**Important information about Syndicate Reports and Accounts**

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

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

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

# SYNDICATE 5151 ANNUAL REPORT AND ACCOUNTS

## FOR THE YEAR ENDED 31 DECEMBER 2015

Endurance

# CONTENTS

# REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED

The directors of Endurance at Lloyd's Limited, previously Montpelier at Lloyd's Limited ("the Company"), company registration number 06539650; registered office 1st Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB, present their report and Syndicate 5151 ("the Syndicate") Annual Accounts for the year ended 31 December 2015. The Syndicate transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how the transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in Note 24.

## Review of the business

On 31 July 2015, following the receipt of all necessary regulatory and shareholder approvals, Montpelier Re Holdings Ltd. ("MRH"), the Syndicate's ultimate parent undertaking was acquired by Endurance Specialty Holdings Ltd. ("ESHL") ("the Acquisition"). The principal activity of the Syndicate continues to be the underwriting of general insurance and reinsurance business in the Lloyd's market, written in London and the US. The US business is written by Endurance Underwriting Inc. ("EUI") (formerly Montpelier Underwriting Inc.), a wholly-owned subsidiary of the Endurance group, by means of binding authorities granted by the Syndicate.

### Results and performance

The Syndicate's underwriting business is managed along four key lines, Property, Marine, Specialty and Engineering. The Syndicate's results for 2015 and 2014, split by these key classes of business, are detailed below. Management expenses, not directly attributable to underwriting, and investment return are not shown as allocated to a class of business but are shown in the Corporate segment. This segment also includes the impact of the whole account quota share reinsurance ceded to the Syndicate's group company Endurance Specialty Insurance Ltd ("ESIL"), which was ceded to Montpelier Re Ltd in 2014 ("MRE"). On 29 December 2015, MRE merged with and into ESIL, with ESIL as the surviving entity. As a result, MRE ceased to exist and ESIL became the successor in interest by merger to all of the rights and obligations of MRE.

| **Syndicate 2015 Financial Performance** | **Property £m** | **Marine £m** | **Specialty £m** | **Engineering £m** | **Corporate £m** | **Total Syndicate £m** |
|---|---|---|---|---|---|---|
| Gross Written Premiums | 53.4 | 46.8 | 63.6 | 11.5 | - | **175.3** |
| Net Earned Premiums | 46.1 | 42.7 | 44.9 | 17.0 | (44.9) | **105.8** |
| Net Claims Incurred | (16.0) | (24.0) | (26.3) | (10.9) | 21.2 | **(56.1)** |
| Expenses | (13.3) | (13.5) | (15.4) | (5.3) | (4.8) | **(52.3)** |
| **Underwriting Result** | **16.7** | **5.3** | **3.1** | **0.8** | **(28.5)** | **(2.6)** |
| Investment return | - | - | - | - | 1.9 | **1.9** |
| **Balance on technical account** | **16.7** | **5.3** | **3.1** | **0.8** | **(26.6)** | **(0.7)** |
| Claims ratio | 34.8% | 56.1% | 58.7% | 64.1% | - | **53.0%** |
| Expense ratio | 29.0% | 31.5% | 34.3% | 31.1% | - | **49.4%** |
| **Combined ratio** | **63.8%** | **87.6%** | **93.0%** | **95.2%** | **-** | **102.4%** |

| **Syndicate 2014 Financial Performance** | **Property £m** | **Marine £m** | **Specialty £m** | **Engineering £m** | **Corporate £m** | **Total Syndicate £m** |
|---|---|---|---|---|---|---|
| Gross Written Premiums | 57.0 | 48.1 | 47.8 | 19.3 | - | **172.2** |
| Net Earned Premiums | 42.2 | 46.6 | 40.1 | 20.2 | (44.7) | **104.4** |
| Net Claims Incurred | (13.3) | (25.5) | (24.6) | (15.7) | 24.6 | **(54.5)** |
| Expenses | (13.0) | (15.4) | (11.8) | (6.1) | 3.8 | **(42.5)** |
| **Underwriting Result** | **15.9** | **5.7** | **3.7** | **(1.6)** | **(16.3)** | **7.5** |
| Investment return | - | - | - | - | 3.1 | **3.1** |
| **Balance on technical account** | **15.9** | **5.7** | **3.7** | **(1.6)** | **(13.2)** | **10.6** |
| Claims ratio | 31.5% | 54.7% | 61.3% | 77.7% | - | 52.2% |
| Expense ratio | 30.8% | 33.0% | 29.4% | 30.2% | - | 40.7% |
| **Combined ratio** | **62.3%** | **87.7%** | **90.7%** | **107.9%** | **-** | **92.9%** |

# REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED CONTINUED

The claims ratio is calculated as net claims incurred, as a percentage of net earned premiums. The expense ratio is the sum of acquisition costs, the change in deferred acquisition costs, reinsurance commission and general and administrative expenses, as a percentage of net earned premiums. The combined ratio is calculated as the claims ratio plus the expense ratio.

Gross written premiums grew slightly from £172.2m in 2014 to £175.3m in 2015. The majority of the Syndicate's lines of business continue to face rating pressure. Selective growth has been achieved in the Specialty line of business although this has been offset by premium reductions as a result of restructuring post acquisition.

The Syndicate generated an underwriting loss of £2.6m for the year (2014 – £7.5m profit), representing a combined ratio of 102.4% (2014 – 92.9%). After the addition of investment returns the overall result for 2015 is a profit of £0.5m (2014 – £6.2m).

The Syndicate recorded a claims ratio of 53.0% during 2015 (2014 – 52.2%). This is the result of a relatively benign claims environment in 2015, notable for the absence of any major catastrophic events. Further to this the Syndicate benefitted from positive development on prior year claims reserves of £20.2m (2014 - £19.8m), predominantly in respect of Property and Marine lines of business, as a result of lower than expected claims activity due to the benign claims environment.

The Syndicate purchases outwards reinsurance to protect against large losses from future events. This reinsurance is purchased on both an excess of loss and quota share basis. Excess of loss reinsurance is purchased predominantly with parties external to the Endurance Group. Premiums ceded on this basis totalled £11.2m during 2015 (2014 – £10.7m). Quota share reinsurance is purchased with both external third parties and with the Syndicate's fellow Group company, ESIL. Reinsurance purchased from external third parties totalled £16.6m in 2015 (2014 - £3.2m).

The Syndicate was party to two quota share reinsurance arrangements with its Group company ESIL in 2015. The first of these covered European Treaty reinsurance business written by the Syndicate in 2014 and 2015; approximately 90% of 2014 business and 100% of 2015 business was ceded to ESIL, amounting to £2.3m (2014 - £6.7m). The Syndicate also purchases whole account quota share protection with ESIL. This quota share provides reinsurance protection for 30% of the losses incurred on the 2012, 2013, 2014 and 2015 accident years; premiums ceded on this basis totalled £32.8m during 2015 (2014 – £44.2m).

## Future developments

The Syndicate intends to grow by continuing to expand its existing business written at the Box in Lloyd's, via diversification of the portfolio through identification of new profitable lines of business, and through an increased focus on individual risk business. The Syndicate delivers its annual Syndicate Business Forecast ("SBF") to Lloyd's each year and this forms the basis of the Syndicate's short term business plans. The Syndicate's 2016 SBF was submitted with planned gross written premium of £240.8m (2015 - £178.0m). The SBF contains targeted growth in areas where the Syndicate has recently expanded its underwriting teams.

## Events since the reporting date

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

# REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED CONTINUED

## Principal risks and uncertainties

The Board of Directors reviews risk appetite annually with regard to both the strategic objectives of the Syndicate and the broader economic climate. The Syndicate has a Risk and Compliance Committee which meets quarterly to provide oversight of the risk framework and to monitor performance against risk appetite using a series of risk and performance indicators.

The principal risks and uncertainties facing the Syndicate are as follows:

**Insurance risk**
Insurance risk includes the risks that a policy will be written for too low a premium, or provide inappropriate cover or that the frequency or severity of insured events will be higher than expected (underwriting risk). It also includes the risk that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Performance against the business plan is monitored regularly throughout the year by the Underwriting Committee and the Board. Reserve adequacy is monitored by quarterly reviews by the Syndicate Actuary who reports to the Audit Committee and the Board.

**Credit risk**
Credit risk is the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge its obligations. The Syndicate's policies are aimed at minimising such losses and require that clients demonstrate creditworthiness before entering into a business relationship. Although the Syndicate requires the client to demonstrate creditworthiness, it does not eliminate this risk. To date the Syndicate has not experienced any significant losses related to such credit risks.

**Market risk**
A key aspect of market risk is the potential for the Syndicate to incur losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. To mitigate this risk the insurance debtors and creditors are reviewed by currency on a regular basis in order that they are in line with Lloyd's requirements.

