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ProSight Specialty Managing Agency Limited

**Syndicate 1110**

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Reports and accounts 2016

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**Managing Agency**

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## Managing Agency information

### Directors

Marcus James Bale  
Joseph John Beneducci  
Michael Graham Furgueson  
Philip James Green  
Mark James Hewett (Chairman)  
Mary Edith Lancaster Goddard  
Peter John Goddard  
Bruce William Schnitzer  
Vivek Syal

### Registered Office

7th Floor  
1 Minster Court  
Mincing Lane  
London EC3R 7AA

### Syndicate Auditor

Ernst & Young LLP  
25 Churchill Place  
Canary Wharf  
London E14 5EY

### Syndicate Bankers

#### Lloyds Bank plc

City Office  
PO Box 72  
Bailey Drive  
Gillingham Business Park  
Kent ME8 0LS

#### Citibank N.A.

Citigroup Centre  
33 Canada Square  
Canary Wharf  
London E14 5LB

### Royal Trust Corporation of Canada

Royal Trust Tower  
Toronto  
Ontario M5W 1P0

### Syndicate Actuaries

KPMG LLP  
15 Canada Square  
London E14 5GL



## **Managing Agent's report**

The directors of ProSight Specialty Managing Agency Limited (PSMAL), the Managing Agent of Syndicate 1110 (the Syndicate) present their report for the year ended 31 December 2016. The Syndicate's Managing Agent is a company registered in England and Wales.

This annual report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2009 ("Lloyd's Regulations 2008").

Both members of the 2014 year of account have agreed that no Syndicate underwriting year of accounts shall be prepared.

### **Overview of business**

The ProSight Group is a U.S. based niche insurance provider. The ProSight Group focusses exclusively on industry sectors where it has expertise and with distribution partners who have demonstrable understanding of their clients' needs. ProSight is a value provider and delivers differentiated valued solutions to its customers through a combination of service, product and third party solutions.

PSMAL has been the Managing Agent of the Syndicate since 5 March 2015 when it assumed that role from Argenta Syndicate Management Limited (ASML). ProSight Specialty Underwriters Limited (PSUL), a service company, provides certain services to the Syndicate under a Third Party Syndicate Management Agreement.

For the 2014 year of account, the capacity of the Syndicate was increased to £180 million and there were some significant niche developments - most notably scaling of the programme business originating from the ProSight U.S. Group such as Marine and Energy. The Syndicate also entered into the Home Emergency Services sector which comprised a significant home boiler breakdown programme. Other developments included scaling of the Sport and Leisure book as well as continued development of our other niches such as Media and Contractors.

The capacity of the Syndicate for the 2015 year of account increased to £210 million. During 2015, the Syndicate continued to diversify the overall business across a range of niches, lines of business and territories. The programmes originating from the ProSight Group, either on a delegated authority or inwards reinsurance treaty basis, continued to dominate the overall profile of the Syndicate.

For the 2016 year of account, the stamp capacity of the Syndicate remained unchanged. The Syndicate refined its approach and appetite in certain niches and made some choices to non-renew select programmes which did not meet strategic and performance expectations.

For the 2017 year of account, the stamp capacity of the Syndicate has increased to £280 million. The Syndicate will continue to develop in the core global niches of Media, Home Services, Contractors, Real Estate, Sport and Accident & Health during 2017. Furthermore, the niche programme business originating from the ProSight Group will continue to play an important role in the overall underwriting portfolio, with particular growth earmarked in Live Media.

## Managing Agent's report *continued*

### Review of underwriting activities for 2016

The table below summarises the capacity, premium volumes and performance of the Syndicate for 2016, with the comparative numbers for 2015. Other than in respect of capacity, the numbers shown are on an annually accounted basis.

<i>Key performance indicators</i>	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Capacity (underwriting year)	210.0	210.0
Gross premiums written	245.0	211.5
Net premiums earned	209.1	170.4
Loss for the year	(12.4)	(3.2)
Combined ratio	108%	102%

During 2016, the Syndicate focussed on a range of industry niches and insurance lines of business including Home Boiler Breakdown, Media, Leisure & Sport, Engineering and Construction, Accident & Health, Real Estate, Professions and Marine. Over half of the Syndicate premium emanated from the ProSight US Group.

The Syndicate developed Gross written premium (GWP) from £211.5m in 2015 to £245m in 2016. Whilst some of this growth was positive, there was a negative impact on the profit performance as evidenced by the annual accounts. The overall loss for the Syndicate in 2016 was £(12.4m) and the breakdown by year of account is as follows:

2014 Year of Account: (£2.6m)

2015 Year of Account: (£1.2m)

2016 Year of Account: (£8.6m)

As the business progressed into the second half of 2016 and the profit performance expectations deviated unfavourably to plan, a number of strategic choices were made to seek value over volume and the Syndicate consequently scaled back in niches which did not meet performance expectations or fit strategically. Niches impacted included Marine, Contingency, Engineering & Construction and Leisure & Sport.

### Trading conditions for 2016

#### *Home Services*

The Syndicate continued to underwrite home boiler engineering breakdown through an established and expert distribution partner.

#### *Engineering & Construction*

The Syndicate scaled back in Engineering and Construction business as a consequence of financial performance, market dynamics and future strategic outlook. The Syndicate does however continue to underwrite select construction programmes via the ProSight US Group where product solutions and performance meet expectation.

## Managing Agent's report *continued*

### Trading conditions for 2016 *continued*

#### *Real Estate*

The Real Estate niche focuses on apartments in the US and Canada where it is underwritten on a package basis via specialist intermediaries with a differentiated value product solution for customers. Whilst the Syndicate has catastrophe risk exposure to events such as North East Windstorm, this is proactively managed to stay within risk tolerances.

#### *Contractors*

The Contractors programme focusses on small to medium sized contractors within the UK market on a delegated arrangement basis through specialist distribution partners. Underwriting appetite is narrowly focused and we do not support risks that have a significant liability component.

#### *Professions*

The professions niche is predominantly composed of Accountants and Lawyers within the US where we have expertise in underwriting and distribution. We also offer professional liability covers on a package basis to provide a differentiated value solution to policyholders in other niches.

#### *Marine*

As has been widely reported, competition of London based open market business remains high and market conditions are unattractive to the Syndicate. ProSight is descaling in this type of business and is placing its future strategic emphasis on the marine portfolio in the US which has the expertise, distribution and product solutions to provide a more sustainable level of performance.

#### *Film, Media & Contingency*

2016 has seen further expansion of the media niche and our team is uniquely placed to provide differentiated client solutions on an international basis. Film and Live Media are important areas for development and we continue to optimise business from the ProSight US Group. Contingency will be underwritten selectively moving forward following underperformance in 2016, particularly in respect of cancellation by non-appearance.

#### *Accident & Health*

The Syndicate writes a non-accumulating portfolio of stand-alone scheme business but also utilises accident and health covers on a package basis to further improve proposition for customers underwritten in other ProSight niches.

#### *Leisure & Sport*

The focus of the niche during 2016 transitioned toward the Amateur Sport and Community Leisure sector and away from hospitality where performance was more volatile.

### **Risk management**

The management recognises the critical importance of having efficient and effective risk management systems in place. PSMAL has established a risk management function for the Syndicate with clear terms of reference approved by the board of directors. The risk management framework is overseen by the Risk and Capital Committee.

The Syndicate policy framework has been put in place which sets out the risk profiles for the Syndicate, risk management control and business conduct standards.



