged to and balances due from the Syndicate at the end of the year are:

	2015	2014
	£000	£000
Expenses recharged	25,931	21,176
Year end balance	2,685	3,050

Aspen Bermuda Limited ("ABL") provides services to the Syndicate. The amounts charged to and balances due from the Syndicate at the end of the year are:

	2015	2014
	£000	£000
Expenses recharged	343	99
Year end balance	25	17

## Notes to the Accounts

At 31 December 2015

Aspen Reinsurance America ("ARA") provides services to the Syndicate. The amounts charged to and balances due from the Syndicate at the end of the year are:

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Expenses recharged	<b>243</b>	13
Year end balance	<b>23</b>	3

The Syndicate also participates in a 50% Quota Share with AIUK. This Quota Share arrangement commenced in January 2015.

The Syndicate has incurred the following amounts in the year and the balances due from the syndicate at the end of the year relating to these are:

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Quota share ceded to AIUK	<b>1,698</b>	—
Year end balance	<b>4,651</b>	—

The Syndicate cedes a 20% Quota Share Treaty for year of accounts 2009 to 2015 to ABL. It also has an Adverse Development Cover protection contract providing a 20% quota share against reserve deterioration above the 31 December 2008 net reserves.

The Syndicate has recognised the following amounts in the year and the balances due from the Syndicate at the end of the year relating to these are:

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Quota share ceded to Aspen Bermuda Limited	<b>10,176</b>	6,032
Year end balance	<b>5,340</b>	3,875

The Syndicate also cedes premium to ABL as part of its excess of loss ceded reinsurance arrangements, with the following reinsurance amounts in the year and the balances due at the end of the year are:

	<b>2015</b>	<b>2014</b>
	<b>£000</b>	<b>£000</b>
Premium Ceded	<b>17,204</b>	12,020
Reinsurance Recoveries	<b>9,220</b>	1,313

The Syndicate also participates in a reciprocal (\$10m xs \$10m) excess of loss reinsurance with Aspen Insurance (UK) Limited ("AIUK").

## Notes to the Accounts

### At 31 December 2015

The Syndicate has been charged the following amounts in the year and the balances due from the Syndicate at the end of the year are:

	2015	2014
	£000	£000
Premium incurred in the year payable to AIUK	—	4,898
Premium incurred in the year receivable from AIUK	—	4,898
Incurred Claims Movement	4,085	2,468
Year end balance	—	—

Aspen UK Syndicate Services Limited ("AUKSSL"), an intermediary which is 100% owned by Aspen, provides business to Syndicate 4711.

The Syndicate has written the following premium amounts in the year and the balances due to the Syndicate at the end of the year are:

	2015	2014
	£000	£000
Premium written in year	1,179	2,097
Year end balance	3,753	4,988

Asset Protection Jersey ("APJ"), an insurance company, which is 100% owned by Aspen, provides business to Syndicate 4711.

The Syndicate has written the following premium amounts in the year and the balances due to the Syndicate at the end of the year are:

	2015	2014
	£000	£000
Premium written in year	1,374	5,350
Year end balance	(192)	291

## 22. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL"). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating member's underwriting liabilities.

FAL is set with regards to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these accounts by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses on behalf of the Syndicate.

100% of the FAL is provided by ABL, which is a 100% owned subsidiary of Aspen Insurance Holdings Limited.

The FAL lodged significantly exceeds the £12.6m member balance deficit as at 31 December 2015.

## Notes to the Accounts

At 31 December 2015

### 23. Foreign exchange rates

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

	2015	2015	2014	2014
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	1.39	1.38	1.28	1.24
US dollar	1.52	1.53	1.56	1.65
Canadian dollar	2.09	1.96	1.81	1.82

### 24. Explanation of transition to FRS 102 from old UK GAAP

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

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

In preparing its FRS 102 balance sheet, the Syndicate has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (old UK GAAP).

	2014
Reconciliation of profit under old UK GAAP to FRS 102	£000
Amount under old UK GAAP	14,313
Effect of translation to one functional currency	1,036
Effect of translation from functional currency to presentational currency	43
<b>Amount under FRS 102</b>	<b>15,392</b>