The Syndicate is exposed to interest rate risk on financial instruments as a result of changes primarily in interest rates due to the Syndicate's fixed interest securities portfolio. In an effort to mitigate this risk the Syndicate maintains a high quality investment portfolio with a relatively short duration to reduce the effect of interest rate changes on book value. A significant portion of the investment portfolio matures each year, allowing for reinvestment at current market rates. The portfolio is also actively managed, and trades are made to balance the Syndicate's exposure to interest rates.

**Liquidity risk**
Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial liabilities as they become due. The Syndicate aims to mitigate liquidity risk by managing cash generation from its operations, in addition to maintaining a highly liquid investment portfolio.

**Financial instruments and risk management**
Information on the use of financial instruments by the Syndicate and its management of financial risk and in particular its exposure to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk is disclosed in note 22 to the financial statements.

# REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED CONTINUED

**Operational risk**

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The Syndicate seeks to manage this risk through the use of detailed procedures and a structured programme of testing of processes and systems by internal audit.

**Regulatory and compliance risk**

Regulatory and compliance risk is considered to be the inability or failure of the Syndicate to comply with UK or overseas regulatory requirements. The Syndicate's operations are subject to regulation by the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and by the Council of Lloyd's.

The PRA's focus with regards to Lloyd's managing agents is on solvency and risk management, whereas the FCA's focus is on policyholder treatment, financial crime, and sanctions risks. Lloyd's provides oversight of matters within the remit of both the PRA and FCA and, accordingly, has entered into co-operation arrangements with both statutory regulators for the stated purpose of minimizing duplication of regulatory oversight, where appropriate.

The Syndicate manages this risk through ongoing constructive engagement with the Regulators, investment in an experienced and knowledgeable Compliance function, and monitoring of market-wide developments and requirements in relation to regulation.

## Directors

The directors of the Company who served during the financial year ended 31 December 2015 and up to the date of signing the Syndicate annual accounts were as follows:

**Executive Directors:**

G Evans (appointed 31 July 2015)
R J R Housley (appointed 31 July 2015)
P A Rooke (appointed 1 October 2015)
R M M Chattock (resigned 31 July 2015)
L J Gibbins (resigned 31 July 2015)
M J S Southgate (resigned 31 July 2015)
M Taylor (resigned 31 July 2015)

**Non-Executive Directors:**

I M Winchester
J A Kuhn (appointed 31 July 2015)
S W Carlsen (appointed 1 October 2015)
J J Murray (appointed 1 December 2015)
J A Giordano (appointed 21 December 2015)
T G S Busher (resigned 31 July 2015)
C L Harris (resigned 31 July 2015)
P T O'Neill (resigned 31 July 2015)
G P M Maher (appointed 9 March 2015, resigned 31 July 2015)

None of the directors has any participation in the premium income capacity of the Syndicate.

## Charitable donations

There were no charitable donations in the year.

## Disclosure of information to the auditors

So far as each person who was a director of the company at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with this report, of which the auditors are unaware. Having made enquiries of fellow directors of the agency and the Syndicate's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information.

# REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED CONTINUED

## Auditors

During the year the Company accepted the resignation of PricewaterhouseCoopers LLP and appointed Ernst & Young LLP, as the auditors for the Syndicate.

In accordance with section 14(2) of Schedule 1 of the Lloyd's Regulations 2008, the auditors, Ernst & Young LLP, will be deemed to be reappointed and therefore continue in office.

By order of the Board

G Evans
**Director**

15 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 syndicates and Aggregate Accounts) Regulations 2008 requires the Managing Agent to prepare syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

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 which are applied 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 UK accounting standards have been followed, subject to any material departures disclosed and explained in these accounts; and
- prepare the syndicate 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 directors confirm they have complied with the above requirements in preparing the syndicate annual report and accounts for Syndicate 5151.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the syndicate 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 business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation to other jurisdictions.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 5151

We have audited the syndicate annual accounts of syndicate 5151 ('the syndicate') for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Member's Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

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

**Respective responsibilities of the managing agent and the auditor**

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 6, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the syndicate annual accounts**

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the Syndicate Annual Report and Accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on syndicate annual accounts**

In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Endurance

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 5151 (CONTINUED)

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

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

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

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

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

Michael Purrington (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

15 March 2016

# INCOME STATEMENT

## TECHNICAL ACCOUNT – GENERAL BUSINESS

## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | | 2015 | | 2014 |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| Earned premiums, net of reinsurance | | | | | |
| Gross premiums written | 5 | | 175,319 | | 172,191 |
| Outward reinsurance premiums | | | (74,099) | | (62,815) |
| Net premiums written | | | 101,220 | | 109,376 |
| Change in provision for unearned premiums | | | | | |
| Gross amount | 15 | (5,264) | | (4,629) | |
| Reinsurers' share | 15 | 9,796 | | (336) | |
| Change in net provision for unearned premiums | | | 4,532 | | (4,965) |
| Earned premiums, net of reinsurance | | | 105,752 | | 104,411 |
| Allocated investment return Transferred from the non-technical account | | | 1,874 | | 3,101 |
| Claims paid, net of reinsurance | | | | | |
| Gross amount | | (79,849) | | (63,249) | |
| Reinsurers' share | | 30,318 | | 18,612 | |
| | | (49,531) | | (44,637) | |
| Change in the provision for claims | | | | | |
| Gross amount | | (6,470) | | (26,678) | |
| Reinsurers' share | | (63) | | 16,853 | |
| Change in the net provision for claims | | (6,533) | | (9,825) | |
| Claims incurred, net of reinsurance | | | (56,064) | | (54,462) |
| Net operating expenses | 6 | | (52,278) | | (42,470) |
| **Balance on the technical account for general business** | | | **(716)** | | 10,580 |

All operations are continuing.

# INCOME STATEMENT

## NON-TECHNICAL ACCOUNT

## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | | 2015 | | 2014 |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| **Balance on the general business technical account** | | | **(716)** | | 10,580 |
| **Investment result** | | | | | |
| Investment income | | 3,847 | | 3,944 | |
| Unrealised gains on investments | | (115) | | (5) | |
| Unrealised losses on investments | | - | | 372 | |
| Investment expenses and charges | | (1,858) | | (1,210) | |
| **Allocated investment return** | | | | | |
| Transferred to the general business technical account | | (1,874) | | (3,101) | |
| | | | - | | - |
| Unrealised foreign exchange gains/(losses) | | | 1,224 | | (4,358) |
| **Profit for the financial year** | | | **508** | | 6,222 |

All investment income, expense and net gains or net losses, including changes in fair value are in respect of financial assets measured at fair value through profit or loss.

There are no differences between the profit for the financial year stated above and their historical cost equivalents.

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015 | 2014 |
|---|---|---|---|
| | | £'000 | £'000 |
| Profit for the financial year | | 508 | 6,222 |
| **Total recognised profit relating to the year** | | **508** | 6,222 |

Endurance

## STATEMENT OF CHANGES IN MEMBER'S BALANCES

### AS AT 31 DECEMBER 2015

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Member's balances brought forward at 1 January | (13,591) | 18,692 |
| Transfer to corporate member in respect of underwriting participation on closed year of accounts: | | |
| Amount declared and settled with corporate member | (15,429) | (38,505) |
| Profit for the financial year | 508 | 6,222 |
| Member's balances carried forward at 31 December | **(28,512)** | (13,591) |

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 of account in respect of their membership of a particular year.