## Managing Agent's report *continued*

### Risk management *continued*

As an underwriting business, the Syndicate is exposed to a variety of financial and non-financial risks. These risks, which shape the risk management strategy adopted by PSMAL, are integral to the capital setting process. PSMAL has developed an internal model to be able to quantify and manage these risk exposures, as well as for determining its Solvency Capital Requirement (SCR) for Solvency II purposes. The Risk and Capital Committee has oversight of the Internal Model and it is used as a core component of the risk management framework.

The Own Risk and Solvency Assessment (ORSA) undertaken in respect of the Syndicate, reflects the risk profile of the business as well as the business strategy. Since Q2 2016, PSMAL has operated a quarterly "ORSA light" process to ensure that strategy, performance and capital are aligned through the year. Risks are managed through the risk management framework in order to ensure that the risk profile of the business is fully understood and can be monitored against the agreed risk appetite.

PSMAL is committed to risk management as an integral part of management and governance best practice and has developed a risk management strategy to protect the material assets of the Syndicate and to minimise its losses and liabilities. The risks impacting the Syndicate are grouped under various categories, each of which is the subject of a risk policy which sets out PSMAL's approach to management of the risk in conjunction with the overarching risk management framework and risk strategy.

PSMAL groups risk into the following key categories:

#### *Insurance risk*

Insurance risk is the principal risk the Syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The Syndicate needs to ensure that sufficient assets are available to cover its liabilities as they fall due.

The underwriting profile of the Syndicate is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process. Other precautionary measures, in the form of internal controls, are used to preserve the Syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- Inadequate risk selection;
- Inadequate pricing;
- Inadequate exposure management;
- Adverse, large or attritional loss experience;
- Inadequate reinsurance covering the underwriting portfolio;
- Inappropriate reserve estimation; and
- Poor underwriting control for either direct or delegated underwriting.

PSMAL manages these risks against an agreed risk appetite. The framework of systems and controls is designed to reduce the likelihood of such risks occurring and to mitigate the impact on the overall business of the Syndicate.

Risk exposure is mitigated by diversification across a varied portfolio of insurance contracts and geographical areas.

## Managing Agent's report *continued*

### Risk management *continued*

#### *Insurance risk continued*

PSMAL also manages underwriting risk through the purchase of reinsurance to mitigate the effect of catastrophes and unexpected concentrations of risk. Reinsurance of particular classes of business is purchased by PSMAL, other reinsurance is shared protection with reinsurance purchased at Group level. The scope and type of reinsurance protection includes excess of loss, quota share and stop loss. It may vary depending upon the extent and competitiveness available in the market. Amounts recoverable from reinsurers are estimated in a manner consistent with outstanding claims provisions and are in accordance with the reinsurance contracts. The Syndicate's placement of reinsurance is diversified such that it is not dependent on a single reinsurer nor are operations dependent on any single reinsurance contract. The risk of the protection being inadequate or inappropriate is managed by the Reinsurance Committee and Underwriting & Claims Committee.

#### *Operational risk*

Operational risk spans all risk categories and control procedures are used to proactively address the risks associated with PSMAL's business processes, systems, people and other resources, which might otherwise be detrimental to overall performance. Business continuity is considered key and PSMAL has developed a plan that provides for the Syndicate to be fully operational within a forty eight hour period in the event that its current infrastructure is no longer available. PSMAL has also taken steps to ensure its IT infrastructure remains secure.

#### *Regulatory risk*

As a regulated business, PSMAL is fully aware of its regulatory obligations to the UK Financial Conduct Authority, Prudential Regulation Authority, Lloyd's of London and relevant overseas regulators. The procedures adopted by PSMAL in this regard monitor compliance with the regulatory standards and through continuous assessment highlight any developments that might impact the business.

#### *Capital risk*

Capital risk is defined as the risk to the Syndicate of failing to secure adequate capital in terms of quality and quantity to support its strategic objectives. The Syndicate is supported by the ProSight Group whose capital strength as an "A rated" insurer ensures the Syndicate can trade forward under a wide range of circumstance and market conditions.

#### *Liquidity risk*

This is the risk that the Syndicate will not have sufficient available cash resources to be able to meet its liabilities as they fall due. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash payments and expected reinsurance recoveries. PSMAL has policies and procedures in place to mitigate the exposure to liquidity risk.

The liquidity of the Syndicate is influenced by a number of factors that have the potential to arise from across the business. Management information is used to enable the effective monitoring of the liquidity risk framework in line with the agreed procedures and governance arrangements. Robust procedures are in place for the monitoring of cash flow. Claims activity is closely scrutinised and the movement of existing claims is reported at regular intervals. The Syndicate has the ability to make cash calls when required, as well as a highly liquid investment portfolio.

## Managing Agent's report *continued*

### Risk management *continued*

#### *Credit risk*

Credit risk is the risk that one party to a financial transaction will cause a financial loss to the other party by failing to discharge an obligation. PSMAL has policies and procedures in place to mitigate the exposure to credit risk. Credit risk is inherent to the business conducted with brokers, reinsurers and other counterparties. The potential for losses arising from a counterparty failing to fulfil its contracted payment obligations is managed by strict control procedures. The PSMAL Underwriting & Claims Committee approves the brokers, coverholders and reinsurers with whom the Syndicate may conduct its business.

#### *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 prices. Market risk comprises currency risk, interest rate risk and equity price risk. Goldman Sachs Asset Management (GSAM) is the Syndicate's appointed investment manager. Within the Syndicate, market risk is managed by PSMAL through the Investment Committee using a predominantly fixed-income investment strategy designed to mitigate exposure to losses from movement in financial markets, interest rates or inflation. The business has a low appetite for market risk.

#### *Currency risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in US, Australian and Canadian dollars. PSMAL seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

#### *Interest rate risk*

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

#### *Emerging risk*

In addition to monitoring the individual risk categories outlined above, PSMAL has in place an emerging risks process to review risks that may impact upon the business in the future, and to ensure that any such risks are understood and mitigated where possible.

### Investment objectives

The overall investment objective delegated to GSAM is to preserve capital whilst generating both a consistent income stream and a total return in excess of the benchmark for each portfolio whilst adhering to the Syndicate's investment risk appetites and specific counterparty and duration limits that are specified within the investment guidelines.

Syndicate assets including the Australian Trust Fund (ATF), Canadian Margin Fund and other overseas deposits are managed centrally by Lloyd's Treasury. The Syndicate is obliged to maintain sufficient funds in the overseas deposits in these jurisdictions to enable it to trade in those regions. The funds are typically invested in fixed income securities with a duration of between one and three years. The remaining balances of the Syndicate assets, are held in unitised liquidity funds and bank deposits to ensure sufficient funds are available at short notice to meet claims payments or Syndicate expenses as they fall due. The liquidity funds are invested in short term high quality securities which have an average weighted duration of 60 days or less and offer daily liquidity.



**Managing Agent's report** *continued***Risk management** *continued***Investment objectives** *continued*

The Syndicate's capital providers' investment risk appetite is for the Syndicate not to suffer an investment loss during a calendar year, in a 1 in 200 scenario, of an amount more than the equivalent of 5% of its economic capital requirement.

**Custodians**

Citibank and Royal Bank of Canada Investor & Treasury Services have acted as the custodians in relation to the fixed income portfolios held with GSAM and Lloyd's Treasury.

**Directors**

Details of the Directors of PSMAL who served during the year ended 31 December 2016 and up to the date of signing of the Syndicate annual accounts are provided below:

<b>Name</b>	<b>Role</b>	<b>Appointed</b>	<b>Resigned</b>
Marcus James Bale	Active Underwriter		
Joseph John Beneducci	Non-Executive Director		
David Victor Dunning	Finance Director		01/03/16
Michael Graham Furgueson	Managing Director	27/01/16	
Mary Edith Lancaster Goddard	Independent Non-Executive Director		
Peter John Goddard	Independent Non-Executive Director		
Philip James Green	Chief Financial Officer	04/10/16	
Mark James Hewett	Independent Non-Executive Director and Chairman		
Bruce William Schnitzer	Non-Executive Director	05/02/16	
Vivek Syal	Chief Risk Officer	01/07/16	

**Post balance sheet event**

On 10 March 2017, the Board of PSMAL was informed by the ultimate Parent Company of its intention to sell the UK subsidiary group, including the Managing Agency of, and the Corporate Members' providing capital for Syndicate 1110.

**Statement as to disclosure of information to auditors**

The directors of the Managing Agent at the date of this report have individually taken all the necessary steps to make themselves aware, as directors, of any relevant audit information and to establish that the Syndicate auditor is aware of that information. As far as the directors are aware, there is no relevant audit information of which the Syndicate auditor is unaware.

**Managing Agent's report** *continued*

**Auditors**

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditor.

Michael G. Furgueson

Managing Director

Approved by the Board of ProSight Specialty Management Agency Limited

21 March 2017





ProSight Specialty Managing Agency Limited

Syndicate 1110

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**Annual accounts 2016**

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## **Statement of Managing Agent's responsibilities**

The Managing Agent is responsible for preparing the syndicate annual accounts in accordance with applicable law and regulations.

The 2008 Regulations require 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 syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that year.

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

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgments 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 the notes to the syndicate annual 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 the syndicate will do so.

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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

## **Independent auditor's report to the members of Syndicate 1110**

We have audited the Syndicate annual accounts of Syndicate 1110 ('the Syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Financial Position, the Statement of Changes in Members' Balances, the Statement of Cash Flow and the related notes 1 to 23. 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 FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's 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 12, 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 annual accounts sufficient to give reasonable assurance that the 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 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 annual accounts:

- ▶ give a true and fair view of the Syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- ▶ have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

**Independent auditor's report to the members of Syndicate 1110 *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 annual accounts are prepared is consistent with the annual accounts.

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

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

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

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

21 March 2017

**Income statement**

for the year ended 31 December 2016

<b>Technical account – general business</b>		<b>2016</b>	<b>2015</b>
	Notes	<b>£000</b>	<b>£000</b>
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written	3	245,024	211,510
Outward reinsurance premiums		<u>(15,888)</u>	<u>(32,609)</u>
Net written premiums		229,136	178,901
Change in the provision for unearned premiums			
Gross amount		(6,061)	(17,950)
Reinsurers' share		<u>(13,960)</u>	<u>9,472</u>
Earned premiums net of reinsurance		209,115	170,423
Allocated investment return transferred from the non-technical account			
		2,260	965
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(98,085)	(54,194)
Reinsurers' share		<u>11,529</u>	<u>3,277</u>
		<u>(86,556)</u>	<u>(50,917)</u>
Change in the provision for claims			
Gross amount		(70,191)	(64,993)
Reinsurers' share		<u>13,244</u>	<u>7,354</u>
		<u>(56,947)</u>	<u>(57,639)</u>
Claims incurred net of reinsurance		(143,503)	(108,556)
Net operating expenses			
Balance on the technical account for general business	4	<u>(83,227)</u>	<u>(65,610)</u>
		<u>(15,355)</u>	<u>(2,778)</u>

All items relate to continuing operations.

**Income statement**

*for the year ended 31 December 2016*

<b>Non-technical account</b>	Notes	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
<b>Balance on the general business technical account</b>		(15,355)	(2,778)
Investment income	8	3,975	1,882
Unrealised gains on investments		651	218
Unrealised losses on investments		(1,963)	-
Investment expenses and charges	8	(403)	(1,135)
Allocated investment return transferred to the general business technical account		(2,260)	(965)
Exchange gains/(losses)		2,957	(467)
Loss for the financial year		<u>(12,398)</u>	<u>(3,245)</u>



**Statement of changes in members' balances**

*For the year ended 31 December 2016*

	<i>Profit/(loss) account</i>	<i>Total Members' balance</i>
	<i>£000</i>	<i>£000</i>
As at 1 January 2016	(7,043)	(7,043)
Loss for the financial year	(12,398)	(12,398)
Members' agents fees	(18)	(18)
Transfer to members personal reserve funds	(1,711)	(1,711)
As at 31 December 2016	<u>(21,170)</u>	<u>(21,170)</u>
	<i>Profit/(loss) account</i>	<i>Total Members' balance</i>
	<i>£000</i>	<i>£000</i>
As at 1 January 2015	360	360
Loss for the financial year	(3,245)	(3,245)
Members' agents fees	(18)	(18)
Transfer to members personal reserve funds	(10,140)	(10,140)
Cash calls paid by members	6,000	6,000
As at 31 December 2015	<u>(7,043)</u>	<u>(7,043)</u>

**Statement of financial position**

As at 31 December 2016

<b>ASSETS</b>	Notes	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
<b>Investments</b>			
Financial investments	9	224,951	172,092
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	11	12,119	23,585
Claims outstanding	12	36,267	18,650
		<u>48,386</u>	<u>42,235</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	13	25,413	32,228
Debtors arising out of reinsurance operations	14	45,012	15,127
Other debtors		361	97
		<u>70,786</u>	<u>47,452</u>
<b>Other assets</b>			
Cash at bank and in hand		6,755	4,617
Other	15	22,958	9,714
		<u>29,713</u>	<u>14,331</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	16	35,303	28,963
Other prepayments and accrued income		907	1,404
		<u>36,210</u>	<u>30,367</u>
<b>TOTAL ASSETS</b>		<u>410,046</u>	<u>306,477</u>



**Statement of financial position** *continued**as at 31 December 2016*

	Notes	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
<b>LIABILITIES</b>			
<b>Capital and reserves</b>			
Members' balances	17	(21,170)	(7,043)
<b>Technical provisions</b>			
Provision for unearned premiums	11	127,264	106,260
Claims outstanding	12	275,500	172,629
		<u>402,764</u>	<u>278,889</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	18	13,590	5,072
Creditors arising out of reinsurance operations	19	10,770	26,854
Other creditors	20	1,586	1,830
		<u>25,946</u>	<u>33,756</u>
Accruals and deferred income		<u>2,506</u>	<u>875</u>
<b>TOTAL LIABILITIES</b>		<u><b>410,046</b></u>	<u><b>306,477</b></u>

The Syndicate annual accounts on pages 12 to 47 were approved by the Board of ProSight Specialty Managing Agency Limited on 21 March 2017 and were signed on its behalf by