## STATEMENT OF FINANCIAL POSITION - ASSETS

### AS AT 31 DECEMBER 2015

| | Notes | | 2015 | | 2014 |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| **Investments** | | | | | |
| Financial investments | 9 | | 140,230 | | 165,208 |
| **Reinsurers' share of technical provisions** | | | | | |
| Provision for unearned premiums | 15 | 14,724 | | 4,423 | |
| Claims outstanding | 16 | 75,966 | | 72,770 | |
| | | | 90,690 | | 77,193 |
| **Debtors** | | | | | |
| Debtors arising out of direct insurance operations | 10 | 61,093 | | 64,116 | |
| Debtors from ceding insurers and intermediaries | 11 | 11,871 | | 10,445 | |
| Debtors arising out of reinsurance operations | | 17,198 | | 23,470 | |
| Other debtors | | 2,003 | | 2,206 | |
| | | | 92,165 | | 100,237 |
| **Other assets** | | | | | |
| Cash at bank and in hand | | 16,461 | | 4,008 | |
| Other assets | 12 | 17,549 | | 12,632 | |
| | | | 34,010 | | 16,640 |
| **Prepayments and accrued income** | | | | | |
| Deferred acquisition costs | 14 | 19,376 | | 22,808 | |
| Other prepayments and accrued income | | 1,132 | | 1,047 | |
| | | | 20,508 | | 23,855 |
| **Total assets** | | | **377,603** | | 383,133 |

Endurance

# STATEMENT OF FINANCIAL POSITION – MEMBER'S BALANCES AND LIABILITIES

## AS AT 31 DECEMBER 2015

| | Notes | | 2015 | | 2014 |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| Member's balances | | | (28,512) | | (13,591) |
| **Total Member's balances** | | | (28,512) | | (13,591) |
| **Technical provisions** | | | | | |
| Provisions for unearned premiums | 15 | 94,991 | | 89,571 | |
| Claims outstanding | 16 | 244,293 | | 232,321 | |
| | | | 339,284 | | 321,892 |
| **Creditors** | | | | | |
| Creditors arising out of direct insurance operations | | 3,806 | | 5,286 | |
| Creditors arising out of reinsurance operations | 11 | 57,143 | | 61,501 | |
| Other creditors, including taxation and social security | 17 | 5,246 | | 7,160 | |
| | | | 66,195 | | 73,947 |
| **Accruals and deferred income** | | | 636 | | 885 |
| **Total liabilities** | | | 406,115 | | 396,724 |
| **Total Member's balances and liabilities** | | | **377,603** | | 383,133 |

The financial statements on pages 9 to 43 were approved by the Board of Endurance at Lloyd's Limited on 15 March 2016 and were signed on its behalf by:

G Evans
**Director**

Endurance

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015 £'000 | 2014 £'000 |
|---|---|---|---|
| **Operating result** | | 508 | 6,222 |
| Increase in gross technical provisions | | 20,481 | 39,060 |
| Increase in reinsurers' share of gross technical provisions | | (13,955) | (20,944) |
| Increase in debtors | | (2,915) | (32,942) |
| Increase in creditors | | 4,074 | 36,356 |
| Movement in other assets / liabilities | | 2,242 | (10,354) |
| Investment return | | (1,874) | (3,101) |
| **Cash flows from operating activities** | | 8,561 | 14,297 |
| Purchase of equity and debt instruments | | (64,514) | (129,370) |
| Sale of equity and debt instruments | | 86,555 | 152,912 |
| Investment income received | | 2,197 | 4,144 |
| **Cash flows from investing activities** | | 24,238 | 27,686 |
| Distribution to members | | (15,429) | (38,505) |
| **Cash flows from financing activities** | | (15,429) | (38,505) |
| **Net increase in cash and cash equivalents** | | 17,370 | 3,478 |
| Cash and cash equivalents at beginning of the year | | 16,640 | 13,162 |
| **Cash and cash equivalents at end of the year** | 13 | **34,010** | 16,640 |

Endurance

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 1. Statement of compliance

The annual report and accounts are prepared as at 31 December 2015 and for the year ended 31 December 2015.

The accounts have been prepared in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("Lloyd's Regulations 2008") and applicable Accounting Standards in the United Kingdom.

The accounts are prepared under the historical cost convention except for certain financial instruments which are measured at fair value. Syndicate 5151 ("the Syndicate") transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2014. An explanation of how the transition to FRS 102 and FRS 103 has affected the reported financial position and financial performance is given in Note 24.

### 2. Basis of preparation

The accounts for the year ended 31 December 2015 were approved for issue by the Board of Endurance at Lloyd's Limited, previously Montpelier at Lloyd's Limited ("the Company") on 15 March 2016.

The directors of the managing agent have prepared the accounts on the basis that the Syndicate will continue to write future business and settle its obligations as due. The accounts are prepared in Sterling which is the presentational and functional currency of the Syndicate and rounded to the nearest £'000.

### 3. Judgements and key sources of estimation uncertainty

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

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the annual report and accounts, are described within the significant accounting policies below.

The following are the Syndicate's key sources of estimation uncertainty:

<u>Insurance contract technical provisions</u>
Estimating claims reserves and claims expenses requires assumptions regarding reporting and development patterns, frequency and severity trends, claims settlement practices, potential changes in legal environments, inflation, loss amplification and other factors. These estimates and judgments are based on numerous considerations and are often revised as a result of:

i. changes in loss amounts reported by reinsurance companies;
ii. additional information, experience or other data;
iii. development of new or improved methodologies; or
iv. changes in the law.

### 3. Judgements and key sources of estimation uncertainty (continued)

The claims reserves relating to short-tail property risks are typically reported and settled more promptly than those relating to long-tail risks. However, the timeliness of loss reporting can be affected by such factors as the nature of the event causing the loss, the location of the loss, whether the loss is from policies written as direct business or reinsurance where exposure falls within the overall insurance program. In the case of reinsurance business, the reserving process is highly dependent on the loss information received from insurance companies.

Details of the methodology and key assumptions are provided in note 16. Additionally further reference is made within the risk management section in relation to insurance risk in note 22.

### 4. Significant accounting policies

**Premiums**
Premiums written and ceded are earned on a pro-rata basis over the terms of the risk period. For contracts and policies written on a losses occurring basis, the risk period is generally the same as the contract or policy term. For contracts written on a risk attaching basis, the risk period is based on the terms of the underlying contracts and policies.

Premiums written and ceded include estimates based on information received from brokers, ceding companies and insureds, and any subsequent differences arising on such estimates are recorded in the periods in which they are determined.

The portion of the premiums written and ceded applicable to the unexpired terms of the underlying contracts and policies are recorded as unearned premiums and prepaid reinsurance premiums, respectively.

All premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Reinstatement premiums are earned upon the occurrence of a loss and are calculated in accordance with the contract terms based upon the ultimate loss estimate associated with each contract.

**Investment return**
Interest income is recognised on a time proportionate basis taking into account effective interest yield. Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered under the accounting policy for financial assets.

An allocation of actual investment return on investments supporting the general insurance technical provisions and associated equity is made from the non-technical account to the technical account. Investment return related to non-insurance business and shareholders’ equity is attributed to the non-technical account.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 4. Significant accounting policies (continued)

**Claims reserves and related recoveries**

Claims include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

**Deferred acquisition costs**

Acquisition expenses are costs that are directly related to the production of new and renewal business, and consist principally of commissions and brokerage expenses. Acquisition expenses are shown net of commissions earned on ceded business. These costs are deferred and amortised over the periods in which the related premiums are earned.

**Unexpired risks**

Provision is made for any overall excess of expected claims and deferred acquisition costs over unearned premiums, after taking account of the investment return expected to arise on assets relating to the relevant general business provisions.

**Reinsurance to close ("RITC")**

Following the end of the third year, the underwriting account of each Lloyd's syndicate is normally closed by reinsurance into the following year of account. The amount of the RITC premium is determined by the managing agent, generally by estimating the cost of claims notified but not settled together with the estimated cost of claims incurred but not reported at that date and claims handling costs.

The payment of an RITC premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims. The directors consider that the likelihood of such a failure of the RITC is remote, and consequently the RITC has been deemed to settle liabilities outstanding at the closure of an underwriting account.

**Offsetting of financial instruments**

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

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

**Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## 4. Significant accounting policies (continued)

**Financial assets**

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 - Financial Instruments (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial investments as either financial assets at fair value through profit or loss, loans and receivables or available for sale. The Syndicate determines the classification of its financial assets at initial recognition. Financial assets are initially recognised at fair value plus, in the case of instruments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date the company commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of assets within the time frame generally established by regulation or convention in the market place.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading as are all derivatives, including embedded derivatives, that are not designated as hedging instruments. For investments designated as at fair value through profit or loss, the following criteria must be met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest rate (“EIR”) method. Gains and losses are recognised in the income statement through the amortisation process.

Available for sale financial assets are non derivative financial assets that are designated as available for sale or which are not classified in any of the above categories. These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value gains and losses are reported in other comprehensive income as a separate component of equity until the investment is derecognised or the investment is determined to be impaired. On derecognition or impairment, the cumulative fair value gains and losses previously reported through the statement of comprehensive income is transferred to the income statement.

### 4. Significant accounting policies (continued)

**Fair value of financial assets**

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs that are observable such as interest rates and yield curves observable at commonly quoted intervals, implied volatility or credit spreads and market-corroborated inputs.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

See Note 9 for details of financial instruments classified by fair value hierarchy.

**Impairment of financial assets**

For financial assets not held at fair value through profit or loss, the Syndicate assesses at each reporting date whether the financial asset or group of financial assets is impaired. The Syndicate first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

**Derecognition of financial assets**

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

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

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

## 4. Significant accounting policies (continued)

**Financial liabilities**
The Syndicate's financial liabilities include trade and other payables and insurance payables.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortisation is included in net investment income in profit or loss.

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

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

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

**Foreign currencies**
The Syndicate's functional currency and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions.

Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 5. Segmental analysis

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

| 2015 | Gross written premiums £'000 | Gross Premiums Earned £'000 | Gross claims incurred £'000 | Gross Operating Expenses £'000 | Re-insurance Balance £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Direct insurance:** | | | | | | |
| Accident and health | (67) | (24) | 31 | 7 | (2) | 12 |
| Marine | 27,435 | 26,488 | (16,639) | (7,908) | (4,300) | (2,359) |
| Transport | 6,847 | 7,470 | (5,749) | (2,226) | (1,094) | (1,599) |
| Energy-marine | 294 | 383 | (255) | (140) | (32) | (44) |
| Energy non-marine | 134 | 93 | 52 | (25) | (47) | 73 |
| Fire and other damage to property | 31,021 | 31,363 | (15,782) | (10,266) | (5,747) | (432) |
| Third-party liability | 25,150 | 23,276 | (20,980) | (8,340) | (1,181) | (7,225) |
| Pecuniary loss | 26,344 | 13,210 | (6,483) | (3,667) | (3,354) | (294) |
| | 117,158 | 102,259 | (65,805) | (32,565) | (15,757) | (11,868) |
| **Reinsurance** | 58,161 | 67,796 | (20,514) | (19,713) | (18,291) | 9,278 |
| Total | 175,319 | 170,055 | (86,319) | (52,278) | (34,048) | (2,590) |

All premiums were concluded in the UK.

| 2014 | Gross Written Premiums £'000 | Gross premiums earned £'000 | Gross claims incurred £'000 | Gross Operating expenses £'000 | Re-Insurance Balance £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **Direct insurance:** | | | | | | |
| Accident and health | 25 | 15 | 60 | (4) | (23) | 48 |
| Marine | 24,535 | 25,384 | (19,035) | (6,588) | (2,082) | (2,321) |
| Transport | 8,482 | 10,133 | (5,432) | (2,754) | (2,106) | (159) |
| Energy-marine | 466 | 580 | 29 | (135) | (202) | 272 |
| Energy non-marine | 120 | 153 | (9) | (28) | (57) | 59 |
| Fire and other damage to property | 29,768 | 23,940 | (13,390) | (6,874) | (4,233) | (557) |
| Third-party liability | 21,706 | 20,735 | (14,983) | (6,409) | (1,912) | (2,569) |
| Pecuniary loss | 10,296 | 6,945 | (4,765) | (2,082) | (855) | (757) |
| | 95,398 | 87,885 | (57,525) | (24,874) | (11,470) | (5,984) |
| **Reinsurance** | 76,793 | 79,677 | (32,402) | (17,596) | (16,216) | 13,463 |
| Total | 172,191 | 167,562 | (89,927) | (42,470) | (27,686) | 7,479 |

Endurance

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 6. Net operating expenses

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Acquisition costs | 43,805 | 39,979 |
| Change in deferred acquisition costs | 2,683 | (1,282) |
| Administrative expenses | 28,826 | 22,033 |
| Reinsurer's commissions | (23,036) | (18,260) |
| | 52,278 | 42,470 |

Administrative expenses include:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Audit services: | | |
| Fees payable to the Syndicate's auditors for the audit of the Syndicate's accounts | 236 | 215 |
| Non-audit services: | | |
| Other services pursuant to Regulations and Lloyd's Byelaws | 50 | 59 |
| Valuation and actuarial services | 35 | - |
| Members' standard personal expenses: | | |
| Lloyd's subscriptions | 672 | 823 |
| New Central Fund contributions | 619 | 398 |
| Managing Agent's fees | 900 | 900 |
| Not included in Syndicate administrative expenses: | | |
| Audit of the Managing Agency | 15 | 15 |

Audit and non-audit service costs in 2015 are in respect of costs incurred from Ernst & Young LLP, as auditors. 2014 comparatives are in respect of costs incurred from PricewaterhouseCoopers LLP, as auditors.

## 7. Staff numbers and costs

All staff are employed by Endurance Worldwide Insurance Limited ("EWIL"), a wholly-owned indirect subsidiary of Endurance Specialty Holdings Ltd. ("ESHL"), and seconded to the Syndicate. Prior to the acquisition of Montpelier Re Holdings Ltd. ("MRH") by ESHL on 31 July 2015 staff were employed by Montpelier Underwriting Services Limited ("MUSL") and seconded to the Syndicate. The following amounts were recharged from EWIL and MUSL to the Syndicate in respect of salary costs:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Wages and salaries | 16,100 | 10,558 |
| Social security costs | 1,664 | 1,428 |
| Other pension costs | 588 | 433 |
| Other | 167 | 184 |
| | 18,519 | 12,603 |

Included within wages and salaries during the year were one-off severance costs of £9.3m (2014 - £nil).

The average number of employees performing services directly on behalf of the Syndicate during the year was as follows:

| | 2015 Number | 2014 Number |
|---|---|---|
| Administration and finance | 24 | 26 |
| Underwriting | 22 | 24 |
| Claims | 6 | 4 |
| | 52 | 54 |

## 8. Directors' emoluments

The directors of the Company received the following aggregate remuneration charged to the Syndicate and included within net operating expenses.

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Emoluments | 12,593 | 4,114 |
| Contributions to defined contribution pensions | 94 | 109 |

The active underwriters received the following remuneration charged as a syndicate expense:

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Emoluments | 3,593 | 1,527 |
| Contributions to defined contribution pensions | 45 | 53 |

Included within directors' and active underwriters emoluments during the year were one-off severance costs of £7.0m and £1.6m respectively (2014 - £nil and £nil).

## 9. Financial investments

| | Market Value 2015 £'000 | Cost 2015 £'000 | Market Value 2014 £'000 | Cost 2014 £'000 |
|---|---|---|---|---|
| **Held at fair value through profit or loss** | | | | |
| Holdings in collective investment schemes | 10,216 | 10,216 | 5,648 | 5,648 |
| Fixed interest securities | 122,573 | 123,747 | 139,516 | 139,670 |
| Floating interest rate securities | 7,441 | 7,441 | 20,044 | 20,519 |
| | 140,230 | 141,404 | 165,208 | 165,837 |

Included in the market values above are £103.2m (2014 - £100.3m) in respect of listed investments.

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

| At 31 December 2015 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Debt and other fixed income securities | - | 130,014 | - | 130,014 |
| Holdings in collective investment schemes | 10,216 | - | - | 10,216 |
| Total | 10,216 | 130,014 | - | 140,230 |

| At 31 December 2014 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Debt and other fixed income securities | 20,634 | 138,926 | - | 159,560 |
| Holdings in collective investment schemes | 5,648 | - | - | 5,648 |
| Total | 26,282 | 138,926 | - | 165,208 |

## 10. Debtors arising out of direct insurance operations

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Due from intermediaries within one year | 61,093 | 64,116 |

## 11. Debtors arising from ceding insurers and intermediaries

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Due within one year | 11,871 | 10,445 |

In 2014 debtors arising from ceding insurers and intermediaries and creditors arising out of reinsurance operations were both overstated by an equal and offsetting amount of £12.7m, due to a mis-calculation of the reinsurance commission receivable balance.

Endurance

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 12. Other assets

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Overseas deposits | 17,549 | 12,632 |

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

### 13. Cash and cash equivalents

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Cash at bank and in hand | 16,461 | 4,008 |
| Overseas deposits | 17,549 | 12,632 |
| | 34,010 | 16,640 |

### 14. Deferred acquisition costs

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| At 1 January | 22,808 | 20,090 |
| Change in deferred acquisition costs | (2,683) | 1,282 |
| Foreign exchange | (749) | 1,436 |
| At 31 December | 19,376 | 22,808 |

### 15. Provision for unearned premiums

| | Gross £'000 | Reinsurers' share £'000 | Net £'000 |
|---|---|---|---|
| At 1 January 2014 | 79,145 | (4,419) | 74,726 |
| Premiums written in the year | 172,191 | (62,815) | 109,376 |
| Premiums earned in the year | (167,562) | 63,151 | (104,411) |
| Foreign exchange | 5,797 | (340) | 5,457 |
| At 31 December 2014 | 89,571 | (4,423) | 85,148 |
| At 1 January 2015 | 89,571 | (4,423) | 85,148 |
| Premiums written in the year | 175,319 | (74,099) | 101,220 |
| Premiums earned in the year | (170,055) | 64,303 | (105,752) |
| Foreign exchange | 156 | (505) | (349) |
| At 31 December 2015 | 94,991 | (14,724) | 80,267 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 16. Claims outstanding

The directors have assessed the technical provisions in accordance with the accounting policies set out within these annual accounts. This is the Syndicate's ninth year of trading and the Syndicate's business includes classes of a long tail nature where the IBNR portion of the total reserves is high, and which typically display greater variation between initial estimates and final outcomes because of the greater level of uncertainty and difficulty estimating these reserves. The Syndicate has appropriate historic loss data for business similar to that underwritten during the period. The Syndicate has projected its claims reserves based on this historic development in order to assess the likely ultimate claims having regard to variations in the business accepted and the strengthening or weakening of the underlying terms and conditions.