Michael G. Fergusson  
Managing Director

## Statement of cash flows

for the year ended 31 December 2016

	Notes	2016 £000	2015 £000
<b>Reconciliation of loss to net cash inflow from operating Activities</b>			
Loss for the financial year		(12,398)	(3,245)
Investment return		(2,260)	(1,710)
Increase/(decrease) in technical provisions		117,724	75,345
(Increase)/decrease in debtors		(23,334)	(8,283)
(Increase)/decrease in prepayments and accrued income		(5,843)	(4,812)
(Increase)/decrease in other assets		(13,245)	(3,161)
Increase/(decrease) in creditors		(7,810)	19,068
Increase/(decrease) in accruals and deferred income		1,631	(1,915)
<b>Net cash inflow from operating activities</b>		<u>54,465</u>	<u>71,287</u>
<b>Investing activities:</b>			
Investment income received		3,152	1,606
Purchases of debt and equity instruments		(158,032)	(119,774)
Sales of debt and equity instruments		90,096	59,763
Foreign exchange		(5,644)	808
		<u>(70,428)</u>	<u>(57,597)</u>
<b>Financing activities:</b>			
Net distribution		(1,711)	(10,140)
Cash calls received		-	6,000
Members' agents' fees		(18)	(18)
		<u>(1,729)</u>	<u>(4,158)</u>
(Decrease)/increase in cash and cash equivalents		(17,692)	9,532
Cash and cash equivalents at 1 January		<u>32,858</u>	<u>23,326</u>
<b>Cash and cash equivalents at 31 December</b>	21	<u>15,166</u>	<u>32,858</u>

## Notes to the accounts

### 1. Basis of preparation

#### 1.1 Statement of compliance

The financial statements have been prepared in compliance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and FRS 102 and FRS 103, being applicable UK GAAP accounting standards, and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The financial statements are prepared under the historical cost convention except for certain financial instruments which are measured at fair value basis of preparation.

#### 1.2 Basis of preparation

The financial statements are prepared in sterling which is the functional and presentation currency of the Syndicate and rounded to the nearest thousand.

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

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

##### *Insurance contract technical provisions*

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. The provision for claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

## Notes to the accounts

### 1. Basis of preparation *continued*

#### 1.3 Judgements and key sources of estimation uncertainty *continued*

##### *Insurance contract technical provisions continued*

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

Similar judgements, estimates and assumptions are employed in the assessment of adequacy of provisions for unearned premium. Judgement is also required in determining whether the pattern of insurance service provided by a contract requires amortisation of unearned premium on a basis other than time apportionment.

Further details are given in Note 22.

##### *Estimates of future premiums*

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements.

The main assumption underlying these estimates is that past premium development can be used to project future premium development.

##### *Fair value of financial assets determined using valuation techniques*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity risk, credit risk, and model inputs such as estimated future cash flows based on management's best estimates and discount rates.



## Notes to the accounts *continued*

### 2. Accounting policies

#### *Financial Investments*

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.

The classification depends on the purpose for which the investments were acquired or originated. In general, financial assets are classified as fair value through profit or loss as the Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis. The available for sale category is used only in cases when the investments are passively managed.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date the Syndicate 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 method. Gains and losses are recognised in the income statement when the investment is derecognised or impaired, as well as through the amortisation process.

## Notes to te accounts *continued*

### 2. Accounting policies *continued*

#### *Financial investments continued*

available for sale investments 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 recognised 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 members' balance 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.

#### *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.
- ▶ Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- ▶ Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

#### *Derecognition of financial assets*

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

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

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

#### *Financial liabilities*

The Syndicate's financial liabilities include trade and other payables, borrowings and insurance payables, where applicable. All financial liabilities are recognised initially at fair value, in the case of loans and borrowings, net of directly attributable transaction costs.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

## Notes to the accounts *continued*

### 2. Accounting policies *continued*

#### *Financial liabilities continued*

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

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

#### *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.

#### *Investment return*

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

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yields.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between their valuation at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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

#### *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.



## Notes to the accounts *continued*

### 2. Accounting policies *continued*

#### *Unearned premiums*

Written premiums are earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired terms of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

#### *Reinsurance premium ceded*

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

#### *Claims incurred*

Claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

#### *Claims provisions and related recoveries*

The provision for claims comprises amounts set aside for claims notified and claims incurred but not reported (IBNR).

Notified claims are estimated on a case by case basis with regard to the circumstances as reported, any information available from loss adjusters and previous experience of the cost of settling claims with similar characteristics.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's staff and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time, using suitable benchmarks where appropriate, to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. The Syndicate uses a number of statistical techniques to assist in making these estimates.

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



## Notes to the accounts *continued*

### 2. Accounting policies *continued*

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

#### *Unexpired risks provision*

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.

#### *Acquisition costs*

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new insurance contracts are determined on a successful efforts basis and are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

#### *Foreign currencies*

The functional and presentational currency of the Syndicate is pounds sterling.

Transactions denominated in currencies other than the functional currency (US dollars, Canadian dollars and euros), are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions or at average rate of exchange where deemed appropriate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the rates of exchange ruling on the reporting date.

Exchange differences are recorded in the non-technical account.

Cash calls made in US dollars are translated at the rate of exchange ruling at the balance sheet date at which they are first declared. Amounts transferred to members in respect of the payment of closed year profits are translated at the rate of exchange ruling at the previous balance sheet date.

## Notes to the accounts *continued*

### 2. Accounting policies *continued*

#### *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 the Syndicate's 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.

#### *Pension costs*

PSMAL operates a defined contribution pension scheme and its recharges to the Syndicate in respect of staff costs include an element for pension costs. These pension costs are expensed in full in the period to which the recharge relates.

#### *Operating lease rentals*

Amounts recharged by PSMAL include costs arising from the use of assets in the period. These rental costs are expensed in full in the period to which the recharge relates.

#### *Profit commission*

No profit commission is due to the Managing Agent in respect of the 2014, 2015 and 2016 years of account. Profit commission payable on individual insurance contracts is recognised when it can be reliably estimated.

Notes to the accounts *continued*

## 3. Particulars of business written

*Type of business*

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

2016	<i>Gross premiums written</i> £000	<i>Gross premiums earned</i> £000	<i>Gross claims incurred</i> £000	<i>Gross operating expenses</i> £000	<i>Re- insurance balance</i> £000	<i>Total</i> £000
<b>Direct insurance:</b>						
Fire and other damage to property	52,223	48,473	(49,050)	(20,109)	(3,626)	(24,312)
Marine, aviation and transport	9,621	10,646	(16,675)	(3,374)	(1,977)	(11,380)
Third party liability	60,230	50,730	(21,756)	(17,550)	(975)	10,449
Pecuniary loss	11,663	9,968	(6,012)	(2,857)	(716)	383
Other	5,064	8,010	(6,453)	(2,335)	(281)	(1,059)
	<u>138,801</u>	<u>127,827</u>	<u>(99,946)</u>	<u>(46,225)</u>	<u>(7,575)</u>	<u>(25,919)</u>
<b>Reinsurance acceptances:</b>						
Fire and other damage to property	33,476	36,546	(16,045)	(13,729)	(3,059)	3,713
Marine, aviation and transport	13,409	16,470	(14,006)	(5,129)	(521)	(3,186)
Casualty	59,734	56,244	(37,899)	(17,703)	6,078	6,720
Other	(396)	1,876	(380)	(441)	2	1,057
	<u>106,223</u>	<u>111,136</u>	<u>(68,330)</u>	<u>(37,002)</u>	<u>2,500</u>	<u>8,304</u>
	<u>245,024</u>	<u>238,963</u>	<u>(168,276)</u>	<u>(83,227)</u>	<u>(5,075)</u>	<u>(17,615)</u>
2015	<i>Gross premiums written</i> £000	<i>Gross premiums earned</i> £000	<i>Gross claims incurred</i> £000	<i>Gross operating expenses</i> £000	<i>Re- insurance balance</i> £000	<i>Total</i> £000
<b>Direct insurance:</b>						
Fire and other damage to property	40,952	35,653	(18,641)	(11,634)	(2,766)	2,612
Marine, aviation and transport	6,207	2,468	(2,403)	(1,788)	(183)	(1,906)
Third party liability	38,940	35,821	(17,246)	(10,892)	(3,243)	4,440
Pecuniary loss	7,609	6,906	(6,939)	(2,194)	311	(1,916)
Other	9,600	5,626	(4,466)	(2,764)	(469)	(2,073)
	<u>103,308</u>	<u>86,474</u>	<u>(49,695)</u>	<u>(29,272)</u>	<u>(6,350)</u>	<u>1,157</u>
<b>Reinsurance acceptances:</b>						
Fire and other damage to property	17,872	19,191	(10,904)	(6,515)	(160)	1,612
Marine, aviation and transport	27,029	25,590	(16,349)	(8,681)	(1,297)	(737)
Casualty	60,292	58,766	(40,788)	(19,940)	(4,537)	(6,499)
Other	3,009	3,539	(1,451)	(1,202)	(162)	724
	<u>108,202</u>	<u>107,086</u>	<u>(69,492)</u>	<u>(36,338)</u>	<u>(6,156)</u>	<u>(4,900)</u>
	<u>211,510</u>	<u>193,560</u>	<u>(119,187)</u>	<u>(65,610)</u>	<u>(12,506)</u>	<u>(3,743)</u>