Whilst the directors consider that the provision for claims is fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in material adjustments to the amounts provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Favourable prior year claims development of £20.2m (2014 – £19.8m) was experienced in 2015, predominantly in respect of Property and Marine lines of business, as a result of lower than expected claims activity due to the benign claims environment.

| | Gross 2015 £'000 | Reinsurers' share 2015 £'000 | Net 2015 £'000 | Gross 2014 £'000 | Reinsurers' share 2014 £'000 | Net 2014 £'000 |
|---|---|---|---|---|---|---|
| Reported claims | 100,320 | (30,026) | 70,294 | 82,157 | (19,709) | 62,448 |
| Incurred but not reported | 130,581 | (42,744) | 87,837 | 119,807 | (32,121) | 87,686 |
| Loss adjustment expenses | 1,420 | - | 1,420 | 1,722 | - | 1,722 |
| At 1 January | 232,321 | (72,770) | 159,551 | 203,686 | (51,830) | 151,856 |
| Claims paid during the year | (79,849) | 30,318 | (49,531) | (63,249) | 18,612 | (44,637) |
| Claims incurred during the year | 86,319 | (30,255) | 56,064 | 89,927 | (35,465) | 54,462 |
| Foreign exchange | 5,502 | (3,259) | 2,243 | 1,957 | (4,087) | (2,130) |
| Total movement | 11,972 | (3,196) | 8,776 | 28,635 | (20,940) | 7,695 |
| Reported claims | 113,187 | (35,101) | 78,086 | 100,320 | (30,026) | 70,294 |
| Incurred but not reported | 129,843 | (40,865) | 88,978 | 130,581 | (42,744) | 87,837 |
| Loss adjustment expenses | 1,263 | - | 1,263 | 1,420 | - | 1,420 |
| At 31 December | 244,293 | (75,966) | 168,327 | 232,321 | (72,770) | 159,551 |

### 16. Claims outstanding (continued)

The Syndicate establishes loss and loss expense reserves to provide for the estimated costs of paying claims under insurance policies and reinsurance contracts underwritten by the Syndicate. These reserves include estimates for both claims that have been reported and those that have been incurred but not reported and include estimates of all expenses associated with processing and settling these claims.

The loss reserves are comprised of case reserves (which are based on claims that have been reported to us) and IBNR reserves (which are based on losses believed to have occurred but for which claims have not yet been reported to us and a provision for expected future development on case reserves).

Case reserve estimates are initially determined on the basis of loss reports received from third parties. Case estimates are set by experienced claims technicians, applying their skill and specialist knowledge to the circumstances of individual claims. IBNR reserve estimates are determined using various actuarial methods as well as a combination of historical loss experience, historical insurance industry loss experience, estimates of pricing adequacy trends and professional judgment. The process used to estimate our IBNR reserves involves projecting estimated ultimate claims loss and claims expenses reserves and then subtracting paid claims and case reserves to arrive at the IBNR reserve.

Estimating the ultimate cost of future claims and claim adjustment expenses is an uncertain and complex process. This estimation process is based largely on the assumption that past developments are an appropriate predictor of future events and involves a variety of actuarial techniques and judgments that analyse experience, trends and other relevant factors.

The Syndicate's reserving actuaries, review the Syndicate's loss and loss expense reserves on a quarterly basis for both current and prior accident years using the most current claims data. These reserve reviews incorporate a variety of actuarial methods and judgments, including the three most common methods of actuarial evaluation used within the insurance industry: the expected loss ratio method; the Bornhuetter-Ferguson method; and the loss development method. The expected loss ratio approach is based on expected results independent of current loss reporting activity. This approach is typically used for immature loss periods (i.e. the current accident year). The Bornhuetter-Ferguson method uses an initial loss estimate (expected loss technique) for each accident year by business line and type of contract. Under this method, IBNR is set equal to the initial loss estimate multiplied by the expected percent of loss yet to be reported at each valuation date. In a given quarter, if reported losses are less than expected, then the difference would result in a decrease in estimated ultimate losses. If losses for the quarter are greater than expected, then the difference would result in an increase in estimated ultimate losses. In contrast, the loss development method extrapolates the current value of reported losses to ultimate expected losses by using selected reporting patterns of losses over time. Selected loss reporting patterns are based upon internal and external historical data and assumptions regarding claims reporting trends over a period of time that extends beyond the Syndicate's own operating history.

The Syndicate uses these multiple methods, supplemented with its own actuarial and professional judgment, to establish its best estimate of loss and loss expense reserves.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 17. Other creditors, including taxation and social security

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| Amounts due to group companies | 5,039 | 6,126 |
| Amount due to investment manager | 134 | 777 |
| Other creditors | 73 | 257 |
| | 5,246 | 7,160 |

Other creditors includes £73K (2014 - £nil) due after more than one year.

No security over the Syndicate's assets has been given in respect of the above.

### 18. Funds at Lloyd's

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

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the Member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Company, no amount has been shown in these financial statements by way of such capital resources. However, the Company is entitled to make a call on the Members' FAL to meet liquidity requirements or to settle losses.

### 19. Ultimate parent company

On 31 July 2015, MRH, the Syndicate's then ultimate parent undertaking was acquired by ESHL ("the Acquisition").

As at 31 December 2015, the immediate parent company of the Company was Endurance Holdings Limited, previously Montpelier Holdings Limited ("EHL"), a company incorporated in the United Kingdom. The Company's ultimate holding company is ESHL, incorporated in Hamilton, Bermuda. A copy of the financial statements of ESHL can be obtained from 1st Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB, or Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda.

### 20. Off-balance sheet

The Syndicate has not been party to an arrangement, which is not reflected in its balance sheet, where material risks and benefits arise for the Syndicate.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 21. Related parties

Prior to the Acquisition I M Winchester and C L Harris were directors of, and held securities in, MRH, the ultimate holding company of the Montpelier group of companies ("Montpelier Group"). R M M Chattock, L J Gibbins, M J S Southgate and M Taylor were directors of Montpelier Capital Limited ("MCL"), the wholly-aligned corporate member which provided 100% of the underwriting capacity of Syndicate 5151 prior to the Acquisition. Montpelier Holdings Limited ("MHL"), a company incorporated in the UK, acted as the UK parent company for Montpelier Group's UK entities involved in the transaction of business at Lloyd's. R M M Chattock, C L Harris and L J Gibbins were directors of MHL. Subsequent to the Acquisition, MCL was renamed Endurance Corporate Capital Limited ("ECCL") and MHL was renamed EHL. I M Winchester is a director of ESHL, the ultimate holding company of the Endurance group of companies. G Evans, R J R Housley and P A Rooke are directors of both EHL and ECCL.

Syndicate 5151 participated in the following transactions, and held the following balances, with related parties within the Endurance Group:

For the 2015 underwriting year the Syndicate purchased reinsurance from Montpelier Reinsurance Ltd ("MRE"), a wholly owned subsidiary of ESHL. On 29 December 2015, MRE merged with and into Endurance Specialty Insurance Ltd. ("ESIL"), with ESIL as the surviving entity. As a result, MRE ceased to exist and ESIL became the successor in interest by merger to all of the rights and obligations of MRE. The cost of the reinsurance protection was £34.1m (2014 – £50.9m). The Syndicate also purchased reinsurance in conjunction with MRE and its apportioned share of the cost was £7.5m (2014 – £3.4m). As at the year end net technical balances included £50.2m (2014 - £47.2m owed to MRE) in respect of amounts owed to ESIL.

The Syndicate paid fees to Endurance at Lloyd's Limited ("the Company"), the managing agency for the Syndicate, of £0.9m (2014 – £0.9m), based on a fixed percentage of the Syndicate's underwriting capacity. As at the year end other creditors included £0.2m (2014 - £0.2m) in respect of amounts owed to the managing agent.

During the year the Syndicate engaged in binding authority agreements whereby certain business in the United States was written on behalf of the Syndicate by Endurance Underwriting Inc. ("EUI") (formerly Montpelier Underwriting Inc.). EUI is incorporated in the U.S. and is a wholly-owned indirect subsidiary of ESHL. Gross premiums written under these agreements amounted to £6.4m (2014 – £7.7m) in respect of which the Syndicate paid commissions to EUI of £0.9m (2014 – £1.3m). As at the year end other creditors included £1.1m (2014 – other debtors £1.3m) in respect of amounts owed to EUI. C L Harris was also a director of EUI.