All premiums were concluded in the United Kingdom.

Notes to the accounts *continued*3. Particulars of business written *continued*

Gross operating expenses are the same as net operating expenses shown in the profit and loss account, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses.

Net assets are not managed by reference to the classes shown above. An allocation of net assets and net technical liabilities is shown in note 22.

	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>Gross</b>		<b>Gross</b>	
	<b>premiums</b>	<b>Profit/(loss)</b>	<b>premiums</b>	<b>Profit/(loss)</b>
	<b>written</b>		<b>written</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Direct	138,801	(24,664)	103,308	1,588
Reinsurance	106,223	9,309	108,202	(4,366)
	<u>245,024</u>	<u>(15,355)</u>	<u>211,510</u>	<u>(2,778)</u>

**Geographical analysis by destination**

	<b>2016</b>	<b>2015</b>
	<b>Gross</b>	<b>Gross</b>
	<b>premiums</b>	<b>premiums</b>
	<b>written</b>	<b>written</b>
	<b>£000</b>	<b>£000</b>
UK	64,116	71,432
EU	1,660	39
USA	158,062	137,431
Other	21,186	2,608
	<u>245,024</u>	<u>211,510</u>

**Premium income**

During the year the Syndicate changed the basis of estimation of gross premiums written from an Estimated Premium Income at inception (EPI) basis to an accruals based approach, as management considered this to be a more accurate basis of assessment. This change resulted in an increase in gross premiums written of £3.5m and in gross premiums earned of £2.5m.

**Profit commission**

During the year the Syndicate changed its basis of estimation of profit commissions (PC) payable from a paid basis to an accruals basis, as management considered this to be a more prudent approach following emergence of increased payments. As a result, the Syndicate accrued £1.4m in relation to PC on insurance policies where the potential for future payments can be reasonably estimated. In addition, the PC on the Home Services contract that was previously recognised in the claims reserves, has been reclassified as a commission expense amounting to £1.1m.

**Reinsurance contracts**

In 2016, a review of accounting for shared reinsurance contracts was undertaken, which updated the subject premium and therefore adjustment premiums, as well as allocation between group entities. This resulted in an increase to outwards reinsurance premiums earned of £2.3m.



Notes to the accounts *continued*

4. Net operating expenses

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Acquisition costs	68,838	57,434
Change in deferred acquisition costs	(2,549)	(3,663)
Administrative expenses	16,938	11,839
	<u>83,227</u>	<u>65,610</u>

Members' standard personal expenses amounting to £3,033k (2015: £2,640k) are included in administrative expenses. Members' standard personal expenses include Lloyds' subscriptions, New Central Fund contributions and managing agent's fees.

Administrative expenses include:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Auditor's remuneration:		
Audit of the Syndicate accounts	396	298
Other services pursuant to regulations and Lloyd's byelaws	198	10
Other remuneration paid to the auditor:		
Audit of the managing agent's annual accounts	23	20
Standard personal expenses	3,033	2,640

Total commissions for direct insurance accounted for in the year amounted to £36.8 million (2015: £30.4 million).

5. Staff numbers and costs

Staff were employed by PSUL and ASML. The following amounts were recharged to the Syndicate in respect of staff costs:

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	4,606	3,907
Social security costs	643	625
Other pension costs	599	548
	<u>5,848</u>	<u>5,080</u>

**Notes to the accounts** *continued*

**5. Staff numbers and costs** *continued*

The average number of employees working for the Syndicate during the year was as follows:

	<b>2016</b>	<b>2015</b>
Underwriting	17	13
Underwriting support	13	7
Claims	3	3
Administration and finance	25	30
	<u>58</u>	<u>53</u>

**6. Directors emoluments**

The managing agent charged the Syndicate the following amounts in respect of emoluments paid to its directors:

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Emoluments	<u>653</u>	<u>975</u>

**7. Active underwriter's emoluments**

The following amounts were charged to the Syndicate in respect of persons acting in the role of active underwriter:

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Emoluments	<u>203</u>	<u>322</u>

**8. Investment return**

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Income from financial investments	3,395	1,851
Realised gains on investments	580	31
Investment income	<u>3,975</u>	<u>1,882</u>
Realised losses on investments	(160)	(980)
Investment expenses	(243)	(155)
Investment expenses and charges	<u>(403)</u>	<u>(1,135)</u>

Notes to the accounts *continued*

8. Investment return *continued*

Average amount of funds available for investment during the year

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
U.S. dollars	270,565	195,021
Sterling (including ATF)	16,656	10,587
Euro	3,232	2,097
Canadian dollars	13,022	10,704
Combined in sterling	226,998	145,061

*Net calendar year investment yield*

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
U.S. dollars	1.0%	0.6%
Sterling (including ATF)	2.0%	1.4%
Euro	Nil	Nil
Canadian dollars	Nil	1.8%
Combined in sterling	1.0%	0.7%

9. Financial investments

	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
	<b>Cost</b>	<b>Market</b>	<b>Cost</b>	<b>Market</b>
	<b>£000</b>	<b>value</b>	<b>£000</b>	<b>value</b>
		<b>£000</b>		<b>£000</b>
Shares and other variable yield securities and units in unit trusts	8,411	8,411	28,241	28,241
Debt securities and other fixed income securities	189,645	188,263	121,089	120,560
Loans secured by mortgages	262	263	377	363
Other investments	28,014	28,014	22,928	22,928
	<u>226,332</u>	<u>224,951</u>	<u>172,635</u>	<u>172,092</u>

Other investments represent amounts deposited as collateral supporting a letter of credit facility.