Montpelier Technical Resources Ltd ("MTRL"), a company incorporated in the US and a wholly-owned indirect subsidiary of the ESHL, was responsible for providing IT services and other administrative services to the Montpelier Group worldwide. MTRL charged the Syndicate £3.6m (2014 – £2.7m) during the period. As at the year end other creditors included £0.7m (2014 - £0.5m) in respect of amounts owed to MTRL. Subsequent to the Acquisition, MTRL was merged with and into Endurance Services Ltd ("ESL"), a wholly-owned indirect subsidiary of ESHL incorporated in the US, with ESL as the surviving company. ESL charged the Syndicate £1.7m (2014 – £nil) during the period. C L Harris was also a director of MTRL.

## 21. Related parties (continued)

Montpelier Underwriting Services Limited ("MUSL"), a company incorporated in the UK and a wholly-owned indirect subsidiary of ESHL, acted as a service company to the UK Montpelier Group companies and incurred the cost of the majority of the UK companies' expenses prior to being reimbursed by those companies. In 2015 these costs amounted to £11.1m (2014 – £15.2m). Subsequent to the Acquisition, these expenses were incurred by Endurance Worldwide Insurance Limited ("EWIL"), before being subsequently recharged. In 2015 costs recharged from EWIL to the Syndicate amounted to £9.8m (2014 – £nil). As at the year end other creditors included £1.3m (2014 - £4.2m owed to MUSL) in respect of amounts owed to EWIL. R M M Chattock, L J Gibbins, M J S Southgate and M Taylor were directors of MUSL during the financial year until the acquisition date. G Evans, R J R Housley and P A Rooke are the directors of MUSL at 31 December 2015.

## 22. Risk management

### a) Governance framework

The primary objective of the Syndicate's risk management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of strategic objectives, including failing to exploit opportunities. The Managing Agent has established a risk management function with clear terms of reference from the board of directors and has embedded a risk appetite framework which encompasses the overall approach, including policies, procedures, controls and systems through which appetite is established, monitored and communicated.

The risk appetite framework is aligned with the Managing Agent's strategy and is used to inform and influence decisions at all levels. The risk governance framework supports this in the following ways:

- Board approved risk policies, appetites and tolerances are communicated to, owned by, monitored and reported upon by assigned sub-committees of the Board.
- Own risk and solvency assessments are performed quarterly, leveraging sophisticated risk modelling techniques and systems, to regularly assess key risk and performance indicators against tolerance.
- Authorities and responsibilities in respect of all key business risks are delegated to management committees and senior management across the Managing Agent.

### 22. Risk management

#### b) Capital management

Capital framework at Lloyd's

The Association of Underwriters Known as Lloyd's (Lloyd's) is a regulated undertaking pursuant to the Solvency II Directive. The Society of Lloyd's is a UK regulated entity subject to the supervision of the Prudential Regulatory Authority (PRA) and the Financial Conduct Authority under the Financial Services and Markets Act 2000.

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

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

Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, however, the requirement to meet Solvency II and Lloyd's capital requirements apply in practice at syndicate and member level.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review and approval by Lloyd's. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a syndicate (funds in syndicate) or as the member's share of the members' balances on each syndicate on which it participates.

### 22. Risk management (continued)

#### c) Insurance risk management

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

The principal risk exposure is actively managed by having a disciplined approach to underwriting and risk management that relies heavily upon the collective underwriting expertise of management and staff. This expertise is in turn guided by the following underwriting principles:

- The Syndicate will underwrite and accept only those risks that are known and understand;
- The Syndicate establishes pricing parameters, sets its own independent pricing and conducts risk reviews on risks accepted; and
- The Syndicate will generally only accept risks that are expected to earn a return on capital commensurate with the risk they present.

The principle risk exposure is mitigated by having established underwriting guidelines for each product, diversifying the business by underwriting a variety of products across multiple industry sectors and geographies, proactively assessing and managing risk accumulations arising from both natural and man-made events and actively utilising outwards reinsurance arrangements to limit exposure to catastrophic events within tolerance.

**(i) Concentrations of insurance risk**

**As a property, marine/energy, aviation catastrophe and other specialty insurer and reinsurer the Syndicate is particularly vulnerable to losses from catastrophes.**

Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, droughts, severe weather, floods, fires, tornadoes, volcano eruptions, explosions and other natural or man-made disasters. Many scientists believe that the earth's atmospheric and oceanic temperatures are increasing and that, in recent years, changing climate conditions have increased the unpredictability, severity and frequency of natural disasters in certain parts of the world.

Whilst the Syndicate attempts to manage exposure to such events through the use of underwriting controls and the purchase of third-party reinsurance, catastrophic events are inherently unpredictable and the actual nature of such events when they occur could be more frequent or severe than contemplated in pricing and risk management expectations. As a result, the occurrence of one or more catastrophic events could have a material adverse effect on the results of operations or financial condition.

**As a property and casualty insurer and reinsurer the Syndicate could face losses from war, terrorism and political unrest.**

The Syndicate may have substantial exposure to losses resulting from acts of war, acts of terrorism and political instability. These risks are inherently unpredictable, although recent events may lead to increased frequency and severity. It is difficult to predict their occurrence with statistical certainty or to estimate the amount of loss an occurrence will generate. Accordingly, it is possible that loss reserves will be inadequate to cover these risks. The Syndicate closely monitors the amount and types of coverage it provides for terrorism risk under insurance policies and reinsurance treaties.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

**c) Insurance risk management (continued)**

**(i) Concentrations of insurance risk (continued)**

The Syndicate regularly quantifies and monitors its exposures to key sources of concentration risk against defined risk tolerances.

For certain defined natural catastrophe and man-made catastrophe events, the Syndicate assesses the probability and likely magnitude of losses using a combination of industry third-party models, proprietary models and underwriting judgment. The Syndicate attempts to model the projected net impact from a single event, taking into account contributions from all lines of business offset by the net benefit of any reinsurance or derivative protections we purchase and the benefit of reinstatement premiums.

The Syndicate monitors its net accumulation risk exposures regularly against internally defined risk tolerances. This includes, but is not limited to, the Lloyd's RDS scenarios which are monitored against Lloyd's franchise guidelines.

The Syndicate actively manage the level of assumed risk and the purchase of outwards reinsurance to ensure that concentration risk levels remain within defined tolerances.

The geographical analysis of premiums by territory of risk is as follows:

| | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|
| UK | 2,137 | 1,528 |
| Other EU countries | 10,524 | 9,897 |
| US and Canada | 48,509 | 40,629 |
| Worldwide | 114,149 | 120,137 |
| | 175,319 | 172,191 |

The following table sets out the gross premiums written by line of business:

| | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|
| Property | 53,364 | 56,963 |
| Marine | 46,809 | 48,118 |
| Specialty | 63,634 | 47,761 |
| Engineering | 11,512 | 19,349 |
| | 175,319 | 172,191 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

**c) Insurance risk management (continued)**

**(i) Concentrations of insurance risk (continued)**

The table below sets out the concentration of outstanding claim liabilities by type of contract:

| | Gross liabilities £'000 | Reinsurance of liabilities £'000 | Net liabilities £'000 |
|---|---|---|---|
| **2015** | | | |
| Property | 53,530 | (17,937) | 35,593 |
| Marine | 58,466 | (20,140) | 38,326 |
| Specialty | 90,758 | (26,358) | 64,400 |
| Engineering | 40,276 | (11,531) | 28,745 |
| | 243,030 | (75,966) | 167,064 |

| | Gross liabilities £'000 | Reinsurance of liabilities £'000 | Net liabilities £'000 |
|---|---|---|---|
| **2014** | | | |
| Property | 67,832 | (28,314) | 39,518 |
| Marine | 58,196 | (18,441) | 39,755 |
| Specialty | 64,501 | (16,628) | 47,873 |
| Engineering | 40,372 | (9,387) | 30,985 |
| | 230,901 | (72,770) | 158,131 |

**(ii) Sensitivity to insurance risk**

**The Syndicate is exposed to, and may face adverse developments, involving mass tort claims such as those relating to exposure to potentially harmful products or substances.**

The Syndicate faces exposure to mass tort claims, including claims related to exposure to potentially harmful products or substances. Establishing claims and claim adjustment expense reserves for mass tort claims is subject to uncertainties because of many factors, including expanded theories of liability, disputes concerning medical causation with respect to certain diseases, geographical concentration of the lawsuits asserting the claims and the potential for a large rise in the total number of claims without underlying epidemiological developments suggesting an increase in disease rates. Moreover, evolving judicial interpretations regarding the application of various tort theories and defences, including application of various theories of joint and several liabilities, as well as the application of insurance coverage to these claims, make it difficult to estimate the ultimate liability for such claims.

Because of the uncertainties set forth above, additional liabilities may arise for amounts in excess of the current related reserves. In addition, estimates of claims and claim adjustment expenses may change, and such change could be material. These additional liabilities or increases in estimates, or a range of either, cannot now be reasonably estimated and could materially and adversely affect the results of operations.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

**c) Insurance risk management (continued)**

**(ii) Sensitivity to insurance risk (continued)**

**The failure of any of the loss limitation methods employed, as well as an unexpected accumulation of attritional losses, could have a material adverse effect on financial condition or on the results of operations.**

The Syndicate seeks to limit its loss exposure in a variety of ways, including by writing many of its insurance and reinsurance contracts on an excess of loss basis, adhering to maximum limitations on policies written in defined geographical zones, limiting program size for each client, establishing per risk and per occurrence limitations for each event, employing coverage restrictions, following prudent underwriting guidelines for each program written and purchasing reinsurance and retrocessional protection. In the case of proportional treaties, the Syndicate generally seeks per occurrence limitations or loss ratio caps to limit the impact of losses from any one event. Most direct liability insurance policies include maximum aggregate limitations. The Syndicate also seeks to limit its loss exposure through geographic diversification. Disputes relating to coverage and choice of legal forum may also arise. As a result, various provisions of the Syndicate's policies, such as limitations or exclusions from coverage or choice of forum, may not be enforceable in the manner intended and some or all of the other loss limitation methods may prove to be ineffective. Underwriting is a matter of judgment, involving important assumptions about matters that are inherently unpredictable and beyond the Syndicate's control, and for which historical experience and probability analysis may not provide sufficient guidance.

The Syndicate's operating results may also be adversely affected by unexpectedly large accumulations of smaller losses. The Syndicate seeks to manage this risk by using appropriate loss limitation methods as noted above. These processes are intended to ensure that premiums received are sufficient to cover the expected levels of attritional loss as well as a contribution to the cost of natural catastrophes and large losses where necessary. It is possible, however, that loss limitation methods may not work as intended in this respect and that actual losses, including attritional losses, from a class of risks may be greater than expected, which may have a material adverse effect on financial condition and the results of operations.

**The Syndicate may be unable to purchase reinsurance and its net income could be reduced or it could incur a net loss in the event of an unusual loss experience.**

The Syndicate purchases reinsurance if it is deemed prudent from a risk mitigation perspective or if it is expected to have a favourable cost/benefit relationship relative to the retained risk portfolio. Changes in the availability and cost of reinsurance, which are subject to market conditions that are outside of the Syndicate's control, may reduce to some extent the Syndicate's ability to use reinsurance to balance exposures across its reinsurance or insurance operations. Accordingly, the Syndicate may not be able to obtain its desired amounts of reinsurance. In addition, even if the Syndicate is able to obtain such reinsurance, it may not be able to negotiate terms that are deemed appropriate or acceptable or obtain such reinsurance from entities with satisfactory creditworthiness.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

**c) Insurance risk management (continued)**

**(ii) Sensitivity to insurance risk (continued)**

**Profitability may be adversely impacted by inflation.**

The effects of inflation could cause the cost of claims from catastrophes or other events to rise in the future. The Syndicate's reserve for losses and loss expenses includes assumptions about future payments for settlement of claims and claims handling expenses, such as medical treatments and litigation costs. To the extent inflation causes these costs to increase above reserves established for these claims, the Syndicate will be required to increase its loss reserves with a corresponding reduction in net income in the period in which the deficiency is identified.

**The effects of emerging claim and coverage issues on the Syndicate's business are uncertain.**

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may adversely affect the Syndicate's business by either broadening coverage beyond its underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after the Syndicate has issued insurance or reinsurance contracts that are affected by the changes. As a result, the full extent of liability under insurance or reinsurance contracts may not be known for many years after a contract is issued.

<u>Quantitative sensitivity analysis</u>

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

| | Change in assumption | Impact on gross liabilities £'000 | Impact on net liabilities £'000 | Impact on profit £'000 | Impact on members' balances £'000 |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Loss ratio | + 10% | 8,623 | 5,415 | (5,415) | (5,415) |
| **2014** | | | | | |
| Loss ratio | + 10% | 9,034 | 5,530 | (5,530) | (5,530) |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)
#### c) Insurance risk management (continued)

**Claims development table**

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive pure year of account at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied as at the year end.

The Syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016–2021.

Gross insurance contract outstanding claims provision as at 31 December 2015:

| Pure year of account | Pre-2011<br>£'000 | 2011<br>£'000 | 2012<br>£'000 | 2013<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims incurred | | | | | | | |
| At end of accident year | | 103,394 | 51,344 | 48,377 | 60,593 | 42,095 | |
| One year later | | 124,790 | 83,678 | 87,477 | 97,599 | | |
| Two years later | | 114,756 | 77,071 | 78,897 | | | |
| Three years later | | 114,839 | 67,682 | | | | |
| Four years later | | 96,952 | | | | | |
| Estimate for cumulative claims | | 96,952 | 67,682 | 78,897 | 97,599 | 42,095 | |
| Cumulative payments to date | | (74,869) | (33,129) | (29,595) | (24,308) | (4,390) | |
| Claims outstanding per balance sheet | 27,359 | 22,083 | 34,553 | 49,302 | 73,291 | 37,705 | 244,293 |

Net insurance contract outstanding claims provision as at 31 December 2015:

| Pure year of account | Pre-2011<br>£'000 | 2011<br>£'000 | 2012<br>£'000 | 2013<br>£'000 | 2014<br>£'000 | 2015<br>£'000 | Total<br>£'000 |
|---|---|---|---|---|---|---|---|
| Estimate of cumulative claims incurred | | | | | | | |
| At end of accident year | | 89,431 | 35,299 | 32,971 | 35,909 | 25,649 | |
| One year later | | 101,744 | 57,924 | 60,492 | 61,844 | | |
| Two years later | | 89,655 | 52,662 | 55,215 | | | |
| Three years later | | 85,414 | 48,188 | | | | |
| Four years later | | 72,940 | | | | | |
| Estimate for cumulative claims | | 72,940 | 48,188 | 55,215 | 61,844 | 25,649 | |
| Cumulative payments to date | | (59,024) | (24,047) | (21,243) | (13,422) | (1,730) | |
| Claims outstanding per balance sheet | 23,957 | 13,916 | 24,141 | 33,972 | 48,422 | 23,919 | 168,327 |

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

**d) Financial risk management**

The Syndicate is exposed to a wide range of financial risks, the key financial risk being that the proceeds from its assets are not sufficient to fund the obligations arising from its insurance contracts. The most important components of financial risk are credit risk, market risk and liquidity risk.

An analysis of the Syndicate's exposure to each significant component of financial risk is given below:

Credit risk

Credit risk is defined as the risk that a counterparty is unable, or unwilling, to settle its debts to the Syndicate as they fall due. The primary sources of credit risk for the Syndicate are: amounts due from reinsurers, amounts due from insurance intermediaries, and counterparty risk with respect to investments including cash and cash equivalents. The Syndicate has in place policies and procedures designed to manage its credit risk exposures.

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security by the Underwriting Committee, prior to the purchase of reinsurance contracts. Guidelines are set, and monitored, that limit the purchase of reinsurance based on Standard & Poor’s or appropriate alternative ratings for each reinsurer.

The credit risk in respect of insurance intermediaries is managed through a subset of the Underwriting Committee, with the assistance of the underwriting department and the binder management team. To transact business with the Syndicate the insurance intermediary must first comply with internal guidelines that include approval (where relevant) by both the PRA and Lloyd’s, to have a satisfactory credit rating and to have in place a Terms of Business Agreement or a Binding Authority Agreement with the Syndicate.

The position is then monitored through on-going review of the amount of debt outstanding to terms, and by regular cover-holder audit.

Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. Fixed income investments are predominantly invested in Government and corporate bonds.