Notes to the accounts *continued*

9. Financial investments *continued*

*Breakdown of investments by currency*

	<i>US dollar</i> <i>US\$000</i>	<i>Canadian</i> <i>dollar</i> <i>Can\$000</i>	<i>Other</i> <i>£000</i>	<i>Total</i> <i>£000</i>
Year ended 31 December 2016				
Shares and other variable yield securities and units in unit trusts	9,685	997	-	8,411
Debt securities and other fixed income securities	224,650	11,775	-	188,263
	327	-	-	263
Other investments	34,737	-	-	28,014
	<u>269,399</u>	<u>12,772</u>	<u>-</u>	<u>224,951</u>
Year ended 31 December 2015				
Shares and other variable yield securities and units in unit trusts	29,561	3,522	6,413	28,241
Debt securities and other fixed income securities	172,398	6,729	-	120,560
Loans secured by mortgages	534	-	-	363
Other investments	33,704	-	-	22,928
	<u>236,197</u>	<u>10,251</u>	<u>6,413</u>	<u>172,092</u>

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

	<i>Level 1</i> <i>£000</i>	<i>Level 2</i> <i>£000</i>	<i>Level 3</i> <i>£000</i>	<i>Total</i> <i>£000</i>
Year ended 31 December 2016				
Shares and other variable yield securities and units in unit trusts	-	8,411	-	8,411
Debt securities and other fixed income securities	-	188,263	-	188,263
Loans secured by mortgages	-	263	-	263
Other investments	-	28,014	-	28,014
Total	<u>-</u>	<u>224,951</u>	<u>-</u>	<u>224,951</u>
Year ended 31 December 2015				
Shares and other variable yield securities and units in unit trusts	-	28,241	-	28,241
Debt securities and other fixed income securities	-	120,560	-	120,560
Loans secured by mortgages	363	-	-	363
Other investments	-	22,928	-	22,928
Total	<u>363</u>	<u>171,729</u>	<u>-</u>	<u>172,092</u>



## Notes to the accounts *continued*

### 9. Financial investments *continued*

The fair value hierarchy classifies financial instruments into Level 1 to Level 3 based on the significance of the inputs used in measuring their fair value with Level 1 being the most reliable. The levels within the fair value hierarchy are defined as follows:

Level 1 – fair values measured using unadjusted quoted prices in active markets for identical instruments.

Level 2 – fair values measured using directly or indirectly observable inputs or other similar valuation techniques for which all significant inputs are based on observable market data.

Level 3 - fair values measured using valuation techniques for which significant inputs are not based on market observable data.

In considering the fair value hierarchy for 2016, management concluded that the variable yield and debt securities held should all be classified as Level 2, as they were not based upon observable quoted prices in sufficiently active markets. Management therefore, reconsidered the disclosure as at 31 December 2015 and concluded that assets previously disclosed as Level 1 should be reclassified to be consistent. This resulted in variable yield and debt securities amounting to £28.2m and £83.6m respectively, being reclassified from Level 1 to Level 2 in the comparative figures.

### 10. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating 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 managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

### 11. Provision for unearned premiums

2016	<i>Gross</i> <i>£000</i>	<i>Reinsurers'</i> <i>share</i> <i>£000</i>	<i>Net</i> <i>£000</i>
At 1 January 2016	106,260	(23,585)	82,675
Premiums written in the year	245,024	(15,888)	229,136
Premiums earned in the year	(238,962)	29,848	(209,114)
Foreign exchange	14,942	(2,494)	12,448
At 31 December 2016	<u>127,264</u>	<u>(12,119)</u>	<u>115,145</u>

Notes to the accounts *continued*

11. Provision for unearned premiums *continued*

2015	<b>Gross £000</b>	<b>Reinsurers' share £000</b>	<b>Net £000</b>
At 1 January 2015	84,295	(13,218)	71,077
Premiums written in the year	211,510	(32,609)	178,901
Premiums earned in the year	(193,560)	23,137	(170,423)
Foreign exchange	4,015	(895)	3,120
At 31 December 2015	<u>106,260</u>	<u>(23,585)</u>	<u>82,675</u>

12. Claims outstanding

2016	<b>Gross £000</b>	<b>Reinsurers' share £000</b>	<b>Net £000</b>
At 1 January 2016	172,629	(18,650)	153,979
Claims incurred in the year	168,276	(24,773)	143,503
Claims paid during the year	(98,085)	11,528	(86,557)
Foreign exchange	32,680	(4,372)	28,308
At 31 December 2016	<u>275,500</u>	<u>(36,267)</u>	<u>239,233</u>

2015	<b>Gross £000</b>	<b>Reinsurers' share £000</b>	<b>Net £000</b>
At 1 January 2015	100,728	(10,496)	90,232
Claims incurred in the year	119,187	(10,631)	108,556
Claims paid during the year	(54,194)	3,277	(50,916)
Foreign exchange	6,908	(800)	6,107
At 31 December 2015	<u>172,629</u>	<u>(18,650)</u>	<u>153,979</u>

A surplus/(deficit) run-off deviation of (£8.6) million was experienced in 2016 (2015: (£3 million deficit)). This was made up of a deficit on the prior year claims provisions of £14.1 million on direct business (2015: £4.7 million surplus) and a £5.5 million surplus on reinsurance accepted business (2015: £7.7 million deficit).

Notes to the accounts *continued*

13. Debtors arising out of direct insurance operations

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Amounts falling due within one year – intermediaries	<u>25,413</u>	<u>32,228</u>

14. Debtors arising out of reinsurance operations

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Amounts falling due within one year	<u>45,012</u>	<u>15,127</u>

15. Other assets – other

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Amounts advanced in Australia and other countries as a condition of carrying on business there	<u>22,958</u>	<u>9,714</u>

16. Deferred acquisition costs

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
At 1 January	28,963	24,318
Change in deferred acquisition costs	2,549	3,663
Foreign exchange	3,791	982
At 31 December	<u>35,303</u>	<u>28,963</u>

Notes to the accounts *continued*

17. Reconciliation of members' balances

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Members' balances brought forward at 1 January	<u>(7,043)</u>	<u>360</u>
Closed year result	10,789	10,360
Cash calls made	<u>(12,500)</u>	<u>(20,500)</u>
	(1,711)	(10,140)
Loss for the financial year	(12,398)	(3,245)
Members' agents' fees	(18)	(18)
Cash calls paid by members	<u>-</u>	<u>6,000</u>
Members' balances carried forward at 31 December	<u>(21,170)</u>	<u>(7,043)</u>

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.

18. Creditors arising out of direct insurance operations

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Amounts falling due within one year	<u>13,590</u>	<u>5,072</u>

19. Creditors arising out of reinsurance operations

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Amounts falling due within one year	<u>10,770</u>	<u>26,854</u>

20. Other creditors

	<b>2016</b> <b>£000</b>	<b>2015</b> <b>£000</b>
Other	<u>1,586</u>	<u>1,830</u>



Notes to the accounts *continued*

## 21. Cash and cash equivalents

	<b>2016</b>	<b>2015</b>
	<b>£000</b>	<b>£000</b>
Cash at bank and in hand	6,755	4,617
Short-term deposits with financial institutions	8,411	28,241
	<u>15,166</u>	<u>32,858</u>

## 22. Risk management

## a) Capital management objectives, policies and approach

*Capital framework at Lloyd's*

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) 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 the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements.

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

Each underwriting member of Lloyd's is liable for its own share of underwriting liabilities. Accordingly the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR is determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Members can attract credits for diversification of underwriting. Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift 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 provides 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 a member's share of the members balances on each syndicate on which it participates.



## Notes to the accounts *continued*

### 22. Risk management *continued*

#### b) Insurance risk

Insurance risk is the principal risk the Syndicate faces and arises from the inherent uncertainties in the occurrence, amount and timing of insurance liabilities. The Syndicate needs to ensure that sufficient reserves are available to cover its liabilities as they fall due.

The underwriting profile of the Syndicate is such that it is likely that claims will arise on the business underwritten. An expected level of claims in relation to attritional, large and catastrophe type losses has, therefore, been included in the business planning process. Other precautionary measures, in the form of internal controls, are used to preserve the Syndicate's performance by limiting the exposure to wider underwriting, claims and reserving risks, such as:

- ▶ Inadequate risk selection;
- ▶ Inadequate pricing;
- ▶ Inadequate exposure management;
- ▶ Adverse, large and attritional loss experience;
- ▶ Inadequate reinsurance covering the underwriting portfolio;
- ▶ Inappropriate reserve estimation; and
- ▶ Poor underwriting control.

PSMAL manages these risks against an agreed risk appetite. The framework of systems and controls is designed to reduce the likelihood of such risks occurring and to mitigate the impact on the overall business of the Syndicate. Risk exposure is mitigated by diversification across a varied portfolio of insurance contracts and geographical areas.

PSMAL also manages underwriting risk through the purchase of reinsurance to mitigate the effect of catastrophes and unexpected concentrations of risk.

The following table is a guide to the level of catastrophe exposure written by the Syndicate and shows hypothetical claims arising from various realistic disaster scenarios based on the Syndicate's average risk exposures during 2016.

<b>RDS</b>	<b>Industry loss £billion</b>	<b>Estimated gross claims £000</b>	<b>Estimated net claims £000</b>
Two events – North East Windstorm	65.3	35,111	6,700
Two events – South Carolina Windstorm	31.5	210	210
Florida Windstorm – Miami-Dade	105.6	13,855	7,004
Florida Windstorm – Pinellas	108.1	4,917	4,302
European Windstorm – Central Track	20.6	1,993	1,541
Gulf of Mexico Windstorm – Onshore	89.6	713	713
California Earthquake – Los Angeles	62.9	2,377	2,377
California Earthquake – San Francisco	64.6	2,378	2,378
New Madrid Earthquake	35.5	303	303
Japanese Earthquake	55.5	42	42

Notes to the accounts *continued*

22. Risk management *continued*

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

	31 December 2016			31 December 2015		
	<i>Gross liabilities</i> <i>£000</i>	<i>Re-insurance assets</i> <i>£000</i>	<i>Net liabilities</i> <i>£000</i>	<i>Gross liabilities</i> <i>£000</i>	<i>Re-insurance assets</i> <i>£000</i>	<i>Net liabilities</i> <i>£000</i>
Property	48,575	(6,794)	41,781	28,922	(3,850)	25,072
Marine	20,875	(3,259)	17,616	8,161	(1,952)	6,209
Liability	184,758	(22,807)	161,951	130,459	(12,463)	117,996
Other	21,292	(3,407)	17,885	5,087	(385)	4,702
Total	<u>275,500</u>	<u>(36,267)</u>	<u>239,233</u>	<u>172,629</u>	<u>(18,650)</u>	<u>153,979</u>

Geographical concentration of outstanding claim liabilities is based on settlement currency which is noted in the table below.

	31 December 2016			31 December 2015		
	<i>Gross liabilities</i> <i>000</i>	<i>Re-insurance assets</i> <i>000</i>	<i>Net liabilities</i> <i>000</i>	<i>Gross liabilities</i> <i>000</i>	<i>Re-insurance assets</i> <i>000</i>	<i>Net liabilities</i> <i>000</i>
GBP	37,781	(1,439)	36,342	22,118	(1,491)	20,627
USD	281,074	(42,928)	238,146	214,883	(24,802)	190,082
CAD	9,357	(198)	9,159	5,944	(460)	5,484
EUR	6,329	(192)	6,137	1,948	(68)	1,881
Converted GBP	<u>275,500</u>	<u>(36,267)</u>	<u>239,233</u>	<u>172,629</u>	<u>(18,650)</u>	<u>153,979</u>

The claims liabilities are sensitive to the key assumptions that follow. The sensitivity analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant.

31 December 2016	<i>Change in assumptions</i>	<i>Impact on gross liabilities</i>	<i>Impact on net liabilities</i>	<i>Impact on result</i>	<i>Impact on members' balance</i>
Increase / (decrease) apriori loss ratio	+ / - 10%	31,175	25,307	(25,307)	(25,307)
(Increase) / decrease claim settlement development pattern	+ / - 10%	(49,913)	(43,094)	43,094	43,094

Notes to the accounts *continued*

22. Risk management *continued*

	<i>Change in assumptions</i>	<i>Impact on gross liabilities</i>	<i>Impact on net liabilities</i>	<i>Impact on result</i>	<i>Impact on members' balance</i>
<b>31 December 2015</b>					
Increase / (decrease) a prior loss ratio	+ / - 10%	19,248	15,540	(15,540)	(15,540)
(Increase) / decrease claim settlement development pattern	+ / - 10%	(26,119)	(23,305)	23,305	23,305

*Claims development table*

The following table shows the estimates of cumulative incurred claims for each successive underwriting year at each reporting date, together with cumulative payments to date.

Claims development triangle – whole account as at 31 December 2016

<b>Pure underwriting year</b>	<b>2013 £000</b>	<b>2014 £000</b>	<b>2015 £000</b>	<b>2016 £000</b>	<b>Total £000</b>
Estimate of cumulative net claims incurred					
After one year	29,115	36,678	46,084	51,363	
After two years	72,205	115,963	132,049		
After three years	75,569	126,692			
After four years	73,117				
As at 31 December 2016	73,117	126,692	132,049	51,363	383,221
Less cumulative net claims paid	(30,450)	(53,260)	(49,080)	(11,198)	(143,988)
Net reserves	<u>42,667</u>	<u>73,432</u>	<u>82,969</u>	<u>40,165</u>	<u>239,233</u>
<b>Total all underwriting years</b>					
Net reserves recognised	42,667	73,432	82,969	40,165	239,233
Amounts recoverable from reinsurers	<u>10,285</u>	<u>12,901</u>	<u>8,484</u>	<u>4,597</u>	<u>36,267</u>
Gross reserves included in the balance sheet	<u>52,952</u>	<u>86,333</u>	<u>91,453</u>	<u>44,762</u>	<u>275,500</u>

Notes to the accounts *continued*22. Risk management *continued*

## c) Financial risk

*Credit risk*

The following table shows credit risk exposure of the Syndicate's financial assets.

<b>As at 31 December 2016</b>	<b><i>Neither past due nor impaired £000</i></b>	<b><i>Past due £000</i></b>	<b><i>Impaired £000</i></b>	<b><i>Total £000</i></b>
Shares and other variable yield securities and unit trusts	8,411	-	-	8,411
Debt securities	188,263	-	-	188,263
Loans with credit institutions	264	-	-	264
Overseas deposits	22,958	-	-	22,958
Other investments	28,014	-	-	28,014
Reinsurer's share of claims outstanding	36,267	-	-	36,267
Reinsurance debtors	5,243	-	-	5,243
Cash at bank	6,755	-	-	6,755
Insurance debtors	19,769	5,644	-	25,413
Other debtors	88,098	360	-	88,458
<b>Total</b>	<b>404,042</b>	<b>6,004</b>	<b>-</b>	<b>410,046</b>
<b>As at 31 December 2015</b>	<b><i>Neither past due nor impaired £000</i></b>	<b><i>Past due £000</i></b>	<b><i>Impaired £000</i></b>	<b><i>Total £000</i></b>
Shares and other variable yield securities and unit trusts	28,241	-	-	28,241
Debt securities	120,560	-	-	120,560
Loans with credit institutions	363	-	-	363
Overseas deposits	9,714	-	-	9,714
Other investments	22,928	-	-	22,928
Reinsurer's share of claims outstanding	18,650	-	-	18,650
Reinsurance debtors	747	-	-	747
Cash at bank	4,617	-	-	4,617
Insurance debtors	42,815	3,794	-	46,609
Other debtors	97	-	-	97
<b>Total</b>	<b>248,732</b>	<b>3,794</b>	<b>-</b>	<b>252,526</b>