### 22. Risk management (continued)

#### d) Financial risk management (continued)

Credit risk (continued)

An analysis of the Syndicate's major exposure to counterparty credit risk, which is based on Standard & Poor's or equivalent rating, is presented below.

| At 31 December 2015 | AAA £'000 | AA £'000 | A £'000 | Other/ Not rated £'000 | Total £'000 |
|---|---|---|---|---|---|
| Reinsurance debtors and reinsurers' share of claims outstanding | - | 1,035 | 90,242 | 1,887 | 93,164 |
| Debtors arising out of direct insurance operations | - | - | - | 61,093 | 61,093 |
| Debtors from ceding insurers and intermediaries | - | - | 11,871 | - | 11,871 |
| Debt and other fixed income securities | 26,094 | 51,391 | 40,673 | 11,856 | 130,014 |
| Holdings in collective investment schemes | 5,913 | - | 4,303 | - | 10,216 |
| Cash | 1,616 | - | 14,712 | 133 | 16,461 |
| Overseas deposits | - | - | 17,549 | - | 17,549 |
| Total | 33,623 | 52,426 | 179,350 | 74,969 | 340,368 |

| At 31 December 2014 | AAA £'000 | AA £'000 | A £'000 | Other/ Not rated £'000 | Total £'000 |
|---|---|---|---|---|---|
| Reinsurance debtors and reinsurers' share of claims outstanding | - | 731 | 95,322 | 187 | 96,240 |
| Debtors arising out of direct insurance operations | - | - | - | 64,116 | 64,116 |
| Debtors from ceding insurers and intermediaries | - | - | 10,261 | 184 | 10,445 |
| Debt and other fixed income securities | 33,659 | 53,643 | 42,992 | 29,266 | 159,560 |
| Holdings in collective investment schemes | 4,549 | - | 1,099 | - | 5,648 |
| Cash | - | - | 4,008 | - | 4,008 |
| Overseas deposits | - | - | 12,632 | - | 12,632 |
| Total | 38,208 | 54,374 | 166,314 | 93,753 | 352,649 |

The financial assets included in the 'other/not rated' column relate to debt and other fixed income securities with credit ratings of BBB to CCC, premium debtors, reinsurance debtors and reinsurers' share of claims outstanding with unrated counterparties.

Collateral is held in trust in respect of debtors outstanding on a quota share between the Syndicate and ESIL, an Endurance group company incorporated in Bermuda. This includes debt securities and cash and cash equivalents that are held with The Bank of New York Mellon, with a fair value of £34.2m (2014 – £32.9m) as at 31 December 2015.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

#### d) Financial risk management (continued)

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

| As at 31 December 2015 | Neither past due nor impaired £'000 | Past due £'000 | Impaired £'000 | Total £'000 |
|---|---|---|---|---|
| Reinsurance debtors and reinsurers' share of claims outstanding | 93,164 | - | - | 93,164 |
| Debtors arising out of direct insurance operations | 60,001 | 1,435 | (343) | 61,093 |
| Debtors from ceding insurers and intermediaries | 11,871 | - | - | 11,871 |
| Debt and other fixed income securities | 130,014 | - | - | 130,014 |
| Holdings in collective investment schemes | 10,216 | - | - | 10,216 |
| Cash | 16,461 | - | - | 16,461 |
| Overseas deposits | 17,549 | - | - | 17,549 |
| | 339,276 | 1,435 | (343) | 340,368 |

| As at 31 December 2014 | Neither past due nor impaired £'000 | Past due £'000 | Impaired £'000 | Total £'000 |
|---|---|---|---|---|
| Reinsurance debtors and reinsurers' share of claims outstanding | 96,240 | - | - | 96,240 |
| Debtors arising out of direct insurance operations | 62,696 | 1,646 | (226) | 64,116 |
| Debtors from ceding insurers and intermediaries | 10,445 | - | - | 10,445 |
| Debt and other fixed income securities | 159,560 | - | - | 159,560 |
| Holdings in collective investment schemes | 5,648 | - | - | 5,648 |
| Cash | 4,008 | - | - | 4,008 |
| Overseas deposits | 12,632 | - | - | 12,632 |
| | 351,229 | 1,646 | (226) | 352,649 |

Financial assets that are neither past due nor impaired

Insurance and reinsurance receivables that are neither past due nor impaired are creditworthy debtors with a good payment record with the Branch. Financial investments and cash at bank and in hand are placed with or entered into with reputable financial institutions or companies with high credit ratings and no history of default.

Financial assets that are either past due or impaired

Of the amounts arising from insurance and reinsurance operations £1.4m (2014 - £1.7m) are past due as at the balance sheet date, of which £0.9m (2014 - £1.5m) are aged less than 6 months and £0.5m (2014 - £0.2m) are aged more than 6 months. These amounts are unsecured.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

**d) Financial risk management (continued)**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market factors.

Market risk comprises three types of risk as set out below:

- interest rate risk (due to fluctuations in market interest rates)
- currency risk (due to fluctuations in foreign exchange rates)
- price risk (due to fluctuations in market prices)

Interest rate risk

The majority of the Syndicate's investments comprise cash and fixed income securities. The fair value of the Syndicate's investments is inversely correlated to movements in interest rates. If interest rates fall, the fair value of the Syndicate's fixed income securities tends to rise and vice versa.

The tables below show the potential impact on profit and loss and equity resulting from fluctuations in interest rates, based on the portfolio duration, as follows:

| At 31 December 2015 | Cnv GBP'000 |
|---|---|
| Change in interest rates (Basis points) | |
| +100 bps | (2,712) |
| +50 bps | (1,329) |
| -50 bps | 1,270 |
| -100 bps | 2,469 |

| At 31 December 2014 | Cnv GBP'000 |
|---|---|
| Change in interest rates (Basis points) | |
| +100 bps | (2,875) |
| +50 bps | (1,456) |
| -50 bps | 750 |
| -100 bps | 1,308 |

The Syndicate manages interest rate risk by investing in financial investments with an average duration of less than 3 years. The Company monitors the duration of these assets on a regular basis.

Outstanding claims provisions are not sensitive to the level of interest rates, as they are undiscounted and contractually non-interest bearing.

Currency risk

The Syndicate operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar, Canadian Dollar and the Euro. The Syndicate mitigates this risk by endeavouring to maintain a match of assets and liabilities in their respective currencies.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. Risk management (continued)

#### d) Financial risk management (continued)

Currency risk (continued)

The tables below show the potential impact, by currency, on profit and loss and equity resulting from fluctuations in foreign exchange rates:

| At 31 December 2015 | | Converted GBP | | | |
|---|---|---|---|---|---|
| | GBP £'000 | USD £'000 | CAD £'000 | Euro £'000 | Total £'000 |
| + 10% | - | 3,120 | (650) | (909) | 1,561 |
| + 5% | - | 1,634 | (340) | (476) | 818 |
| - 5% | - | (1,806) | 376 | 526 | (904) |
| - 10% | - | (3,814) | 794 | 1,112 | (1,908) |

| At 31 December 2014 | | Converted GBP | | | |
|---|---|---|---|---|---|
| | GBP £'000 | USD £'000 | CAD £'000 | Euro £'000 | Total £'000 |
| + 10% | - | 679 | (423) | (381) | (125) |
| + 5% | - | 356 | (222) | (199) | (65) |
| - 5% | - | (394) | 245 | 221 | 72 |
| - 10% | - | (831) | 518 | 466 | 153 |

The Syndicate manages foreign exchange risk by buying or selling currency to rebalance its monetary assets and liabilities following each quarter end.

Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded on the market.

The Syndicate holds no equity investments and so has a low exposure to price risk.

Liquidity risk

Liquidity risk arises where insufficient financial resources are maintained to meet liabilities as they fall due.

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities. Of the insurance contract liabilities outstanding at the balance sheet date, £103.6m are due within one year, with the remaining £140.7m due after one year. The average duration of insurance contract liabilities is 1.97 years. The Syndicate's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. These liquid funds are regularly monitored and the majority of the Syndicate's investments are in highly liquid assets which could be converted into cash in a short time frame and at minimal expense. Cash and overseas deposits are generally bank deposits and money market funds.

# NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## FOR THE YEAR ENDED 31 DECEMBER 2015

### 23. Events since the reporting date

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

### 24. Transition to FRS 102 and 103

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

The following were changes in accounting policies arising from the transition to FRS 102 and FRS 103.

*Foreign exchange*
Under FRS 103 all assets and liabilities arising from an insurance contract shall be treated as monetary items. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date or if appropriate at the forward contract rate, whilst non-monetary assets and liabilities are translated at the rates ruling at the transaction dates. Unearned premiums reserves and deferred acquisition costs have previously been treated as non-monetary items. The impact is to increase net assets by £1.9m at 1 January 2014 and reduce net assets by £2.2m at 31 December 2014.

Exchange differences are now recorded in the non-technical account, previously they were recorded in operating expenses in the technical account.

Reconciliation of member's balances

| | **At 31 December 2014 £'000** | **At 1 January 2014 £'000** |
|---|---|---|
| Member's balances under previous UK GAAP | (11,383) | 16,838 |
| Foreign exchange | (2,208) | 1,854 |
| Member's balances under FRS 102 and 103 | (13,591) | 18,692 |

Reconciliation of profit and loss for the year ended 31 December 2014

| | **£'000** |
|---|---|
| Profit for the year under previous UK GAAP | 10,284 |
| Foreign exchange | (4,062) |
| Profit for the year under FRS 102 and 103 | 6,222 |