Notes to the accounts *continued*

22. Risk management *continued*

The following tables analyse the Syndicate's major exposures to counterparty credit risk excluding loans and receivables, based on Standard & Poor's or equivalent rating at 31 December 2016

**At 31 December 2016**

	<b>AAA £000</b>	<b>AA £000</b>	<b>A £000</b>	<b>Other/ non rated £000</b>	<b>Total £000</b>
Debt securities and other fixed income securities (including derivative contracts)	99,493	20,349	60,748	7,673	188,263
Reinsurers share of outstanding claims	-	6,306	29,961	-	36,267
Cash at bank and in hand	-	-	-	6,755	6,755
Overseas deposits	11,766	3,821	1,900	5,471	22,958
<b>Total</b>	<b>111,259</b>	<b>30,476</b>	<b>92,609</b>	<b>19,899</b>	<b>254,243</b>

Amounts attributable to largest single counterparty	-	-	29,920	-	29,920
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**At 31 December 2015**

	<b>AAA £000</b>	<b>AA £000</b>	<b>A £000</b>	<b>Other/ non rated £000</b>	<b>Total £000</b>
Debt securities and other fixed income securities (including derivative contracts)	44,757	10,038	33,951	31,814	120,560
Reinsurers share of outstanding claims	-	4,311	14,337	2	18,650
Cash at bank and in hand	-	-	-	4,617	4,617
Overseas deposits	-	-	1,197	8,517	9,714
<b>Total</b>	<b>44,757</b>	<b>14,349</b>	<b>49,485</b>	<b>44,950</b>	<b>153,541</b>

Amounts attributable to largest single counterparty	-	-	25,437	-	25,437
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Notes to the accounts *continued*

22. Risk management *continued*

*Liquidity risk*

The following tables summarises the maturity profile of the Syndicate's financial liabilities.

<b>As at 31 December 2016</b>	<b><i>Within one year £000</i></b>	<b><i>Between one and three years £000</i></b>	<b><i>Between three and five years £000</i></b>	<b><i>Over five years £000</i></b>	<b><i>Total £000</i></b>
Outstanding claims liabilities	64,815	95,991	56,578	58,116	275,500
Creditors	25,946	-	-	-	25,945

<b>As at 31 December 2015</b>	<b><i>Within one year £000</i></b>	<b><i>Between one and three years £000</i></b>	<b><i>Between three and five years £000</i></b>	<b><i>Over five years £000</i></b>	<b><i>Total £000</i></b>
Outstanding claims liabilities	38,132	57,981	35,795	40,721	172,629
Deposits received from reinsurers	-	-	-	-	-
Creditors	33,756	-	-	-	33,756

*Market risk*

The following tables summarise the Syndicate's exposure to foreign currency exchange risk.

<b>At 31 December 2016</b>	<b><i>Sterling £000</i></b>	<b><i>US Dollar £000</i></b>	<b><i>Euro £000</i></b>	<b><i>CAD £000</i></b>	<b><i>Total £000</i></b>
Total assets	31,694	367,231	4,139	6,982	410,046
Total liabilities	(77,619)	(335,154)	(9,195)	(9,248)	(431,216)
Net assets	(45,925)	32,077	(5,056)	(2,266)	(21,170)

<b>At 31 December 2015</b>	<b><i>Sterling £000</i></b>	<b><i>US Dollar £000</i></b>	<b><i>Euro £000</i></b>	<b><i>CAD £000</i></b>	<b><i>Total £000</i></b>
Total assets	45,606	249,347	3,278	8,246	306,477
Total liabilities	(54,691)	(249,497)	(3,487)	(5,845)	(313,520)
Net assets	(9,085)	(150)	(209)	2,401	(7,043)

Notes to the accounts *continued*22. Risk management *continued*

## Sensitivity to changes in foreign exchange rates

The following table gives an indication of the impact on profit of a percentage change in the relative strength of sterling against the value of the US and Canadian dollar and Euro. The analysis is based on the information as at 31 December 2016.

	<i>Impact on profit and members' balances</i>	
	<i>2016</i>	<i>2015</i>
	<i>£000</i>	<i>£000</i>
Sterling weakens		
10% against other currencies	(0.3)	(0.2)
20% against other currencies	(0.4)	(0.3)
Sterling strengthens		
10% against other currencies	(0.1)	0.2
20% against other currencies	1.0	0.5

The analysis below is performed for possible movements in interest rates with all other variables held constant, showing the impact on profit and members' balances of the effects of changes in interest rates.

<i>Changes in variables</i>	<i>Impact on</i>	<i>Impact on net</i>
	<i>profit/(loss)</i>	<i>assets</i>
	<i>£000</i>	<i>£000</i>
<b>31 December 2016</b>		
+50 basis points	(2,903)	(2,903)
-50 basis points	2,903	2,903
<b>31 December 2015</b>		
+50 basis points	(243)	(243)
-50 basis points	243	243

The analysis below is performed for possible movements in market indices on financial investments with all other variables held constant, showing the impact on profit

Change in variable	Change in variables	31 December 2016		31 December 2015	
		Impact on profit/(loss) £000	Impact on net assets £000	Impact on profit/(loss) £000	Impact on net assets £000
Market indices	+ 5 %	Nil	Nil	163	163
Market indices	-5 %	Nil	Nil	(163)	(163)

## Notes to the accounts *continued*

### 23. Related parties

ProSight Specialty Managing Agency Limited (PSMAL) is a wholly owned subsidiary of ProSight Specialty European Holdings Limited (PSEHL), a company registered in Bermuda. PSEHL owns 100% of the voting and economic rights of PSMAL.

The ultimate parent company of PSMAL is ProSight Specialty Global Holdings Limited (PSGHL), a company registered in Bermuda.

ProSight Specialty Underwriters Limited (PSUL) provides underwriting, administrative, accounting, human resource and information technology services to PSMAL. These services are provided on a non-profit making basis by way of intra-group cross charges and direct salary charges.

ProSight Specialty (TSMC) Limited and ProSight Specialty (ECUCM) Limited allocate the total capacity to the Syndicate for the 2014 to 2016 years of account.

PSGHL is the ultimate parent of certain US domiciled companies which produce business to the Syndicate: New York Marine and General Insurance Company (NYMAGIC), Gotham Insurance Company and Southwest Marine and General Insurance Company. There are a number of recurring programme related reinsurance transactions where the Syndicate assumes 100% cession for certain US programmes, and 90% quota share for Ocean Marine. These transactions between regulated entities are at normal commercial terms.

In 2016 the affiliated US companies produced premiums to the value of USD 212.6m (64.3% of total gross written premium) to the Syndicate. Corresponding 2015 figures are USD 203.2m and 62.8%.

In 2015 the Syndicate entered into a £4m whole account aggregate stop loss contract for the 2015 year of account with NYMAGIC. External advisors were consulted to price the contract and it is at normal commercial terms. The contract has been renewed for the 2016 and 2017 years of account.

### 24. Post balance sheet event

On 10 March 2017, the Board of PSMAL was informed by the ultimate Parent Company of its intention to sell the UK subsidiary group, including the Managing Agency of, and the Corporate Members' providing capital for Syndicate 1110.

